

Shanghai Pudong Development Bank Co., Ltd.

Annual Report 1999

March 23, 2000

Annual Report Text

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Note

The Board of Directors of the Company guarantees that the information presented in this report is free from any false records, misleading statements or material omissions and accepts, individually and collectively, liability for its truthfulness, accuracy and completeness.

The Board of Shanghai Pudong Development Bank Co., Ltd.

1. Company Brief Introduction

1. Registered Company Name in English: SHANGHAI PUDONG DEVELOPMENT BANK CO., LTD.

(Abbreviation: SPDB)

2. Legal Representative: Mr. ZHUANG Xiaotian

3. Secretary of the Board: Mr. SHEN Si

Chosen representatives of the Secretary of the Board: Mr. YANG Guoping, Mr. WANG Jingbin

Contact Address: Office of The Secretary of the Board, Shanghai Pudong Development Bank Co., Ltd., No. 12 Zhongshan Dong Yi Road, Shanghai, China

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E-mail address: shens@hz.spdb.com.cn

yanggp@spdb.com.cn

wangjb@spdb.com.cn

4. Registered Address and Business Address

Registered Address: No. 500, Pudong South Road, Pudong New Area, Shanghai, China

Business Address: No. 12 Zhongshan Dong Yi Road, Shanghai 200002, China

Postal Code: 200002

Website address: <http://www.spdb.com.cn>

E-mail Address: bdo@spdb.com.cn

5. Designated newspapers for announcements: "Shanghai Securities News", "Securities Times"

Internet website designated by the China Securities Regulatory Commission for the publication of the Company's annual report:

<http://www.sse.com.cn>

Annual Report Place of Filing: Office of the Secretary of the Board

6. Place of Stock Listing: Shanghai Stock Exchange

Stock Abbreviation: Pudong Development Bank

Stock Code: 600000

2. Key Financial and Business Data (Unit: RMB Yuan)

1. Main profit indicators for the year

Total Profit: 1,177,013,820.96

Net Profit: 926,692,008.55

Net Profit after deduction of exceptional items: 914,372,448.04

Core business profit: 116,232,074.21

Operating profit: 116,232,074.21

Investment Income: 1,046,417,797.47

Net non-operating balance: 14,363,949.28

Net cash flow from operating activities: 974,502,101.35

Net increase in cash and cash equivalents: 1,938,224,634.37

Note: Deducted exceptional items and amount:

Interest on frozen deposits for new share applications: 18,387,403.75

2. Main accounting data and financial indicators (three years to the end of 1999):

Item	1999	1998 (after adjustments)	1998 (before adjustments)	1997 (after adjustment)	1997 (before adjustment)
Turnover ('000 yuan)	3,982,050	4,793,375	4,793,375	5,328,288	5,328,288
Net profit ('000 yuan)	926,692	780,602	859,438	582,829	644,999
Total assets ('000 yuan)	103,209,678	84,926,166	87,338,217	81,496,217	81,640,332
Equity (ex-minority interests) ('000 yuan)	7,776,053	3,255,495	3,333,506	2,938,507	3,171,718
EPS (yuan) (fully diluted)	0.385	0.388	0.428	0.29	0.32
EPS (yuan) (month-weighted average)	0.439	0.388	0.428	0.50	0.55
EPS (non-exceptional) (yuan) (fully diluted)	0.379	0.388	0.428	0.29	0.32
Net assets per share (yuan)	3.227	1.62	1.66	1.46	1.58
Net assets per share (adjusted) (yuan)	3.067	1.53	1.57	1.38	1.50
Net cash flow per share from operating activities (yuan)	0.404	0.51	0.51	0.38	0.38
ROE (%)	11.92%	23.98%	25.8%	19.83%	20.3%

Note: Calculation method for main financial indicators:

EPS = net profit / total outstanding common stock as of year-end
 Net assets per share = year-end equity / total outstanding common stock as of year-end
 Net assets per share (adjusted) = (year-end equity – net accounts receivable due three years or more – deferred expenses – deferred net losses on disposal of (current and fixed assets) – start-up expenses - deferred assets – negative balance of housing funds / total outstanding common stock as of year-end
 Net cash flow per share from operating activities = net cash flow from operating activities / total outstanding common stock as of year-end
 ROE = net profits / year-end equity × 100%

3. Changes in shareholder equity in the reporting period (unit: '000 yuan)

Item	Share-capital	Capital reserves	Surplus reserves	including: Statutory welfare reserves	Retained earnings	Total equity
Year-start	2,010,000	334,671	910,824	123,649	0	3,255,495
Increase during year	400,000	3,555,366	527,590	92,669	37,602	4,520,558
Decrease during year						
Year-end	2,410,000	3,890,037	1,438,414	216,318	37,602	7,776,053

Reasons for changes:

1. The change in share capital was due to the Company's Initial Public Offering
2. The increase in the capital surplus was due to the Company's IPO premium
3. The change in surplus reserves and statutory welfare reserves was due to profit provisions for the year
4. The change in retained earnings was due to earnings growth during the year

3. Changes in Share Capital and Shareholders

1. Changes in Share Capital

(1) . Table Showing Changes in Share Capital

Unit: '000 shares

	Before Changes	Changes (+, -)						After Changes
		Rights Shares	Stock Divid end	Bonus shares from Capital Reserve	New Offers	Others	Sub-Total	
Unlisted shares								
1. Establishment Shares including:	988,000							988,000
State-owned shares	199,000							199,000
Domestic legal-person shares	789,000							789,000
Foreign legal-person shares								
Others								
2. Legal-person shares by placement including:	1,022,000							1,022,000
State-owned shares	59,740							59,740
Domestic legal-person shares	962,260							962,260
3. Employee shares								
4. Prefer stocks & others					80,000		80,000	80,000
Including:					80,000		80,000	2,090,000
Fund placement	2,010,000							
Unlisted shares sub-total:					320,000		320,000	320,000
Listed shares								
1. Common stock (yuan denominated)								
2. Domestic-listed foreign invested shares								
3. Overseas-listed foreign								

invested shares								
Others								
Listing shares sub-total					320,000		320,000	320,000
Total outstanding shares	2,010,000				400,000		400,000	2,410,000

(2) . Share Issue and Listing

Following approval from the People's Bank of China and the China Securities Regulatory Commission, the Company made its Initial Public Offering of 400 million shares at 10 yuan each on September 23, 1999: 320 million shares of the issue were listed on the Shanghai Stock Exchange on November 10, 1999. The 80 million shares placed with mutual funds were listed on January 12, 2000.

2. Shareholders

(1) . At the end of the reporting period, the Company's shareholders numbered 221,309.

