

06



Huishang Bank Annual Report





Carry Foward the Tradition of Anhui Merchants and Build Huishang Bank into a Modern Bank

Management team



Chairman/Dai Hedi



President/Li He



Chairman of Board of Supervisors/Zhang Zhen

Management team



Secretary of the Discipline Committee/Zhang Renfu



Vice Chairman/Xu Demei



Vice Chairman/Zhao Jice



Vice Chairman/
Wu Xiufang



Vice Chairman of Board of Supervisors/
Li Xiaowan



Vice President/
Wang Guisheng



Vice President/Ci Yaping



Vice President/
Zou Guangming



Vice President/
Gao Guangcheng

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Important Notice

The Board of Directors and the Board of Supervisors of the Corporation and its directors, supervisors and senior management warrant that there are no false presentations or misleading statements contained in, or material omissions from, this report, and severally and jointly accept responsibility for the authenticity, accuracy and completeness of the information contained in this report.

The text and the summary of the 2006 Annual Report of Huishang Bank were reviewed and adopted at the 9th Board Meeting of the Corporation's First Board of Directors. 15 supervisors were required to attend the meeting and 14 directors were present.

The financial statements for 2006 prepared in accordance with the Generally Accepted Accounting Principles of the People's Republic of China (PRC GAAP) have been audited by PricewaterhouseCoopers. The firm has issued unqualified audit opinions.

The special-purpose financial statements for 2006 prepared in accordance with selected International Financial Reporting Standards ("IFRS", refer to Note II of special-purpose financial statements for detail basis of preparation) have been audited by PricewaterhouseCoopers. The firm has issued unqualified audit opinions.

Board of Directors, Huishang Bank Corporation Limited

Corporate Information



Corporate Information

- I. Legally Incorporated Name (in Chinese): 徽商银行股份有限公司
Legally Incorporated Name (in English): HUISHANG BANK CORPORATION LIMITED
(Abbreviated English Name: HUISHANG BANK, hereinafter known as “the Corporation”)
- II. Legal Representative: DAI Hedi
- III. Contact address: Office of the Board of Directors, Block A, Tianhui Building, No. 79, Anqing Road, Hefei, China
Tel: +86-551-2667781
Fax: +86-551-2667787
- IV. Registered address: No. 79, Anqing Road, Hefei, China
Office address: No. 79, Anqing Road, Hefei City
Postal code: 230001
- V. Other related information
Date of incorporation: December 28, 2005
Business license number: 3400001300154
Tax registration number: Guo-Shui-Wan-Zi 340103148974661
Di-Shui-He-Zi 340103148974661
Appointed Domestic and Foreign Auditors: PricewaterhouseCoopers
Address: 11/F PricewaterhouseCoopers Center, 202 Hu Bin Road, Shanghai, PRC

Summary of Accounting and Financial Data

I. Major Financial Data at end of the Reporting Period

(I) PRC GAAP

Unit: RMB 1,000

Item	Year 2006	Year 2005
Profit from Core Business	1,523,716	442,311
Profit from Other Business	1,055	1,739
Return on Investment	298,268	214,840
Operating Profit	906,856	313,897
Net Non-operating Income/Expenses	12,516	(988)
Total Profit before Provision for Assets Impairment or Loan Losses	919,372	312,909
Total Profit after Provision for Assets Impairment or Loan Losses	519,372	271,078
Net Profit	288,495	220,709
Net Cash Inflow from Operating Activities	4,144,578	-
Net Increase in Cash and Cash Equivalents	373,684	-

(II) Special-purpose Financial Statements under IFRS

Unit: RMB 1,000

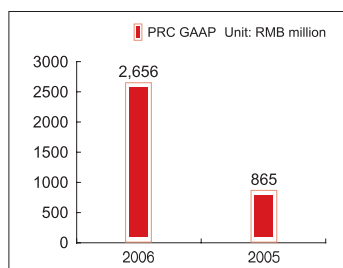
Item	Year 2006
Pre-tax Profit	901,800
Net Profit	559,953
Net Cash Inflow From Operating Activities	4,842,866
Net Increase in Cash and Cash Equivalents	373,684

Summary of Accounting and Financial Data

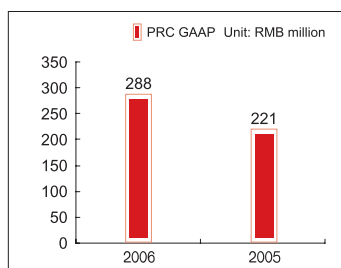
II. Major Accounting Data and Financial Indicators at the End of the Reporting Period

Item	Year 2006 PRC GAAP	Year 2005 PRC GAAP
Income from Core Business (RMB 1,000)	2,656,103	865,300
Net Profit (RMB 1,000)	288,495	220,709
Total Assets (RMB 1,000)	70,362,183	48,651,435
Total Deposit Balance (RMB 1,000)	62,944,992	43,368,982
Total Loan Balance (RMB 1,000)	44,212,706	30,486,800
Shareholder's Equity (RMB 1,000)	3,151,931	2,172,608
Year-end Earnings Per Share (RMB)	0.10	0.10
Weighted Average Earnings Per Share (RMB)	0.12	-
Year-end Net Asset per Share (RMB)	1.14	1.03
Net Cash Inflow per Share from Operating Activities (RMB)	1.49	-
Cost/Income Ratio (%)	43.84	47.30
Year-end Return on Net Assets (%)	9.15	10.16
Weighted Average Return on Net Assets (%)	10.84	-