(2) . The Company's major shareholders at the end of the reporting period:

No.	Shareholder	Share value at par 10'000 yuan	Percentage (%)
1	Shanghai Finance Bureau	19900	8.26
2	Shanghai Industrial Holdings (Group) Co., Ltd.	19800	8.22
3	Shanghai Int'l Trust & Investment Co.	16800	6.97
4	Shanghai Jiu Shi Co.	15300	6.35
5	Shanghai Post & Telecom Bureau	5800	2.41
6	Shenergy Co., Ltd.	5000	2.07
7	Oriental International (Group) Co., Ltd.	5000	2.07
8	Shanghai Outer Gaoqiao Free Trade Zone Development Co., Ltd.	4000	1.66
9	Shanghai Municipal Infrastructure Investment & Development Co.	3800	1.58
10	North China Power Group	3000	1.24
	National Electric Power Co.,	3000	1.24
	Shanghai Sugar Brewery & Tobacco Group	3000	1.24

Note: The 40 million shares held by Shanghai Outer Gaoqiao Free Trade Zone Development Co., Ltd. were pledged to the Industrial & Commercial Bank of China Outer Gaoqiao Sub-Branch for the period Dec. 13, 1999 to Dec. 13, 2000.

4. Summary of Shareholders Meeting

1. The Announcement, Convening and Holding of the Shareholders Meeting

In order to standardize the Company's management structure, and on the resolution of the 3rd Extraordinary Meeting of the Board, the Company called an Extraordinary Shareholders Meeting in 1999 to vote on issues regarding the election and adjustment of the Company Board of Directors and Supervisory Board. The meeting was conducted using remote voting procedures, and documentation for the meeting was delivered to all shareholders using express courier on May 22, 1999. The time limit for resolution was set at one month.

Up to June 22, the Company received 208 votes, representing 2,008,400,000 shares or 99.92% of total eligible shares, in compliance with the provisions stipulated in the "Company Law of the People's Republic of China" and the Company's "Articles of Association".

2. Resolutions Passed By the Shareholders' Meeting

The Shareholders Meeting voted to pass the "Resolution on the Extraordinary Shareholders Meeting of the SPDB" (June, 1999), regarding adjustments to the Company Board of Directors and Supervisory Board.

3. The Election and Change of Directors and Supervisors

The Shareholders Meeting effected changes to the Directors and Supervisors of the Company by a margin in excess of the minimum 50 percent of total eligible shares required for the passage of resolutions (98.54 percent).

The meeting elected 10 new Directors: WANG Zukang, YANG Xianghai, HE Dawei, WANG Yiyi, CHEN Xin, FEI Shengying, TAN Yi, KANG Huijun, CHENG Xiyuan & XIE Weiming. Together with the original Directors, MA Jinming, ZHUANG Xiaotian, ZHANG Yazhuang, ZHANG Guijuan, CHEN Weishu, JIN Yun, ZHOU Youdao, LIANG Yuankai and DONG Shaocheng, they constitute the new Board of Directors.

The meeting elected six new Supervisors: LIU Hongwei, ZHU Guozhen, HE Guoqing, PU Jingbo, GE Junjie & XUE Zhongsu. Together with the original Supervisors elected by employees, WAN Xiaofeng, WANG Anhui and PAN Weidong, they constitute the new Supervisory Board (subsequently, LIU Hongwei was unable to take up the post of Supervisor, and the Supervisory Board was composed of eight Supervisors).

5. Report of the Board of Directors

1. Business Review

The Company, with the approval of the People's Bank of China, is a banking financial institution, providing commercial banking services. According to the People's Bank of China's 1999 Fourth Quarter Report on Bank Deposits and Loans, amongst China's ten emerging commercial banks, the total deposits and loans with the Company at the end of the reporting period accounted for about 12% respectively. The Company was in a leading position in terms of total profits, volume of assets and quality of assets.

2. Principal Business Scope of the Company

As approved by the People's Bank of China, the business scope of the Company includes: taking deposits from the public, extending short-term and long-term loans, handling domestic and overseas settlements, discounting of bills and notes, issuing financial bonds, acting as an agent for the issuing, cashing and underwriting of government bonds, trading government bonds, conducting inter-bank financing, trading in, and acting as an agent for trading in foreign exchange, providing letter of credit services and guarantees, acting as an agent for accounts receivable and payable, acting as an agent for insurance, providing safe boxes services and other financial services as approved by the People's Bank of China.

Since its establishment, the Company has actively supported and promoted the growth of the national economy and regional economic development. All areas of the Company's business have witnessed rapid and healthy development, reaping a good economic return and a good impact on society. As of December 31, 1999, the outstanding balance of deposits with the Company stood at RMB 80.873 billion yuan with loans of RMB 54.719 billion. Total assets stood at RMB 103.21 billion yuan and equity at RMB 7.776 billion yuan. The Company, one of the leading emerging commercial banks nationwide, in 1999 recorded turnover of RMB 3.982 billion, investment income of RMB 1.046 billion yuan, net profits of RMB 0.927 billion yuan.

3. Problems and Difficulties Encountered during Operations and Corresponding Solutions

The Company experienced the following difficulties in its operations:

- (1) As a result of the impact of the Asian financial crisis, the national economy experienced deflation, which inevitably had a negative impact on the business development of commercial banks in China.
- (2) The reserve fund interest rates for domestic financial institutions was cut in 1999, and a seventh reduction in interest rates on deposits and loans was implemented, which had a direct negative impact on the profitability of commercial banks.
- (3) The levying of an interest tax on personal deposits from November 1, 1999 put substantial pressure on the banks' efforts to boost their deposit business.
- (4) The rapid growth of the capital markets, particularly the stock markets, resulted in the diversion of many of the bank's quality clients and funds, which had a definite impact on the development of the bank's business.

Against an overall backdrop of increasingly stringent operating conditions, the profitability of commercial banks fell to differing extents. The Company still reported sound profit growth in 1999 compared with the previous year thanks to our all-out efforts in marketing, cost control and improvements in assets structure.

2. The Company's Financial Status

Item	1999	1998	unit '000 yuan % Change
Total Assets	103,209,678	84,926,166	21.5%
Total Liabilities	95,433,625	81,670,671	16.9%
Equity	7,776,053	3,255,495	139%
Operating Profits	116,232	315,473	-63%
Investment Income	1,046,418	719,032	45.5%
Net Profit	926,692	780,602	18.7%

3. Company Investment Situation

(1). The balance of the Company's equity investments as of December 31, 1999 was RMB 584.95 million yuan. There were no changes to the investment principal in the reporting period.

(2). Use of the Proceeds of Raised by the Company

The Company issued 400 million ordinary shares to the public on September 23, 1999 with an issue price of RMB 10 yuan per share, raising a total of 3.955 billion yuan net of issuing expenses. The proceeds were all used to replenish the capital, and to substantially boost the Company's capital adequacy ratio, the shareholders equity and risk aversion capability. This helped lay the capital foundation for the speedy growth of the Company. The use of the proceeds was strictly in compliance with the pledge in the Prospectus, and was reasonably utilized as follows:

1. Setting up new outlets & expanding the scale of assets: planned investment amount: RMB 1.575 billion yuan; amount actually invested: RMB 1.575 billion yuan;
2. Payment to purchase No. 12 Zhongshan Dong Yi Road: planned investment amount: RMB 1.53 billion yuan; amount actually invested: RMB 1.53 billion yuan;
3. Investment in electronic financial services: planned investment amount: RMB 350 million yuan; currently being implemented.

4. Mergers & Acquisitions of banking units: planned investment amount: RMB 500 million yuan; on-going under the relevant regulations issued by the People's Bank of China. The Company will disclose information in due course in accordance with the disclosure requirements for listed companies.
5. A part of the non-utilized funds were deposited as cash in the Company's account at the People's Bank of China.

4. The impact of China's WTO entry on the Company's future business prospects

With China's entry to the World Trade Organization, the Chinese economy will be further integrated into the global economy. The opening of China's banking industry will enter a new historical stage. From the perspective of the SPDB, WTO entry will have both a positive and negative impact, providing both opportunities and challenges.

Firstly, upon China's WTO entry, foreign companies will make further inroads into the Chinese market and the domestic market will develop amidst re-adjustment. Along with the emergence of new industries, mounting demand for financial services will provide a fine opportunity for the SPDB to boost its business and expand market share.

Secondly, foreign banks will make a full-scale entry to the domestic market, competing for local financial business, providing domestic banks with a system benchmark for comparison, and with competition. The foreign banks have advanced management know-how and the mindset of market competitiveness, as well as an edge in technology and financial innovation. They can act as an example, an encouragement and a source of exchanges for the domestic banks. It will also be an opportunity for the SPDB to draw on the experience of foreign banks and to move more into line with international commercial banks.

Thirdly, domestic and overseas banks will compete on a level footing. Statistics shows that in many aspects, foreign banks now enjoy beneficial terms beyond those implemented domestically. For example, the total burden of tax on domestic banks exceeds 70 percent compared with only about 30 percent for foreign banks. Also, the WTO requires member countries to allow foreign banks to enter all areas of commercial banking services. This will encourage the central bank to allow domestic commercial banks to open new businesses in the relevant areas to compete against foreign banking institutions. Furthermore, upon entry into WTO, China must comply with unified regulations on international banking operations, and accept the principles, standards and measures of international banking supervision rules laid out in the "Basle Agreement" and develop a financial supervision system which is unified and standardized, fair and objective. The SPDB will benefit from this enhanced operating environment.

Fourthly, the WTO stresses the principle of reciprocity, and as China opens its domestic markets to foreign banks, other WTO members will open their markets to China. This will help Chinese banks to establish overseas branches, expand the scope of their overseas business and broaden global financing channels to gain further development space in the international financial markets. This will offer an opportunity to the SPDB, which has set the following strategy for the second phase of its development – "National Base, Worldwide Reach".

WTO entry presents the SPDB with opportunities, but also with challenges. Firstly, foreign banks are allowed to have only one branch in each Chinese city, but through e-banking, on-line banking and other advanced technological means, they will compete aggressively with domestic banks. Secondly, foreign banks will make full use of their strong financial position, advanced technology and quality services to attract domestic clients with good earnings and international exposure. Simultaneously, a WTO-inspired boom in international trade, will encourage foreign banks to aggressively focus on intermediary business with lower risks, lower

costs and higher profits, such as international settlements. Thirdly, the SPDB has made big progress compared to other domestic banks in terms of exploring modern commercial banking mechanisms. But compared to foreign banks, it still lags behind in terms of scale, management capability, information technology and overall quality. Of course, once China has joined the WTO, the full entry of the foreign banks into the domestic market will be a gradual process (RMB business with corporate clients after two years, and with individuals after five years). Global competition does offer development opportunities. Domestic banks need to stress their strengths, view pressure as motivation and dare to compete. In that way, they will definitely gain greater opportunities for development within such a competitive environment.

Against a background of global economic and financial integration, and faced with the opportunities and challenges of China's entry into the WTO, SPDB will pro-actively seize opportunities in accordance with the timetable for the opening up of China's banking industry. On the strong foundation of seven years of operations since being founded, especially its support capability for the capital markets achieved since the Company's listing, the Company will strive to foster a stable customer base, continuously expand the scope of business, create new products, boost its competitive edge and swiftly adapt to increasingly open financial market conditions. The Company will attract and absorb the advanced experience of foreign commercial banks, and take the road of technical innovation. The Company will develop and attract professional staff who are experts in international economics, finance, law and modern management so as to enhance SPDB's market competitiveness.

5. Business Development Plan for the New Year

(1). Guidelines for Business Development

To seriously implement the spirit of the Fourth Plenum of the Fifteenth National Congress of the Communist Party and of the Central Economic Work Conference and the guidance on financial work provided by the People's Bank of China. To view the situation clearly, to seize opportunities, to take efficient, speedy and healthy development as the core. To strengthen management and reform the structure. To reduce risk, to implement policies which are of benefit to development, to unify upper and lower levels of the company, to take advantage of collective planning and strengths. To expand revenue and increase efficiency. To repay society and investors with good operating achievements and superior financial services, and to make a positive contribution to the development of the national economy.

(2). Plans for the New Year

1. To boost profitability by effective management and utilization of disposable funds. To further capitalize on economies of scale with the pre-conditions of safety and liquidity. To encourage branches and sub-branches to effectively expand business, and as much as possible to reduce and avoid irrational deployment of funds. To speed up capital turnover and to significantly increase the profitability of funds throughout the bank. To improve the management of planning targets, to implement the credit management principle of "different treatment, categorized management" on the overall basis of tighter controls over credit lines. To improve capital operating mechanisms and to strengthen management of second-tier reserve funds and intra-system funds rates. To improve management of interest rates, and to stress and analyze interest rate-related questions. To strengthen the control capability and control efficiency of funds by the bank head office. To enhance profit planning management and strengthen the profit-target responsibility system.

2. To dynamically adjust marketing strategies in line with market changes. To develop a quality customer base. To adjust marketing strategies and implement the "Three Positions In One" strategy in line with world economic trends. To loosen financial controls and create keener

competition. To adjust loan structures in a timely fashion, to stress private banking and settlements. To strive to greatly increase market share in international settlements.

3. To strengthen risk management and to improve risk aversion and risk mitigation capabilities. To strengthen the formation of a unified credit management system and an authorization system to check non-performing loans and boost the function of loan examination centers. To establish a full-scale risk management system to cover post-loan reviews, loan responsibility claims and loan verification. To fully promote the Five-Category Credit Rating system and to accelerate the development of a loan information system and risk-warning system. To further develop internal controls and make full use of the internal auditing functions. To use all effective means to improve asset-security work and to continue the "Three Preventions and One Protection" policy to safeguard the bank's assets.

4. To quicken the pace of technological development and product innovation in order to promote business and technology in tandem. Technological development is an urgent strategic mission for the bank. To boost the development of financial innovation systems through managerial and organizational innovation. To continuously launch new products, update procedures, expand services, standardize management and maximize profits based on the requirements of the competitive environment, market demand and centralized planning. To regularly introduce new unique products, to make our bank stand out amongst other similar financial organizations.