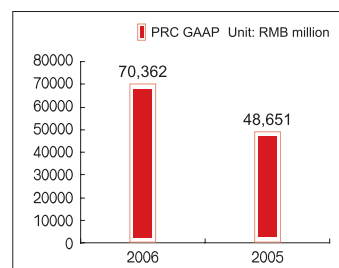
Income from Core Business



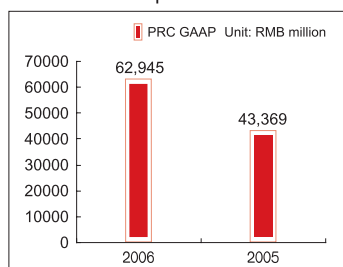
Net Profit



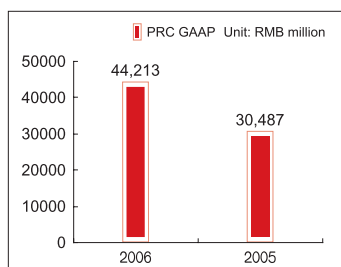
Total Assets



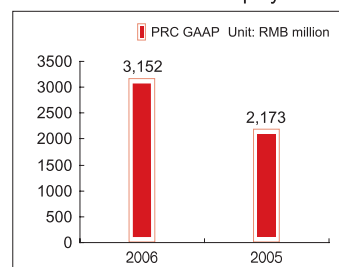
Total Deposit Balance



Total Loan Balance



Shareholder's Equity



Summary of Accounting and Financial Data

III. Key Financial Data for the Reporting Period and the Discrepancies between PRC GAAP and IFRS

Unit: RMB 1,000

Item	Net Profit for the Year 2006	Net Assets for the Year 2006
Financial Statements under PRC GAAP	288,495	3,151,931
Adjustments under the IFRS		
Year-end Interest Receivables on Short-term Debt Securities	40,356	48,437
Addition of Loan Loss Provision	404,590	(441,938)
Additional Provision for Bad Debt and Other Assets	(22,985)	(161,755)
Revaluation Surplus on Trading and Available-for-sale Debt Securities	4,592	77,780
Reversal of Interest Income from Bill Discount and Rediscount	(34,541)	(66,654)
Transfer of Assets and Liabilities Related to RMB Assets Management Product into the Balance Sheet and Accrue Interest Expense	(3,451)	(3,451)
Recognized Deferred Income Tax	(110,970)	266,100
Provision for Contingent Liabilities	(1,550)	(1,550)
Reversed Interest Income (Expense) from Securities Reverse Repurchase/Repurchase	(5,262)	(4,640)
Provision for Early Retirement Benefits	679	(58,871)
Subtotal Adjustments	271,458	(346,542)
Special-purpose Financial Statements under IFRS	559,953	2,805,389

Note: 1. In the special-purpose financial statements under IFRS, full reserves for impairments of loans and other assets have been made in accordance with IFRS. In the financial statements under PRC GAAP, general provision and specific provision are made in accordance with "Notice on Printing and Distributing 'Administrative Measures for the Withdrawal of Reserves for Non-performing Debts of Financial Enterprises'" (NO.49 [2005] of the MOF) issued by the Ministry of Finance of the PRC, and other related regulations.

2. Interest income/expense from/for security repurchase/ (reverse repurchase), bill discount and bill rediscount are accounted for on the accrual basis under IFRS and on the cash basis under PRC GAAP.

3. Trading securities and available-for-sale securities are stated at fair value under IFRS and amortized face value under PRC GAAP.

Summary of Accounting and Financial Data

IV. Loan Loss Provision in the Reporting Period

(I) PRC GAAP

Unit: RMB 1,000

Item	Year 2006	Year 2005
Opening Balance	476,086	176,914
General Provision from the Income Statement of the Year in the Reporting Period	58,748	-
Specific Provision from the Income Statement of the Year in the Reporting Period	341,252	41,831
Recovery in the Reporting Period	4,890	-
Write-off in the Reporting Period	(137,662)	(46,674)
Transfer Bad Debt Provision	-	(49,783)
Issue of Share	-	353,798
Closing Balance	743,314	476,086

(II) Special-purpose Financial Statements under IFRS

Unit: RMB 1,000

Item	Year 2006
Opening Balance	1,322,615
Provision from the Income Statement of the Year in the Reporting Period	15,929
Write-off in the Reporting Period	(137,662)
Unwind of Discount on Allowance	(15,629)
Closing Balance	1,185,253

V. Supplementary Financial Data as at the End of the Reporting Period

Unit: RMB 1,000

Item	Year 2006 PRC GAAP	Year 2005 PRC GAAP
Total Liabilities	67,210,252	46,478,827
Total Deposits	62,944,992	43,368,982
Including: Long-term Deposits	3,970,971	2,677,776
Total Borrowing from Banks	9,020	65,586
Total Loans	44,212,706	30,486,800
Including: Short-term Loans	19,760,470	15,484,833
Bill Discount and Trade Finance	10,227,238	5,593,567
Medium and Long-term Loans	13,398,159	8,570,464
Overdue Loans	189,867	155,224
Idle Loans	573,938	642,260
Bad Loans	63,034	40,452

Summary of Accounting and Financial Data

VI. Appendix to the Income Statement

(I) PRC GAAP

Item	Profit in the Reporting Period (RMB 1,000)	Return on Net Assets (%)		Earnings per Share (RMB)	
		Year end	Weighted Average	Year End	Weighted Average
Profit from Core Business	1,523,716	48.34	57.23	0.55	0.68
Operating Profit	906,856	28.77	34.06	0.33	0.40
Net Profit	288,495	9.15	10.84	0.10	0.13

(II) Special-purpose Financial Statements under IFRS

Item	Profit in the Reporting Period (RMB 1,000)	Earnings per Share (RMB)	
		Year End	Weighted Average
Pre-tax Profit	901,800	0.33	0.40
Net Profit	559,953	0.20	0.25

VII. Supplementary Financial Indicators as at the End of the Reporting Period

Item	Benchmark ratio	Year 2006	Year 2005	
Core Capital (RMB 1,000)	-	3,151,931	2,172,608	
Supplementary Capital (RMB 1,000)	-	44,213	30,487	
Capital Adequacy Ratio (%)	≥ 8	8.10	6.53	
Core Capital Adequacy Ratio (%)	≥ 4	6.97	5.32	
Liquidity Ratio (%)	≥ 25	39.58	27.36	
Loan to Deposit Ratio (%)	≤ 75	70.24	70.30	
Money Market Ratio (%)	Borrowing	≤ 4	0.01	0.15
	Lending	≤ 8	0.06	0.12
Borrowing from Overseas (%)	≤ 100	-	-	
Ratio of Non-performing Loans (NPLs) (%)	≤ 15	3.20	6.03	
Interest Collection Ratio (%)	-	99.95	-	
Ratio of loans to Top 1 Customer (%)	≤ 10	15.91	31.48	
Ratio of loans to Top 10 Customer (%)	≤ 50	114.92	206.42	

Summary of Accounting and Financial Data

VIII. Changes in Equity in the Reporting Period

(I) PRC GAAP

Unit: RMB 1,000

Item	Equity Capital	Capital Reserve	Surplus Reserve	Undistributed Profit	Total of Shareholder's Equity
Opening Balance	2,114,309	58,299	-	-	2,172,608
Increase	659,328	31,500	28,850	259,645	979,323
Decrease	-	-	-	-	-
Closing Balance	2,773,637	89,799	28,850	259,645	3,151,931

(II) Special-purpose Financial Statements under IFRS

Unit: RMB 1,000

Item	Equity Capital	Capital Reserve	Revaluation Reserve	Surplus Reserve	Uncompensated Losses	Total Equity
Opening Balance	2,114,309	-	12,416	-	(612,044)	1,514,681
Capital Injection	659,328	31,500	-	-	-	690,828
Available-for-sale Securities-Fair Value Gain, Net of Tax	-	-	39,926	-	-	39,926
Net Profit for 2006	-	-	-	-	559,953	559,953
Appropriation to Statutory Reserve	-	-	-	28,850	(28,850)	-
Closing Balance	2,773,637	31,500	52,342	28,850	(80,941)	2,805,388

Changes in Equity and Shareholders

I. Changes in Equity

(I) Equity Structure

Unit: 10,000 shares

Type of Shares	Number of Shares	Shareholding Ratio (%)
State-owned Shares	133,001.68	47.95
Corporate Shares	119,136.04	42.95
Individual Shares	25,226.02	9.10
Total Shares	277,363.74	100.00

(II) Equity issuance

1. Changes in Equity in the Last Three Years Prior to the End of the Reporting Period

As at the end of the reporting period, the total equity of the Corporation has increased from 2,114,308,600 shares to 2,773,637,400 shares.