5. To speed up the construction of the outlet network and organizational re-structuring. The outlet network construction and organizational re-structuring will be an important focus of the bank's growth for some time to come. The Company will grasp opportunities through proper placement of staff, assignment of targets, investment in technology and operational management. To speed up the establishment of new outlets and sub-branches and self-service banks, while actively exploring virtual banking services, accelerating the implementation of telephone banking and the development of online banking. To achieve economies of scale and to make good use of the advantages of the network, capital and settlements.

6. To speed up the development of staff resources, to stimulate the system with better allocation of staff resources. To take the individual as the guiding principle, and to energetically develop human resources within the SPDB. To further improve the system under which managers can be both promoted and demoted, hired and fired. To increase the horizontal and vertical movement of managers so as to gradually improve the allocation of human resources. To further strengthen competition in recruitment of staff and management positions and complete the "last one out" system. To strengthen operational training, and promote the slogan "life-long learning and training". To dynamically adjust training content and style based on market and business trends to make each course relevant, practical and forward-looking.

6. Regular Work of the Board of Directors

(1). Board meetings and resolutions in the reporting period

A total of four Board meetings were held in 1999. Details are as follows:

1. On February 1, 1999, the Company held the 12th Session of the SPDB's First Board of Directors with 26 directors in attendance. The following resolutions were voted on and passed: "SPDB 1998 Work Report and 1999 Work Plan Report", "SPDB 1998 Operating Target Review and Dividend Proposal & 1999 Profit Plan" and "SPDB Bonus Plan for Branches Exceeding Profit Targets".
2. On May 22, 1999, the Company held the 3rd Extraordinary Meeting of the SPDB's First Board of Directors with 23 directors in attendance. The meeting voted on and passed the following resolutions: "Progress Report on SPDB Listing, Improvement of Management

Structure and Other Related Issues", "Resolution on the Purchase of No. 12 Zhongshan Dong Yi Road", "Resolution on Changes to the Directors", "Resolution on Holding 1999 Extraordinary Shareholders' Meeting by Remote Voting". The Company publicly announced the above resolutions on September 21, 1999 in the "SPDB Prospectus (summary)" and in "China Securities News", "Shanghai Securities News", "Securities Times" and "Financial Times".

3. On June 2, 1999, the Company held the first Session of the first Board of Directors of Shanghai Pudong Development Bank Co., Ltd. with 19 directors in attendance. The meeting voted on and passed the following resolutions: "Report on the Usage Feasibility for Fund Raising by SPDB Analysis Report", "Resolutions on the Appointment of the Secretary to the Board, Financial Officers and Authorized Representatives of Secretary to the Board". The Company publicly announced the above resolutions on September 21, 1999 in the "SPDB Prospectus (Summary)" and in "China Securities News", "Shanghai Securities News", "Securities Times" and "Financial Times".
4. On October 14, 1999, the Company held the second Session of the first Board of Directors of Shanghai Pudong Development Bank Co., Ltd. with 17 directors in attendance and one person voting on behalf of the Chairman. The meeting voted on and passed the following resolutions: "Resolution Regarding Change of Company Name & Legal Representative", "Resolution Regarding Expenses Incurred in the Issue of Stocks", "Resolution on Passing the Revenue and Expenditure Adjustments to the 1999 Budget", "Resolution on the Appointment of Mr. HUANG Jianping as Executive Vice President", "Resolution on Stock Transfers or Corporate Restructuring or Name Changes by 12 Shareholders including Shanghai Outer Gaoqiao Free Trade Zone Development Co., Ltd.". The first three resolutions were announced on November 6, 1999 in the form of the "SPDB Prospectus (Summary)" and in "China Securities News", "Shanghai Securities News", "Securities Times" and "Financial Times".

(2). Implementation of Shareholders' Meeting Resolutions by the Board of Directors

Under the leadership of the Board of Directors, the resolution by the 1999 Shareholders Meeting regarding changes to the directors was fully implemented, resulting in the post-adjustment Board of Directors. With the leadership of the Board of Directors and the business team, the Company achieved the target for net profit and total assets etc as set out in the Prospectus.

(3). Appointment & dismissal of the President and Secretary to the Board

Following a decision by the 2nd session of the first Board of Directors of the Shanghai Pudong Development Bank Co., Ltd., the Company appointed Mr. HUANG Jianping as Executive Vice President.

Following a decision by the 1st session of the first Board of Directors of the Shanghai Pudong Development Bank Co., Ltd., the Company appointed SHEN Si as the Secretary to the Board.

7. Company Management and Staff

(1) Current Directors, Supervisors and Senior Management

Position	Name	Sex	Age	Tenure	No Salary	Stock Holding
Chairman	ZHUANG Xiaotian	M	67	May 22, 1999 – May 22, 2002		
Vice Chairman	ZHOU Youdao	M	61	May 22, 1999 – May 22, 2002		
Vice Chairman	JIN Yun	M	53	May 22, 1999 –		

				May 22, 2002		
Director	MA Jinming	M	56	May 22, 1999 – May 22, 2002		
Director	WANG Zukang	M	62	May 22, 1999 – May 22, 2002		
Director	YANG Xianghai	M	47	May 22, 1999 – May 22, 2002		
Director	WANG Yiyi	M	54	May 22, 1999 – May 22, 2002		
Director	ZHANG Yazhuang	M	70	May 22, 1999 – May 22, 2002		
Director	ZHANG Guijuan	F	57	May 22, 1999 – May 22, 2002		
Director	CHEN Weishu	M	53	May 22, 1999 – May 22, 2002		
Director	CHEN Xin	M	44	May 22, 1999 – May 22, 2002		
Director	HE Dawei	M	50	May 22, 1999 – May 22, 2002		
Director	FEI Shengying	M	47	May 22, 1999 – May 22, 2002		
Director	TAN Yi	M	49	May 22, 1999 – May 22, 2002		
Director	KANG Huijun	M	42	May 22, 1999 – May 22, 2002		
Director	LIANG Yuankai	M	53	May 22, 1999 – May 22, 2002		
Director	DONG Shaocheng	M	53	May 22, 1999 – May 22, 2002		
Director	CHENG Xiyuan	M	55	May 22, 1999 – May 22, 2002		
Director	XIE Weiming	M	43	May 22, 1999 – May 22, 2002		
Supervisor	WAN Xiaofeng	M	50	May 22, 1999 – May 22, 2002		
Supervisor	WANG Anhai	M	54	May 22, 1999 – May 22, 2002		
Supervisor	ZHU Guozhen	M	53	May 22, 1999 – May 22, 2002		
Supervisor	HE Guoqing	M	54	May 22, 1999 – May 22, 2002		
Supervisor	PU Jingbo	M	38	May 22, 1999 – May 22, 2002		
Supervisor	GE Junjie	M	40	May 22, 1999 – May 22, 2002		
Supervisor	PAN Weidong	M	33	May 22, 1999 – May 22, 2002		
Supervisor	XUE Zhongsu	M	60	May 22, 1999 – May 22, 2002		
Executive Vice-President	HUANG Jianping	M	49	Aug.2, 1999 -		
Assistant President	GU Liang	M	47	Oct.15,1996		
Secretary to the Board	SHEN Si	M	46	May22,1999 – May22,2002		
Chief of Finance Department	WANG Hongbing	M	38	May22,1999 – May22,2002		

Of the 12 Directors, Supervisors and Senior Management who receive salaries, the salary ranges and numbers are as follows: 140,000 – 170,000 RMB – 2 persons, 110,000 – 140,000 RMB – 5 persons, 80,000 – 110,000 RMB – 5 persons.

(2). Company staff numbers, professional composition and education levels

As of December 31, 1999, the Company had 4,150 employees including 1,013 management staff, or 24.4%; 794 sales staff, or 19.1%; 150 technical staff, or 3.6%; 1,841 accounting staff, or 44.4%; and 352 administrative staff, or 8.5%. A total 4.5% of employees held doctor and master degrees and 72.9% held college degrees while 22.6% had technical school experience or lower. The Company currently has 10 retired staff.

8. Earnings Distribution and Bonus Issue Proposal

The earnings distribution proposal approved by the Third Session of the First Board of Directors is as follows: the Company recorded net profit of 926.69 million yuan in 1999. According to the regulations, 10% of net profit was allocated to statutory public welfare reserves, 10% to public welfare funds, and 10% to voluntary funds, for a total of 278.007 million yuan. A supplementary allocation of 250 million yuan was made to special risk reserves, leaving a total amount of distributable profit of 399.1 million yuan. Based on 2.41 billion yuan in registered capital, the Company planned to pay a pre-tax cash dividend of 0.15 yuan per share. The remaining 37.6 million yuan was retained for next year.

6. Report by the Supervisory Board

The current Supervisory Board was established by the 1999 Extraordinary Shareholders Meeting held by remote communications on May 22, 1999, and currently consists of eight members. On June 2, 1999, the First Supervisory Board's first session was held and considered and passed the "Resolution on Changes and Replenishment of Supervisors" etc.

On October 14, 1999, the Supervisory Board held its second session, and considered and passed the Company's "Regulations Governing the Work of the Supervisory Board". Supervisors also attended a company board meeting at which Mr. Huang Jianping was appointed to a senior management position.

1. Supervising the Company's Operations

The Company, in accordance with "The People's Republic of China Commercial Bank Law", "Financial Illegal Practices Disciplinary Means" and the "Directive on Strengthening Internal Controls in Financial Institutions" and other laws and regulations, and take into account the bank's practical situation, in October 1999 drafted and issued the "SPDB Provisional Regulations on Internal Control" to strengthen risk controls, system management and mutual monitoring.

(1) Regarding checks and balances systems. The Company requests all branches beneath the first legal person level of management to set up complete systems for decision-making, implementation, monitoring and feedback. The Company has established various internal departments based on the principle of mutual check and balance. The Company has set up an Assets to Debt Ratio Committee and a Risk Management Committee to manage the bank's operations, funds flows and operation indicators, as well as to conduct overall risk evaluation and control according to the terms of the "Basle Agreement" and the requirements of the central bank.

(2) Regarding decision-making procedures. To draw up clear decision procedures in written form. All operational management decisions must be made according to approved procedures with the retention of verifiable records. It is important to ensure that the decision-making process is democratic and scientific to prevent individual arbitrary actions which bypass or contradict the decision-making process. All levels of the financial organization of the Company have set up loan examination committees to professionally review all major loans. The

Company has also established a weekly President’s meeting to consider all important issues facing the bank such as personnel appointments and business strategy, with a summary passed to the Board of Directors.

(3). Regarding legal person authorization. The Company requested each branch to set up and improve the system of first-class legal person management. Strictly implement the system of authorization and authorization endorsement so as to carry out the bank’s operating targets and strategy. To strictly limit management duties and powers within those authorized for the relevant posts. The Company has already finalized and implemented the “SPDB Regulations on Authorization and Credit-line Management” to strengthen the management structure.

(4). Regarding the Establishment of Business Units. Establish branches and business outlets in line with the policy of achieving economies of scale. To achieve this, the Company issued the “Regulations on the Establishment of New Business Units” and the “Commissioning Procedures for Newly Established Business Units” in order to ensure that feasibility studies and approvals with regard to new establishment of new units and outlets are properly carried out.

A review by Company Supervisor Board indicated that the Company’s decision-making process during the reporting period was legal. There were no illegal procedures or irregular practices by directors and other senior management personnel, and no activities, which were detrimental to the interests of shareholders.

2. Examination and supervision of the Company’s Finances

Following serious study, it is the opinion of the Supervisory Board that the audit report presented by the Da Hua Certified Public Accountants Co., Ltd. on the reporting period truthfully reflects the Company’s finance status and operational achievements.

3. Supervision of the Usage of Proceeds Raised by the Company

The 3.955 billion yuan in capital raised by the Company’s IPO was used in full to replenish the capital, in accordance with the regulations of the People’s Bank of China. With this as a pre-condition, the investment and usage of funds raised was completely consistent with that pledged in the Prospectus. For details, see the third clause (Company Investment Situation) of the fifth part (Board of Directors Report) of this report.

4. During the reporting period, the Company’s transactions with related parties were fair, and did not harm the Company’s interests.

7. Important Issues

1. Important Litigation and Arbitration

1. During the reporting period, the Company cleared trust loans according to the requirement of the People’s Bank of China. As of December 31, 1999, the Company was involved in 21 cases of trust loan-related litigation with a total valuation of 64.965 million yuan (excluding interest). The details are as follows:

No.	Borrower (Defendant)	Amount (yuan)	Guarantee	Situation or Result of Litigation
1	Sunjoy Industrial Corp.	1100000	Joint surety	Company won case, being implemented
2	Shanghai Global Paradise	3000000	Joint surety	In litigation
3	Shanghai Global Paradise	1000000	Joint surety	In litigation

4	Shanghai Global Paradise	3000000	Joint surety	In litigation
5	Shanghai Global Paradise	3000000	Joint surety	In litigation
6	Shanghai Global Paradise	2000000	Joint surety	In litigation
7	Shanghai Global Paradise	3000000	Joint surety	In litigation
8	Shanghai Global Paradise	1500000	Joint surety	In litigation
9	Shanghai Global Paradise	7500000	Joint surety	In litigation
10	Shanghai Global Paradise	1500000	Joint surety	In litigation
11\	Shanghai Global Paradise	7500000	Joint surety	In litigation
12	Shanghai Global Paradise	3700000	Joint surety	In litigation
13	Shanghai Global Paradise	2200000	Joint surety	In litigation
14	Shanghai Global Paradise	2715000	Land mortgage	In litigation
15	Shanghai Wancheng Housing Ltd.	1100000	Joint surety	Returned
16	Yuanda Wolf Decoration Ltd.	1700000	Joint surety	1 st hearing – Company won case, Second hearing - in litigation
17	Huayi Development Ltd.	2650000	Joint surety	1 st hearing – Company won case, result being implemented, 250,000 yuan returned
18	Pudong Futai Construction Co.,	7500000	Joint surety	1 st hearing - guarantor cancelled guarantee, 2nd hearing still in progress
19	He Sheng Industrial Co.,	300000	Vehicle mortgage	In litigation
20	Jiang Chuan Industrial	3750000	Joint surety	In litigation
21	Mei Ya Business Center	5250000	Joint surety	In litigation

(2). There were no other major cases of litigation or arbitration in the reporting period.