2. Changes in Total Equity and Equity Structure in the Reporting Period

Unit: 10,000 shares

Type of Shares	Number of Shares Before	Number of Shares Now
State-owned Shares	85,180.40	133,001.68
Corporate Shares	103,770.02	119,136.04
Individual Shares	22,480.44	25,226.02
Total Shares	211,430.86	277,363.74

Note: 1. Huishang Bank was formerly known as Hefei City Commercial Bank before acquiring 5 city commercial banks and 7 urban credit unions of Anhui Province. On January 1st, 2006, after the asset and capital verification and valuation, Huishang Bank issued stocks to shareholders of banks and credit unions being acquired, and the shareholders swap their original shares with shares of Huishang Bank based on result of assets revaluation. After that, the total equity of Huishang Bank increased to 2,114,308,600 shares. Before the establishment of Huishang Bank, the former city commercial banks of Hefei, Ma'anshan, Anqing and other cities were experiencing equity increase but had to suspend it due to preparatory work for the merger. After the establishment of Huishang Bank, they continued with their equity increase and their shares increased by 309,328,800.

2. In 2006, Huishang Bank started to increase its equity. As at the end of the reporting period, China Banking Regulatory Commission (CBRC) Anhui Bureau approved 2 companies as investors of Huishang Bank. Anhui Province Energy Group Company Limited acquired 300 million shares of Huishang Bank and Anhui Changjiang Steel Co., Ltd. acquired 50 million shares of Huishang Bank. The two companies acquired a total number of 350 million shares of Huishang Bank.

As at the end of the reporting period, the total equity of Huishang Bank increased by 659,328,800 shares, from 2,114,308,600 shares in its inception to 2,773,637,400 shares.

Changes in Equity and Shareholders

II. Information on Shareholders

(I) At the end of the reporting period, there were a total number of 20,521 shareholders of the Corporation consisting of 40 state shareholders, 377 corporate shareholders and 20,104 individual shareholders.

(II) Shareholding Status of the Top Ten Shareholders at the End of the Reporting Period

Unit: 10,000 shares

Rank	Name	Number of Shares Owned at the Beginning of the Year	Number of Shares Owned at the End of the Year	Shareholding Ratio (%)
1	Anhui Province Energy Group Company Limited	0	30,000.00	10.82
2	Hefei Xingtai Holding Group Company Limited	24,895.61	24,895.61	8.98
3	Anhui Antong Development Company Limited	11,005.44	11,005.44	3.97
4	Wuhu Construction Investment Company Limited	9,051.52	9,051.52	3.26
5	Anhui Innovation & Investment Company Limited	8,237.52	8,237.52	2.97
6	Hefei Xingtai Trust & Investment Company Limited	8,147.45	8,147.45	2.94
7	Anhui Xinhua Group Investment Company Limited	7,777.29	7,777.29	2.80
8	Anhui Quanchai Group Corp.	7,113.92	7,113.92	2.56
9	Anhui BBKA Biochemical Company Limited	6,990.00	6,990.00	2.52
10	Anqing Development & Investment (Group) Company Limited	5,389.55	5,389.55	1.94
	Total	88,608.30	118,608.30	42.76

Note: 1. At the end of the reporting period, approved by CBRC Anhui Bureau, Anhui Province Energy Group Company Limited acquired 300 million shares of the Corporation and became the largest shareholder of the Corporation.

2. At the end of the reporting period, Hefei Xingtai Holding Group Company Limited pledged 248,956,100 shares of the Corporation to the Bank of China, Anhui Branch. The pledge period is between November 14th, 2006 and November 14th, 2007.

3. At the end of the reporting period, Anhui Xinhua Group Investment Company Limited pledged 77,772,900 shares of the Corporation to Anhui Publishing Group Company Limited. The pledge period is between June 28, 2006 and August 8th, 2007.

4. At the end of the reporting period, Anhui Quanchai Group Corp. pledged 44 million shares of the Corporation to Hefei Xingtai Trust & Investment Company Limited. The pledge period is between September 6th, 2005 and the date that Hefei Xingtai Trust & Investment Company Limited agrees to release the shares.

Changes in Equity and Shareholders

(III) Shareholders Holding 5% Shares or Above

1. Anhui Province Energy Group Company Limited

Anhui Province Energy Group Company Limited, the biggest shareholder of the Corporation, owns 10.82% shares of the Corporation. The company was founded on April 9th, 1990 in Hefei city of Anhui Province, with registered capital of RMB 4.232 billion and with Fang Ping as the legal representative. It is a wholly state-owned company of limited liability with its core business covering the management of state-owned assets of wholly owned subsidiaries, shareholding companies and subordinate institutions, the investment, development, production, operation and management of power, coal and other energies, and the development of raw materials for investment projects, etc.

2. Hefei Xingtai Holding Group Company Limited

Hefei Xingtai Holding Group Company Limited, the second biggest shareholder of the Corporation, owns 8.98% shares of the Corporation. It is a wholly state-owned company whose incorporation was approved by the Hefei State-owned Assets Management Committee, with registered capital of RMB 870 million. Its core business includes the management of state-owned assets within the approved business scope and management activities such as corporate planning, management consulting, financial consulting, corporate financial management and asset investment.

(IV) Relationship between the Top Ten Shareholders

Hefei Xingtai Holding Group Company Limited, the second biggest shareholder, owns 83.3% shares of Hefei Xingtai Trust & Investment Company Limited, the sixth biggest shareholder of the Corporation.

Directors, Supervisors, Senior Management and Staff

I. Directors, Supervisors and Senior Management

(I) Directors

Position	Name	Gender	Age	Institution and Position	Entitled to Salaries	Entitled to Allowances
Chairman	Dai Hedi	Female	55	Chairman of Huishang Bank	✓	
Vice-Chairman	Xu Demei	Female	51	Vice-Chairman of Huishang Bank	✓	
Vice-Chairman	Zhao Jice	Male	43	Vice-Chairman of Huishang Bank	✓	
Vice-Chairman	Wu Xiufang	Female	39	Vice-Chairman of Huishang Bank	-	-
Director	Li He	Male	54	President of Huishang Bank	✓	
Director	Zhang Renfu	Male	45	Full-time Deputy Secretary of the Party Committee and Secretary of Party Discipline Committee of Huishang Bank	✓	
Director	Wang Guisheng	Male	53	Vice-President of Huishang Bank	✓	
Director	Ci Yaping	Male	48	Vice-President of Huishang Bank	✓	
Director	Gao Tongguo	Male	43	Chief Executive Officer of Hefei Xingtai Holding Group Company Limited	-	-
Director	Zhang Youqi	Male	42	General Manager of Business Department of Huishang Bank	✓	
Director	Li Yuzhuo	Male	60	Researcher of Huishang Bank, Huainan Branch	✓	
Director	Chen Xianhong	Male	52	Manager of Huishang Bank, Lu'an Branch	✓	
Independent Director	Guo Chuanjie	Male	63	Party Secretary of University of Science and Technology of China		✓
Independent Director	Wu Xiaoqiu	Male	48	Assistant President of Renmin University of China		✓
Independent Director	Ba Shusong	Male	38	Deputy Center Director of the Financial Research Center of the Development Research Center of the State Council		✓

Work Experience of the Directors:

Dai Hedi, female, born in October 1952 in Shanghai. Educational background: CPC Party School graduate. She graduated from the Faculty of Economics and Management of the Communist Party of China (CPC) Party School. She is a senior accountant and is currently holding the position of Chairman and Party Committee Secretary of Huishang Bank. She once served as Party Committee Member and Deputy Branch Manager of the Hefei branch of the Industrial and Commercial Bank of China (ICBC), the Computing Center Supervisor of the Anhui Branch of the ICBC, and Party Deputy Secretary, Deputy Branch Manager, Branch Manager, Chairman and Party Secretary of Hefei City Commercial Bank.

Directors, Supervisors, Senior Management and Staff

Xu Demei, female, born in November 1956 in Anqing of Anhui Province. Educational background: CPC Party School graduate. She graduated from the Faculty of Economics and Management of the CPC Party School. She is a senior economist and is currently holding the position of Vice-Chairman of Huishang Bank. She once served as Deputy Branch Manager and Party Committee Member of the Wuhu Branch of Agricultural Bank of China, Deputy Party Committee Secretary, Secretary of Party Discipline Committee and Deputy Branch Manager of the Ma'anshan Branch of Agricultural Bank of China, Vice-Secretary General of People's Government of Ma'anshan city and Chairman, Branch Manager, and Party Secretary of the Ma'anshan Commercial Bank.

Zhao Jice, male, born in December 1964 in Mengcheng of Anhui Province. Educational background: post-graduate degree holder. He graduated from the Finance Faculty of the Anhui Institute of Finance and Trade. He is an economist and is currently holding the position of Vice-Chairman of Huishang Bank. He once served as Manager of Huaibei City Huaihai Urban Credit Cooperative, Party Deputy Secretary and Executive Deputy Manager of the Huaibei City Trust and Investment Company, and Party Committee Secretary and Chairman of the Huaibei City Commercial Bank.

Wu Xiufang, female, born in July 1968 in Bengbu of Anhui Province. Educational background: post-graduate degree holder. He graduated from the Banking Faculty of the Shanghai University. She is currently holding the position of Vice-Chairman of Huishang Bank. She once served as General Manager of Shanghai Huashan Lu Office and Shanghai Zhoujiazui Lu Office of Xinjiang Jinxin Trust and Investment Company Limited, Deputy General Manager of D'hong Securities and Chairman of the Bengbu City Commercial Bank.

Li He, male, born in November 1953 in Hubei Province. Educational background: post-graduate master's degree holder. He graduated from the Faculty of Industrial Economics of the Zhongnan University of Economics and Law. He is a senior economist and is currently holding the position of President of Huishang Bank. He once served as the Deputy Branch Manager of the Hubei Shiyuan Branch of People's Bank of China, Deputy Division Chief and Division Chief of the Planning Division of the Hubei Branch of People's Bank of China, Division Chief of the General Affairs Division of the Hubei Branch of the State Administration of Foreign Exchange, Party Secretary and Branch Manager of the Wuhan Branch of the China Investment Bank, Branch Manager of the Wuhan Branch of the China Minsheng Bank, General Manager of the Sales and Operations Department of the head office of China Minsheng Bank, General Manager of the Corporate Culture Department of the head office of the China Minsheng Bank, and Executive Vice-President of Huishang Bank.

Zhang Renfu, male, born in March 1962 in Feidong of Anhui Province. Educational background: post-graduate master's degree holder. He graduated from the Faculty of Party History of the Renmin University of China and is currently holding the positions of full-time Deputy Secretary of the Party Committee and Secretary of Party Discipline Committee of Huishang Bank. He once served as Deputy Division Chief of the Liaison Division of the General Office of the Provincial Government, Researcher at the Division III of Secretariat of the General Office of the Provincial Government, Leading role of Deputy Division Chief at the Division V of the General Office of the Provincial Government, Deputy Director of the Division II of Secretariat of the General Office of the Provincial Government, and Deputy Director of the Finance Office of the Provincial Government.

Directors, Supervisors, Senior Management and Staff

Wang Guisheng, male, born in December 1954 in Wuwei of Anhui Province. Educational background: bachelor's degree holder. He graduated from the Faculty of Economics and Management of the CPC Party School. He is a senior economist and is currently holding the position of Vice-President of Huishang Bank. He once served as Deputy Branch Manager and Deputy Party Secretary of the Wuhu Branch of the ICBC, Party Committee Secretary and Branch Manager of the Xuancheng Branch of the ICBC, Deputy Secretary and Director of the Supervisory Office of Party Discipline Committee of the Anhui Branch of the ICBC, Party Committee Secretary and Chairman of the Wuhu Commercial Bank.

Ci Yaping, male, born in May 1959 in Tongcheng of Anhui Province. Educational background: bachelor's degree holder. He graduated from the Anhui CPC Party School. He is an economist and is currently holding the position of Vice-President of Huishang Bank. He once served as Deputy Branch Manager of the Anqing Branch of the Bank of Communications, and Party Secretary, Chairman and Manager of the Anqing Commercial Bank.

Gao Tongguo, male, born in March 1964 in Tongcheng of Anhui Province. Educational background: post-graduate degree holder. He graduated from the Jiangxi University of Finance and Economics. He is an accountant and is currently holding the position of Chairman and Chief Executive Officer of Hefei Xingtai Holding Group Company Limited. He once served as Deputy Director of Anhui Bureau of State-owned Assets Supervision and Administration Commission, Director of Hefei Assets and Equity Exchange, Chairman of the Technology Stock Exchange, President of the Assets Appraisal Association, Chairman of the Board of Supervisors of the Hefei Department Store Group Company Limited, and Director of the Hefei City Commercial Bank.

Li Yuzhuo, male, born in October 1947 in Zaozhuang of Shandong Province. Educational background: junior college degree holder. He graduated from the Faculty of Economics and Management of Anhui Institute of Finance and Trade and the Faculty of Chinese of Huainan Institute of Education. He is a senior engineer and is currently holding the position of Huainan Branch Researcher of Huishang Bank. He once served as Deputy Bureau Chief and Bureau Chief of the Huainan Personnel Bureau, Deputy Secretary General of the Huainan Government, Chairman and Party Secretary of the Huainan Urban Credit Cooperative, and Huainan Branch Manager of Huishang Bank.

Chen Xianhong, male, born in May 1955 in Shucheng of Anhui Province. Educational background: post-graduate degree holder. He graduated from the Faculty of Business Administration of Anhui Institute of Business Administration. He is an economist and is currently holding the position of Lu'an Branch Manager of Huishang Bank. He served as Deputy Director and Director of the Lu'an Urban Credit Cooperative, and Chairman and Director of the Lu'an Urban Credit Cooperative.