2. There were no cases during the reporting period of directors, supervisors or members of senior management being subject to disciplinary action by the regulatory authorities.

3. There were no cases of buying or selling assets, or Mergers and Acquisitions activity by the Company during the reporting period.

4. Major Transactions Involving Related Companies

SPDB related companies basically refers to shareholders with 5% or more of the Company's registered capital, that is: Shanghai Industrial Holdings Co., Ltd. Shanghai International Trust & Investment Co., Shanghai Jiushi Co., and outside investors in the Company (companies controlled by or jointly operated by the bank): Shanghai Outer Gaoqiao Free Trade Zone Development Co., Ltd. (joint operational relationship, stock transfer underway) and First Sino Bank (joint operational relationship).

(1) There are no related parties which the Company controls.

(2). Transactions with Related Parties Not Controlled by the Company:

Company Name	Unit: '000 yuan			
	Balance of Loan / Interbank Lending As of Dec.31, 1998	Interest income (1998)	Balance of Loan / Interbank Lending as of Dec.31, 1999	Interest Income (1999)
Shanghai Int'l Trust & Investment	0	0	17,000	0
Shanghai Jiu Shi Co.	124,173	4,200	0	8,189
Shanghai Outer Gaoqiao Free Trade Zone Development Co., Ltd.	337,850	22,244	240,111	25,006
First Sino Bank	165,564	0	124,196	368

Explanation: The above loans were all extended on the basis of lending interest rates as fixed by the People's Bank of China, and interbank loans were made on the basis of interbank lending interest rates. The principal and interest on all loans and interbank lending to the related parties were paid on a normal basis, and had no negative effect whatsoever on the Company's profitability. Amongst them, Shanghai Outer Gaoqiao Free Trade Zone Development Co., Ltd. was founded in September 1993 as a joint venture between Shanghai Outer Gaoqiao Free Trade Zone (Holdings) Co. and the Company, with registered capital of 380.77 million yuan. SPDB invested 182.77 million yuan for 48% of the registered capital. The main business of the new company is the overall development of infrastructure within the assigned area, the sale and transfer of land usage rights and the provision of consultancy services etc. The relevant stock transfer work for this company is currently being processed.

5. The Board of Directors authorized Da Hua Accountants Co., Ltd. to take responsibility for the Company's auditing work during the reporting period.

6. Other Major Contracts (including guarantees etc) and Implementation Thereof

- (1) The Company signed a "Shanghai City Bund District Public Property Transfer Contract" in August, 1999 with Shanghai Jiushi Co., the successor to the original rental company, Shanghai Bund Property Sales & Transfer Co., Ltd. Under the contract, the Company obtained all rights to the buildings and 50-year land usage rights for No. 12 Zhongshan Dong Yi Road (HSBC Main Building, Middle Building & North Building) in return for a total of 1.7 billion yuan, effective from the issuing date of the "Shanghai Property Rights" certificate. The Company, in conjunction with Shanghai Jiu Shi Co., has already handed the "Shanghai City Bund District Public Property Transfer Contract" to the Shanghai City Notary Office for notarization. The Company's report applying for tax exemption on the property transfer has been passed to the Shanghai City Taxation Bureau as is awaiting authorization.
- (2) In September 1995, the Company signed an agreement with Shanghai Dongzhan Co. on the joint construction of the SPDB Building. The agreement stipulated that Shanghai Dong Zhan Industrial Co. would participate in the construction of the Company's "Shanghai Pudong Development Bank Building" in the Lujiazui district of Pudong. Shanghai Dongzhan Company will participate in the construction of 95% of the total construction area of the Shanghai Pudong Development Bank Building, totaling 51,870 square meters, at 325 U.S. dollars per square meter of floor space. Construction costs will be paid as they arise. The "Shanghai Pudong Development Bank Building" invested in by the Company is situated at Block 1-5-4 in the Lujiazui Finance & Trade Zone in Pudong, Shanghai. The Company has obtained the usage rights for this block of land. It will be a general-purpose office building with a total construction area of 69,443 square meters. When construction of the project has been completed, the Company will complete the appropriate property procedures in accordance with the relevant laws and regulations. At this point, the structure of the building has been completed, the inside walls and brick walls have been laid, and the installation of the main equipment on the 35th and 36th floors and in the No. 1 basement has been completed.

8. Financial Statement (see attachment)

9. Other Relevant Information

1. The Company's first registration date and location: October 19, 1999, Shanghai

2. Enterprise Legal Person Business License Certificate Number: 3100001001236
3. Taxation Registration number: GSHZ 31004413221158X
 DSHZ 31004413221158X
4. Custodian for unlisted shares: Shanghai Stock Central Registration & Clearance Co., Ltd.
5. Lead underwriter during the reporting period: Hai Tong Securities Co., Ltd.
6. Accounting firm retained by the Company: Da Hua Certified Public Accountants Co., Ltd.
 Office address: No. 146, Kunshan Road, Shanghai, China
7. This report is issued in both Chinese and English. In the event of ambiguity between the two documents, the Chinese version takes precedence.

10. Reference Documents

1. Accounts report as signed by the legal representative, chief officer responsible for accounting work and the accounting entity's responsible persons (chief accounting personnel).
2. The original of the audit report signed and chopped by the accounting firm and by the Certified Public Accountant.
3. The originals of all documents released in newspapers designated by the China Securities Regulatory Commission during the reporting period.

The Board of Shanghai Pudong Development Bank Co., Ltd.
March 23, 2000

Eastern Translation Services is proud to take responsibility for the accuracy of the English translation of this annual report. In the event of any error being found to have been introduced in the process of translation, ETS will allow the Shanghai Pudong Development Bank to inform shareholders of where the responsibility lies. ETS's liability does not extend beyond that point.

Translation

Auditor's Report

(English Version)

HYZ(99)942

To the Shareholders of Shanghai Pudong Development Bank

We, Da Hua Certified Public Accountants Co.,Ltd., have audited the balance sheet of Shanghai Pudong Development Bank (hereinafter referred to as "the Bank") as at December 31, 1998, at the entrust of the bank, the profit and loss account for the year then ended, and the statement of cash flows for the year then ended. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Independent Auditing Standard of the People's Republic of China. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, and other procedures which we considered to be necessary with reference to the specific conditions of the Bank.