Zhang Youqi, male, born in October 1965 in Changfeng of Anhui Province. Educational background: bachelor's degree holder. He graduated from the Faculty of Finance and Economics of Anhui Institute of Finance and Trade. He is a senior economist and is currently holding the position of General Manager of Business Department of Huishang Bank. He once served as Executive Deputy Division Chief of the Management of Operations Division of the Anhui Branch of China Unicom, Deputy Branch Manager and Party Committee Member of the Hefei subsidiary of China Everbright Bank, Party Secretary and General Manager and Party Secretary of the Fuyang Branch of China Unicom, Chairman and Party Secretary of the Tongling Urban Credit Cooperative Company Limited, and Tongling Branch Manager of Huishang Bank.

Directors, Supervisors, Senior Management and Staff

Guo Chuanjie, male, born in September 1944 in Xishui of Hubei Province, PhD supervisor. He is currently holding the position of Party Secretary of University of Science and Technology of China. He once served as Deputy Secretary General and Deputy Party Secretary of the Chinese Academy of Sciences (CAS). He is also serving as Chairman of the Board of Supervisors of CAS Holding Company, the Deputy Party Secretary of the Enterprise Committee of the CAS, Executive Director of the Beijing Policy Consulting and Research Center, Director General of the Modernization Research Center of the China, Executive Director of the Research Committee for Technology Policy and Strategy Administration, and member of the 10th National Committee of the Chinese People's Political Consultative Conference (CPPCC).

Wu Xiaoqiu, male, born in February 1959 in Jiangxi Province. Educational background: PhD degree holder. He is a professor, PhD supervisor and Yangtze Scholar and is currently holding the positions of Assistant President of Renmin University of China and Vice-Dean of the School of Postgraduate Studies of Renmin University of China. He once served as Supervisor of the Macroeconomics Department of the Economic Research Center of Renmin University of China, Vice Dean of the Faculty of Finance of Renmin University of China, Director of Finance and Securities Research Center of Renmin University of China. He is also serving as Executive Director of the China Society for Banking and Finance, member of the Council of Experts of China Development Bank, and member of the 9th Issuance Examination Committee of China Securities Regulatory Commission (CSRC).

Ba Shusong, male, born in August 1969 in Hubei Province. Educational background: PhD degree holder. He is a professor, PhD supervisor and post-doctor at China Center for Economic Research. He is currently holding the position of Deputy Center Director and Researcher of the Financial Research Center of the Development Research Center of the State Council. He once served as Deputy Division Chief of the Office for Economic Restructuring and Development Planning Department at the Bank of China headquarters, Deputy Branch Manager of the Hangzhou Branch of the Bank of China, Senior Manager of the Department of Hong Kong and Macao Affairs of Bank of China, Assistant Manager of Department of Risk Management in Hong Kong and Chief of the Office of Credit-granting Management of the Bank of China, Chairman of the Strategic Development Committee of the Securities Association of China, and member of the Council of Experts of Department of Investment Fund Supervision of CSRC.

Directors, Supervisors, Senior Management and Staff

(II) Supervisors

Position	Name	Gender	Age	Institution and Position	Entitled to Salaries	Entitled to Allowances
Chairman of Board of Supervisors	Zhang Zhen	Male	52	Chairman of Board of Supervisors of Huishang Bank	✓	
Vice-Chairman of Board of Supervisors	Li Xiaowan	Male	56	Vice-Chairman of Board of Supervisors of Huishang Bank	✓	
Supervisor	Shen Weiguo	Male	56	Secretary of Party Discipline Committee of the Ma'anshan Branch of Huishang Bank	✓	
Supervisor	Wang Suyun	Female	43	Secretary of Party Discipline Committee of the Huaibei Branch of Huishang Bank	✓	
Supervisor	Ding Meifen	Female	50	Vice-Chairman of the Labor Union of the Anqing Branch of Huishang Bank	✓	
Supervisor	Sun Huijun	Male	39	General Manager of Shanghai Huierhua Business Company Limited and Shanghai Yanlongji Company Limited	-	-
Supervisor	Fan Xiaohui	Male	51	Deputy General Manager of Audit Department of Huishang Bank	✓	
External Supervisor	Fang Guangluo	Male	57	Principal of Anhui Business College of Vocational Technology		✓
External Supervisor	Yang Junlong	Male	40	Department Head of Research Department of the School of Arts of Anhui University		✓

Work Experience of the Supervisors:

Zhang Zhen, male, born in October 1955 in Si County of Anhui Province. Educational background: bachelor's degree holder. He graduated from the Faculty of Economics and Management of the CPC Party School. He is a senior economist and is currently holding the position of Chairman of the Board of Supervisors of Huishang Bank and concurrently Deputy Director of Center for Non-governmental (Private) Economy Studies of Anhui Province. He once served as Deputy Division Chief of the Planning Division of the Tibet Branch of People's Bank of China, Party Secretary and Branch Manager of the Suzhou, Huaibei Subsidiary Branch of People's Bank of China, Division Chief of the Management Division of the Hefei Subsidiary Branch of the People's Bank of China, Division Chief of the ICBC Supervision Division of CBRC Anhui Bureau and the Division Chief of State-owned Bank Supervision Division I.

Li Xiaowan, male, born in March 1951 in Funing of Jiangsu Province. Educational background: junior college degree holder. He graduated from the Faculty of Chinese of Anhui University. He is an economist and is currently holding the position of Vice-Chairman of the Board of Supervisors of Huishang Bank. He once served as Deputy Office Director and Operations Director of the Hefei Branch of the People's Bank of China, Deputy General Manager of Hefei Technological Development Experimental Bank, and Deputy Branch Manager, Vice-Chairman, and Party Member of Hefei Commercial Bank.

Directors, Supervisors, Senior Management and Staff

Shen Weiguo, male, born in May 1951 in Ma'anshan of Anhui Province. Educational background: junior college degree holder. He graduated from the Faculty of Economics of Anhui University. He is an economist and is currently holding the position of Secretary of Party Discipline Committee of the Ma'anshan Branch of Huishang Bank. He once served as Deputy Party Secretary of the Ma'anshan CPC Office, Director of Ma'anshan Commercial Office, Party Secretary of Ma'anshan Jiang An Shipping Company, and Chairman of the Board of Supervisors and Deputy Party Secretary of Ma'anshan Commercial Bank.

Wang Suyun, female, born in August 1964 in Huaibei of Anhui Province. Educational background: bachelor's degree holder. He graduated from the Faculty of Economics and Management of the CPC Party School. She is an accountant and is currently holding the position of Secretary of Party Discipline Committee of the Huaibei Branch of Huishang Bank. She once served as Deputy Director of the Preparation Office of Huaibei City Commercial Bank, and Chairman of the Board of Supervisors of Huaibei City Commercial Bank.

Ding Meifen, female, born in March 1957 in Anqing of Anhui Province. Educational background: junior college degree holder. She graduated from the Faculty of Economics and Management of the CPC Party School, Anhui. She is an assistant economist and is currently holding the position of Vice-Chairman of the Labor Union of the Anqing Branch of Huishang Bank. She once served as General Manager of the Finance Department of Anqing City Commercial Bank, and General Manager of the Planning Department of the Anqing Branch of Huishang Bank.

Sun Huijun, male, born in November 1968 in Fuyang of Anhui Province. Educational background: bachelor's degree holder. He is an economist, accountant and certified tax agent. He is currently holding the position of General Manager of Shanghai Huihua Business Company Limited and Shanghai Yanlongji Company Limited. He once served as Chairman of the Board of Supervisors of Fuyang Yinhe Credit Cooperative, and General Manager of the Risk Management Department of the Fuyang Branch of Huishang Bank.

Fan Xiaohui, male, born in October 1956 in Changfeng of Anhui Province. Educational background: junior college degree holder. He graduated from Anhui Vocational College. He is an economist and is currently holding the position of Deputy General Manager of the Audit Department of Huishang Bank. He once worked as Deputy Branch Manager of the Technology Branch of Hefei Commercial Bank, and General Manager of the Audit Department of Hefei City Commercial Bank.

Fang Guangluo, male, born in August 1950 in Zongyang of Anhui Province. Educational background: bachelor's degree holder. He graduated from the Faculty of Economics and Management of the CPC Party School. He is an assistant professor. He is currently holding the positions of Deputy Party Secretary and Principal of Anhui Business College of Vocational Technology. He once served as Deputy Principal and Principal of Anhui Business College of Vocational Technology and Anhui Academy of Commerce.

Yang Junlong, male, born in August 1967 in Funan of Anhui Province. Educational background: PhD degree holder. He is a professor and PhD supervisor. He graduated with a master's degree from Yunnan University and a PhD degree in Economics from Renmin University of China, and once held a post-doctoral position at the Faculty of Business Administration of Renmin University of China. He is currently holding the positions of Department Head of Research Department of the School of Arts of Anhui University and Director of Anhui Research Association of Karl Marx's "Capital". He once served as Vice-Dean of the Faculty of Economics of Anhui University.

Directors, Supervisors, Senior Management and Staff

(III) Senior Management

Name	Gender	Age	Institution and Position	Entitled to Salaries	Entitled to Allowances
Li He	Male	54	President of Huishang Bank	✓	
Zhang Renfu	Male	45	Full-time Deputy Secretary of the Party Committee and Secretary of Party Discipline Committee of Huishang Bank	✓	
Wang Guisheng	Male	53	Vice-President of Huishang Bank	✓	
Ci Yaping	Male	48	Vice-President of Huishang Bank	✓	
Zou Guangming	Male	44	Vice-President of Huishang Bank	✓	
Gao Guangcheng	Male	43	Vice-President of Huishang Bank	✓	

Note: See the resumes of Li He, Zhang Renfu, Wang Guisheng, Ci Yaping in "Work Experience of Directors" in the report.

Work Experience of New Members of the Senior Management:

Zou Guangming, male, born in December 1963. Educational background: bachelor's degree holder. He graduated from Anhui University of Finance and Economics. He is a senior economist and is currently holding the position of Vice-President of Huishang Bank. He once served as Deputy Division Chief of Policy Bank Division and Agriculture Bank of China Division of Hefei Financial Regulatory Office of the Nanjing Branch of People's Bank of China, and Division Chief of Bank of China Division, City Commercial Bank Division and Local Bank On-site Inspection Division of CBRC Anhui Bureau.

Gao Guangcheng, male, born in January 1964. Educational background: bachelor's degree holder. He graduated from Anhui University of Finance and Economics. He is a certified public accountant and is currently holding the position of Vice-President of Huishang Bank. He once served as Hefei Branch Manager of Huishang Bank.

II.Changes in the Information of Directors and Supervisors

Name	Before	Now
Li He	Executive Vice-President of Huishang Bank	President of Huishang Bank
Li Yuzhuo	Huainan Branch Manager of Huishang Bank	Researcher of Huishang Bank, Huainan Branch
Zhang Youqi	Tongling Branch Manager of Huishang Bank	General Manager of Business Department of Huishang Bank
Ding Meifen	General Manager of the Planning Department of the Anqing Branch of Huishang Bank	Vice-Chairman of the Labor Union of the Anqing Branch of Huishang Bank
Sun Huijun	General Manager of the Risk Management Department of the Fuyang Branch of Huishang Bank (Until August 2006)	General Manager of Shanghai Huierhua Business Company Limited and Shanghai Yanlongji Company Limited

Directors, Supervisors, Senior Management and Staff

III. Staff

As of December 31st, 2006, the Corporation had a total of 3,336 staff on employment contracts, of which males and females respectively account for 43.2% and 56.8%. 35.97% of the staff hold undergraduate degrees or above, 47.3% hold junior college degrees, and 16.73% hold secondary technical school diplomas. 0.57% of the staff hold advanced professional qualifications, 21.9% hold intermediate professional qualifications, and 15.2% hold junior professional qualifications.

Corporate Governance

I. Corporate Governance

During the reporting period, pursuant to relevant laws including “Company Law of the People’s Republic of China” and “Commercial Banking Law of the People’s Republic of China”, and relevant regulations like “Guidelines for Corporate Governance of Joint Stock Commercial Banks” and “Guidelines for Board of Directors to Perform Duties in Joint-Commercial Banks”, and in accordance with the requirement of the regulatory authority and the Corporation’s reality, the Corporation formulated “Rules for the Work of the Board of Directors of Huishang Bank”, “Methods for Guaranteeing the Right to Know of the Directors and Supervisors of Huishang Bank” and “Outline of the Five-Year Development Strategy of Huishang Bank”, set up Special Committees under the Board of Directors and formulated working rules for those committees. It also set up offices under the Board of Directors and the Board of Supervisors. These moves improved the corporate governance structure and effectiveness of the Corporation.

(I) Shareholders and General Meeting of Shareholders

The Corporation formulated “Rules of Procedures of the General Meeting of Shareholders of Huishang Bank Corporation Limited”, and convened and held the General Meeting of Shareholders according to relevant rules and regulations. It also formulated “Provisional Methods on Shareholder Service of Huishang Bank”, and set up a sound communication channel between itself and the shareholders in a bid to ensure that all shareholders, in particular the minority shareholders are of equal status and able to fully exercise their rights.

During the reporting period, the Corporation held the 2005 General Meeting of Shareholders, and implemented relevant legal procedures in accordance with relevant stipulations in “Articles of Association of Huishang Bank Corporation Limited” and other regulations. The lawyer has prepared an opinion paper on the meeting.

(II) Shareholders and the Corporation

There are a large number of shareholders of the Corporation and among them no controlling shareholder. The top five shareholders are not able to override the General Meeting of Shareholders to directly or indirectly intervene in the operations or decision-making of the Corporation. The Corporation is fully independent from its top five shareholders in personnel, assets, finance, institution and business. The Board of Directors, Board of Supervisors and internal institutions are able to operate independently.

(III) Directors, Board of Directors and Special Committees

The directors of the Corporation are elected in accordance with relevant stipulations in “Articles of Association of Huishang Bank Corporation Limited” on the qualifications and election procedures of directors. The Board of Directors is made up of 15 directors including 3 independent directors. The number of directors and the composition of the Board of Directors are in compliance with relevant laws and regulations. During the reporting period, the Board of Directors performed its duties in a responsible, pragmatic and innovative manner. It closely examined all important issues relating to the development of the Corporation and kept improving its own operation mechanism. It also kept improving corporate governance and promoting strategic management, effective decision-making, sound operations and the establishment of a consolidation and management system at the early period of the merger. All of these moves helped safeguard the interests of the Corporation and its shareholders.