In our opinion, the financial statements referred to above present fairly, in all material aspects, the financial position of the Bank as at December 31, 1998 and the results of its operations and the flow of cash for the year then ended in accordance with Accounting Standard for Chinese Enterprises and Accounting Regulation for Joint-stock Companies. The adoption of accounting policy conforms to the convention of consistency.

Da Hua Certified Public Accountants Co.,Ltd.

C.P.A

Xu Yi-Xing

Zhu Lei-Lei

146 KunShan Road, SHANGHAI CHINA

Date of this Report: Section 9 of the Notes to the Bank's Financial Statements attached hereto is dated August 20, 1999, The other sections are dated January 22, 1999.

Notes to the Financial Statements of Shanghai Pudong Development Bank for the Year Ended December 31,1998

I. Brief Introduction

1. Shanghai Pudong Development Bank (hereinafter referred to as “the Bank”) is a joint-stock commercial bank approved by the People’s Bank of China, who issued document “YF[1992]No.350” on August 28,1992, and its business license was issued on October 19,1992 by the Shanghai Municipal Administration of Industry and Commerce. Its register number is 3100001001236, and its license for conducting financing transactions was numbered YJGZ09-0053. The legal representative of the Bank is Jin Yun. The registered capital of the Bank is RMB 2.01 billion, which has been verified by Da Hua Certified Public Accountants, who issued verification report “HYZ(97)No.1067”.

The Bank, a joint stock one in its economic character, is engaged in financing business.

The Bank’s business scope is the conduct of commercial banking services as approved by the People’s Bank of China.

2. Principal activities and services performed: accepting public deposits; granting loans of short-term, mid-term and long-term nature; performing settlements; discounting of bills and notes; issuing financial debentures; issuing and cashing securities on behalf of governmental authorities; underwriting of governmental authorities; purchase and sale of governmental authorities; inter-bank lending and borrowing; services relating to letters of credit and letters of guarantee; factoring and assignment of receivables and payables; safe deposit services; accepting deposit in foreign currencies; granting loans in foreign currencies; remittance of foreign currencies; exchange of foreign currencies; international settlements; inter-bank offering in foreign currencies; accepting and discounting of bills and notes expressed in foreign currencies; borrowing in foreign currencies; guarantees in foreign currencies; purchase and sale of foreign currencies; purchase and sale of marketable securities expressed in foreign currencies(excluding stocks) on behalf of client; purchase and sale of foreign currencies on behalf of client; credit investigation, consultancy and testimonial services; other services approved by the People’s Bank of China.

3. The business situation of the Bank: The Bank started its business in 1993. Since then, its business has expanded tremendously, and number of branches and sub-branches increased drastically. By the end of December 1998, the Bank had opened branches and sub-branches in Shanghai, Beijing, Hangzhou, Nanjing, Chongqing, Guangzhou, etc. By the end of 1998, the Bank had a total deposit outstanding of RMB 70.733 billion and loans outstanding of RMB48.336 billion. The total asset of the Bank amounted to RMB87.338 billion, and net asset amounted to RMB3.334 billion. Based on the balance of paid-in capital as at December 31,1998(RMB2.01 billion), earnings per share of the Bank was RMB0.43.

II. Significant Accounting Policies

1. The Accounting Regulation for Joint Stock Companies is applicable to the Bank. At the same time, reference is also made to the Accounting Regulation for Financing Enterprises.

2. The financial year of the Bank runs from January 1 to December 31 under the Gregorian calendar.

- 3.RMB is adopted by the Bank as recording currency. Separate books and accounting records are prepared for foreign currency transactions. Foreign currency transactions are entered into these books and accounting records at their original foreign currency amount.
- 4.The Company’s books and ledgers are kept on accrual basis. The Company’s assets and liabilities are valued at their historical cost.
- 5.Accounting for foreign currency transactions
Since separate books and accounting records are prepared for foreign currency transactions, and foreign currency transactions are entered into these books and accounting records at their original foreign currency amount, the Bank does not encounter any problems in the area of foreign currency translation.
- 6.Translation of foreign currency financial statements
Daily translation of foreign currency financial statements(including balance sheet and profit and loss account) are made using exchange rates ruling at the end of last year. At the end of each year, balance sheet and profit and loss account expressed in foreign currencies are translated into RMB amount using exchange rates ruling at that date.
- 7.Consolidation of financial statements
The consolidation of the financial statements was conducted in accordance with the document “CKZ(1995)No.11 -- the Notification of Promulgation of Temporary Regulations for Consolidated Financial Statements” and “CKEZ(96)No.2 -- the reply concerning the Scope of the Consolidation of Financial Statements” issued by the Ministry of Finance of the People’s Republic of China, and other applicable rules and regulations. The consolidation is based on the financial statements and other financial data of the headquarters of the Bank and the subsidiaries those are within the scope of consolidation. The significant inter-company transactions and balances have been eliminated on consolidation.
- 8.Recognition of cash equivalents
Cash equivalents of the bank include current account with central bank and intrabank balance.
- 9.Classification of loans
 - (1)Distinguishment between short-term loans and mid- and long-term loans
Distinguishment between short-term loans and mid- and long-term loans is made by the duration of the loans. Loans with duration of one year or less are classified as short-term loans; loans with duration of more than one year are classified as mid- and long-term loans.
 - (2)Recognition of overdue loans
Loans meeting one of the following criteria are recognized as overdue loans at their due date:
Loans that cannot be recovered at their due date(including those overdue after extension) due to inability of borrowers to meet their obligation;
Passive fill-up by the Bank due to: (1)In discounting of bills, acceptor failed to honor that bill, and the applicant does not have enough deposit with the Bank; (2)At the due date of bankers’ acceptance draft, the applicant does not have enough deposit with the Bank.
Overdue loans are recognized as bad loans when one year has elapsed since they are recognized as overdue loans
10. Accounting for bad loans
 - (1)Criteria of recognition for bad loans
When one of the following situations come into existence, the related loans that

cannot be recovered as scheduled by the Bank are identified as bad loans:

- A. The borrower has gone bankrupt, and the loan cannot be recovered after the legal liquidation procedures have been performed;
- B. The borrower has died or has been declared dead or disappeared by the courts, and the loan cannot be recovered after repayment of his debt out of his properties or heritage;
- C. The borrower has suffered huge loss from material natural calamity or accident that are not covered by insurance, which made it fail repay all or part of its debt to the Bank, or it cannot repay the loans out of the insurance indemnity;
- D. The borrower, though not formally declared bankrupt, has shut down or ceased to exist, and was de-registered by the administration authorities of industry and commerce; or the borrower failed to pass annual inspection, thus neither is it qualified nor is it able to be a going concern. And, after resorting to all measures possible and all necessary legal proceedings, the loan still cannot be recovered;
- E. In the case of Housing loans to individual (secured by the housings owned by that individual), when the loan has been overdue for more than 360 days, or partial repayment has been in arrears for more than 12 times; in the case of credit card overdraft, when the draft has been overdue for more than 180 days, or repayment has been in arrears for more than 6 times, and cannot be recovered after call up of guarantee.
- F. Suspended loans to borrowers that ceased to exist due to historical reasons such as the planned economy system;
- G. Loans written off as approved specifically by the National Council

(2) Accounting method adopted for bad loans: Allowance method.