Corporate Governance

In accordance with relevant regulations, 5 Special Committees were set up under the Board of Directors, namely the Development Strategy Committee, the Nomination and Compensation Committee, the Risk Management Committee, the Committee for Related Party Transaction Control, and the Audit Committee. The positions of President of the Development Strategy Committee, the Nomination and Compensation Committee, and the Audit Committee are held by the independent directors. All of the Special Committees performed their duties in a responsible manner and offered professional opinions on the terms of reference and the decision-making of the Board of Directors. All of these opinions helped improve the Corporation's management, risk control and governance structure and helped safeguard investors' legitimate rights and interests.

Members of the Development Strategy Committee: Wu Xiaoqiu (President), Gao Tongguo (Vice-President), Zhang Youqi.

Members of the Nomination and Compensation Committee: Guo Chuanjie (President), Zhang Renfu (Vice-President), Li Yuzhuo.

Members of the Risk Management Committee: Xu Demei (President), Gao Tongguo (Vice-President), Zhao Jice.

Members of the Committee for Related Party Transaction Control: Zhao Jice (President), Zhang Youqi (Vice-President), Xu Demei.

Members of the Audit Committee: Ba Shusong (President), Wu Xiufang (Vice-President), Chen Xianhong.

During the reporting period, the Risk Management Committee held 6 meetings, examined 15 major risk management matters reported by the Senior Management, and issued 2 letters of proposal on risk management. It also led the drafting work of "Emergency Plan for Major Risks of Huishang Bank", "Reporting System of Important Matters of Huishang Bank (draft for discussion)" and "Provisional Methods on the Authorization Management of Huishang Bank", investigated the credit granting to group clients and real-estate companies, and advised the Senior Management on risk management in terms of the concentration of loans and the management of inter-bank accounts.

The Committee for Related Party Transaction Control held 7 meetings and examined 3 major related party transactions. It also drafted the "Management Rules for the Control of Related Party Transactions of Huishang Bank", "Reporting System for Related Parties of Huishang Bank" and "Operating Procedures for Related Party Transactions of Huishang Bank", and further regulated the management of related party transactions through investigating loans to corporate shareholders and related parties.

The Development Strategy Committee held 3 meetings, examined and offered opinions on "Outline of the Five-Year Development Strategy of Huishang Bank", the implementation of plans by the Senior Management, institution building and equity increase, etc.

The Nomination and Compensation Committee held 4 meetings, and proposed to engage intermediary institutions to design the compensation and performance evaluation system of the Corporation, offer professional opinions on the design and make an initial review of the candidates for President and Vice-Presidents.

The Audit Committee held 2 meetings, and proposed to appoint PricewaterhouseCoopers through bid invitation as the auditor of the Corporation's financial statement prepared in accordance with the IFRS, listen to reports on the development and implementation of the internal control system of the Corporation and offer advice.

Corporate Governance

(IV) Supervisors, Board of Supervisors and Special Committees

The supervisors of the Corporation are elected in accordance with relevant stipulations in “Articles of Association of Huishang Bank Corporation Limited” on the qualifications and election procedures of supervisors. The Board of Supervisors is made up of 9 directors including 2 external supervisors. The number of supervisors and the composition of the Board of Supervisors are in compliance with relevant laws and regulations. During the reporting period, the Board of Supervisors performed its duties in a responsible manner. It supervised the duty performance of the Board of Directors, Directors, Senior Management and its members, the development of the internal control system, business performance and financial performance of the Corporation. All of these moves helped safeguard the legitimate rights and interests of the Corporation and its shareholders.

2 Special Committees were set up under the Board of Supervisors, namely the Nomination Committee and the Supervisory Committee. The positions of President of the Special Committees are held by the external supervisors. This helped strengthen the Board of Supervisors’ function of independent supervision in duty performance evaluation and internal control, and helped improve the management of governance structure of the Corporation.

Members of the Nomination Committee: Fang Guangluo (President), Li Xiaowan (Vice-President), Zhang Zhen, Shen Weiguo, Wang Suyun.

Members of the Supervisory Committee: Yang Junlong (President), Zhang Zhen (Vice-President), Fan Xiaohui, Sun Huijun, Ding Meifen.

During the reporting period, the Nomination Committee held 1 meeting and formulated its annual work plan. The Supervisory Committee held 3 meetings and examined the methods for the supervision and evaluation of the duty performance of the Board of Directors, Directors, Senior Management and its members. It also examined the program of verifying the asset authenticity and the program of investigating the development and implementation of the financial and accounting system.

(V) Information Disclosure and Transparency

The Corporation is acting in compliance with “Provisional Methods for Information Disclosure of Commercial Banks” and “Notice on Regularizing Annual Report Content of Joint Stock Commercial Banks” to improve the timeliness, accuracy and completeness of information disclosure. At the same time, the 2005 Annual Report (Chinese/English) is available in the office of the Board of Directors of the Corporation for the investors and stakeholders to refer to.

The Corporation attaches great importance to the correspondence, telephone calls, visits and inquiries from all shareholders and stakeholders, and guarantees equal opportunity of information access for all shareholders and stakeholders.

II. Independent Directors and External Supervisors

In accordance with “Guidelines for Corporate Governance of Joint Stock Commercial Bank Corporations” and “Guidelines for the System of Independent Directors and External Supervisors for Joint Stock Commercial Banks”, the Corporation recruited 3 independent directors and 2 external supervisors. During the reporting period, the independent directors and external supervisors performed their duties in a responsible, trustworthy and diligent manner. They helped safeguard the legitimate rights and interests of the Corporation and its minority shareholders, and helped the Board of Directors and the Board of Supervisors to make decisions in an effective and objective manner.

Corporate Governance

(I) Attendance of Independent Directors at Board Meetings of Board of Directors

Name	Required Attendance Times	Attendance in Person (times)	Attendance by Authorized Representative (times)	Absence (times)
Guo Chuanjie	6	6	-	-
Wu Xiaoqiu	6	4	2	-
Ba Shusong	6	5	1	-

(II) Attendance of External Supervisors at Board Meetings of Board of Supervisors

Name	Required Attendance Times	Attendance in Person (times)	Attendance by Authorized Representative (times)	Absence (times)
Fang Guangluo	4	4	-	-
Yang Junlong	4	3	1	-

(III) Objections by Independent Directors In Terms of Company Affairs

During the reporting period, the Independent Directors did not bring forward any objection to any proposal of the Board of Directors or other relevant matters.