As per document CSZ(1998)No.302 adopted by the Ministry of Finance, year-end balance of allowance for bad loans is adjusted to 1% of outstanding balances of loans (excluding designated loans and call loan to other banks).

11. Accounting for bad debts

(1) Criteria for identification of bad debts:

Accounts receivable that cannot be recovered by the Bank as scheduled due to one of the following reasons are identified as bad debt:

- A. Interest accrued on bad loans that has not been recovered;
- B. Interest that are exempted due to the enforcement of a plan named “Consolidation of State-owned Enterprises and Re-employment of their Staff on a Trial Basis”.

(2) Accounting for bad debts:

Allowance method is adopted for accounting for bad debts. At the end of each financial year, the balance of provision for bad debts is adjusted to 0.3% of the balance of accounts receivable as at the same date.

12. Accounting for short-term investments

Short-term investments are entered into the Bank’s books at their actual purchase price paid less cash dividend declared but not paid up and any interest accrued thereon. Investment income is recognized only when they are sold or cashed on maturity. At year end, short term investments are valued at their cost.

13. Accounting for long-term investments

- (1) Accounting for long-term bond investments: Long-term bond investment is entered into the Bank’s books at their actual cost, namely actual purchase price paid less surcharges (such as taxes and commissions)and interest (accrued over the period from the date of their issue to the purchase date) included therein. Interest income is recognized on accrual basis. Premium and discount on

investments in bonds is amortized on straight –line basis over its period of benefit to the Bank.

(2) Accounting for long-term equity investments:

A. Long-term equity investments in other banks:

Such investments are entered into the bank’s books at the actual amount contributed. If the bank holds 20% or more of the voting shares or equity capital of the investee, or the Bank can exert effective control over the management of the investee despite the fact that the Bank only holds less than 20% of the voting shares or equity capital of these companies, then these investments should be accounted for using equity method. If the Bank only holds less than 20% of voting shares or equity capital of the investee, and the Bank does not have any controlling interest in them, then the investments is accounted for using cost method.

B. Long-term equity investments in non-bank financial institutions and other enterprises:

As stipulated in the Commercial Bank’s Law of the Peoples’ Republic of China, the Bank is prohibited from investing in any non-bank financing institutions and other enterprises in China. Such investments made before its enforcement should be disposed of. Thus, such long-term equity investment are treated as investments to be disposed of, for which the cost method of accounting is applicable.

(3). Accounting for allowance for diminution in value of long-term investments:

At the year end, the balance of allowance for diminution in value of long-term investments is adjusted to 1% of balance of cost of long-term investments outstanding as at that date.

14.Accounting for fixed assets

(1) Fixed assets are those assets with unit value of RMB 2,000 or more and useful lives of more than one year, including(A)buildings and constructions, machinery equipment, transportation facilities and other electronic appliances and computers used in operation of the Bank; and(B)articles with useful lives of 2 years or more and unit values of RMB2,000 or more which do not fall within major operational facilities.

(2) Fixed assets are valued at their actual cost.

(3) Depreciation on fixed assets is taken on straight-line basis. When determining depreciation rates for each groups of fixed assets, the following factors were taken into account: the original cost of fixed assets; their estimated useful lives; their estimated scrap value 3% of the original cost. The depreciation rate for each group of fixed assets are as follows:

<u>Category of fixed assets</u>	<u>Estimated useful lives</u>	<u>Depreciation rate p.a.</u>
Building and constructions	30 years	3.23%
Power supply equipment	11 years	8.82%
Machinery equipment	10 years	9.7%
Transportation facilities	5 years	19.4%
Electronic appliances	5 years	19.4%
Computers	3 years	32.33%
Office equipment	5 years	19.4%

15.Accounting for construction in progress

Constructions in progress are transferred to fixed assets account after completion of construction and final settlement of account. They are valued at actual cost incurred.

16. Valuation and amortization of intangible assets

- (1) The house occupancy right is entered into the Bank's books at their actual purchase cost and be amortized over their actual useful lives starting in the month in which it was acquired .But its amortized period should not exceed 30 years;
- (2) Computer software is entered into the Bank's books at their actual purchase cost and amortized over 3 years starting in the month in which it was acquired.

17. Valuation and amortization of deferred charges

- (1) Organization expenses of branches and sub-branches are entered into the Bank's books at their actual amount incurred and amortized over 5 years on straight–line basis starting in the month in which the branch or sub-branch started operation.
- (2) Furnishing expenses of business locations are entered into the Bank's books at their actual amount incurred and amortized over the duration of lease or estimated useful lives starting in the month in which these locations are put into use.
- (3) Rental is amortized on straight-line basis over actual duration of lease.

18. The principle of revenue recognition

(1) Interest revenue:

A. Interest revenue on loans granted is recognized on accrual basis.

As prescribed by the document CSZ(1998)No.302 issued by the Ministry of Finance, interest revenue accrued on loans overdue for one year or more is recognized when it is actually received. Interest receivable with an age of more than one year is transferred to off balance sheet account.

B. Interest revenue on call loans to other banks is recognized when the principle is repaid to the Bank.

- (2) Commissions: Commissions revenue is recognized when it is actually received by the Bank.
- (3) Other operating revenue (including income on purchase and sale debentures, rental income, income on guarantees issued, etc.): it is recognized when it is actually received by the bank.

19. Accounting for income taxes: the liability method was adopted for accounting for income taxes.

20. Changes in accounting policy:

As prescribed by the document CSZ(1998)No.302 ‘Notification Concerning the Modification to the Maximum Age of Interest Receivable in the Accounts and the Method of Providing for bad loans of Financial Institution ’issued by the Ministry of Finance, the Bank reduced its maximum age of interest receivables to one year in 1998 (compared to 2 years in 1997).

Interest receivable with an age of more than one year is transferred to off balance sheet account.

In 1998, the balance of mortgaged loans is also added to the basis of bad loans provision

III. Taxation

The taxes and surcharges applicable to the Bank and the respective rate is as following:

Tax/Surcharge	Basis of Tax and Surcharge	Tax and Surcharge rate
Business Tax	Operating Revenue— Interest Income from financial Institutions	8%
City Maintenance And Construction Tax	Municipal Business Tax (5%)	7%
Educational Surcharge	Municipal Business Tax (5%)	3%
Income Tax	Taxable Income	33%