III. Decision-making System of the Corporation

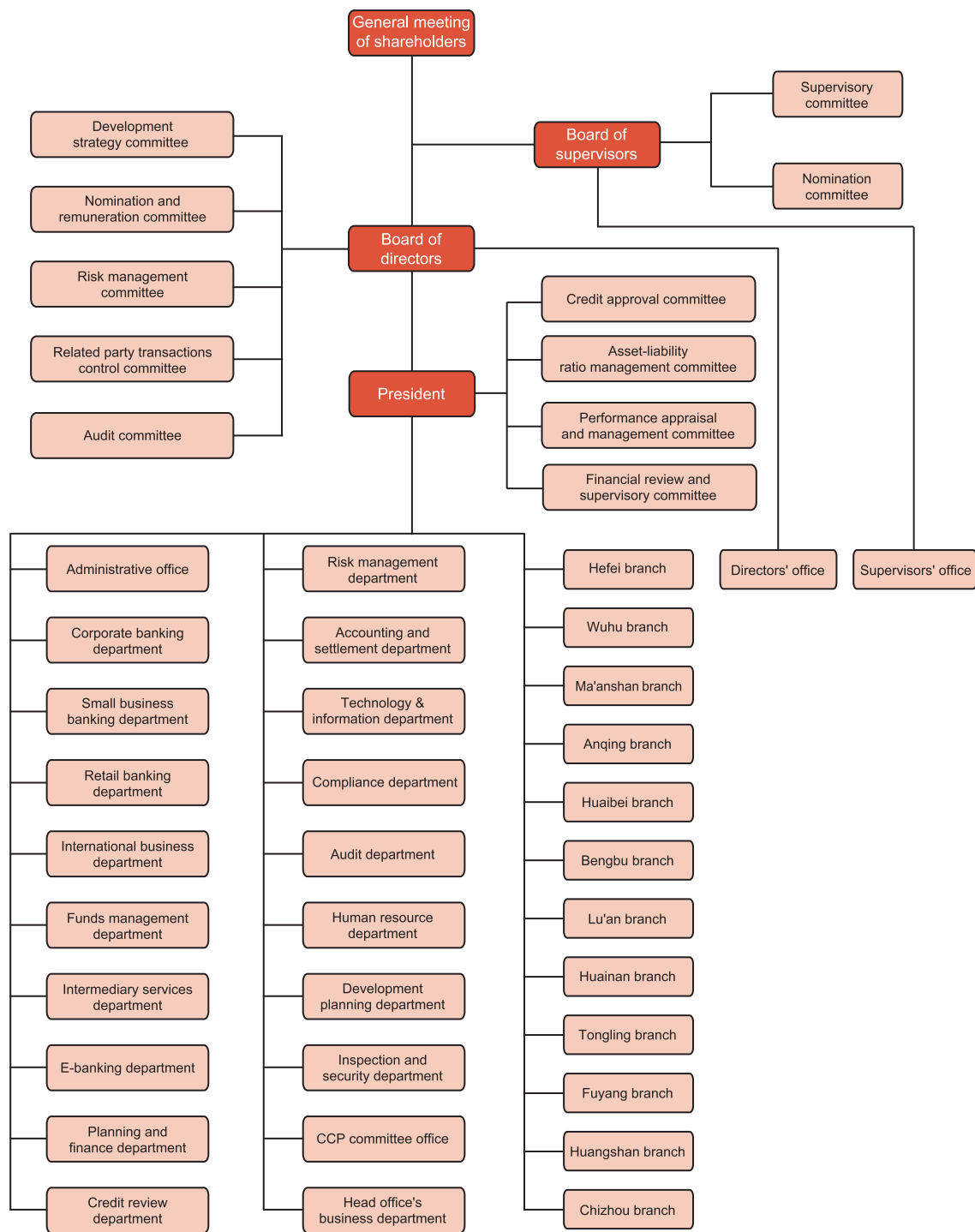
The supreme body of the Corporation is the General Meeting of Shareholders. The Board of Directors performs the function of decision-making and management while the Board of Supervisors performs the function of supervision. President of Huishang Bank reports to the Board of Directors and is fully responsible for the daily operations and management of the Corporation. The Corporation has its head office as its only legal person. All of its branches are non-independent accounting units that carry out business under the authorization of and report to the head office of the Corporation.

IV. Performance Evaluation and Incentive Mechanism for Senior Managers

The Corporation drafted "Provisional Methods on Compensation of Senior Managers of Huishang Bank" (to be adopted by the General Meeting of Shareholders). In the principle of compensation based on performance, it designed and adopted an evaluation indicator system for senior managers with both qualitative and quantitative methods. This system helped incentivize the senior managers and helped improve the performance, awareness and sense of responsibility of the Senior Management.

Corporate Governance

V. Organizational Structure



Note: Huangshan Branch and Chizhou Branch are newly established branches in 2007.

General Meeting of Shareholders

I. Details of Convened General Meeting of Shareholders

The Corporation issued a public notice on the 2005 Annual General Meeting of Shareholders in the March-19-2006 issue of "Anhui Daily". The Corporation convened and held the 2005 General Meeting of Shareholders on April 22nd, 2006, attended by 23 shareholders or their authorized representatives, representing 1.358199156 billion shares, 54.33% of the Corporation's equity. The meeting was chaired by Ms Dai Hedi, the Corporation's Chairman. The following resolutions were passed by written voting at the meeting:

1. "The Work Report of the Board of Directors of Huishang Bank Corporation Limited"
2. "The Work Report of the Board of Supervisors of Huishang Bank Corporation Limited"
3. "The Report of the Business Plan and Financial Budget of Huishang Bank Corporation Limited"
4. "The Rules of Procedures of the General Meeting of Shareholders of Huishang Bank Corporation Limited"
5. "The Compensation Plan for the Independent Directors and External Supervisors of Huishang Bank Corporation Limited"
6. "The Proposal on Recruiting External Auditors"
7. "Notice on the Registration of Huishang Bank Corporation Limited"

The secondary special auditing reports on Hefei City Commercial Bank (now Huishang Bank Corporation Limited) and its branches were also presented to the meeting.

II. Details on the Election of Directors, Supervisors and the Recruitment of Senior Management

See "Directors, Supervisors, Senior Management and Staff" in this report.

Report of the Board of Directors

I. Management's Discussion and Analysis

(I) Business Review during the Reporting Period

1. Overall Performance

— Business Scope of the Corporation

Public deposits; foreign currency deposit, foreign currency lending, foreign currency remittance; foreign currency exchange, purchase or sale; international settlement; short-term, medium-term and long-term loans; domestic settlement; bill discount; issuance of financial bonds; an agent of issuing, cashing and underwriting government bonds; dealing in government bonds; inter-bank lending business; providing guarantee; acting as an agent in collection and payment and insurance business; providing safe deposit box service; loan by mandate for working capital for local financial credit and other businesses approved by the regulatory authorities.

— Major Operation Indicators

Unit: %

Indicators		Year 2006	Year 2005
Performance Evaluation	Weighted Average Return on Total Assets	0.48	-
	Weighted Average Return on Net Assets	10.84	-
	Cost/Income Ratio	43.84	47.30
Asset Quality	NPL Ratio	3.20	6.03
Prudent Operation	Capital Adequacy Ratio	8.10	6.53
	Ratio of Loans to the Single Largest Client	15.91	31.48
	NPL Provisioning Coverage Ratio	52.48	25.91

— Risk Management

As at the end of the reporting period, the NPL ratio in the last three categories of the five categories of assets dropped by 2.83 percentage points compared with that at the end of last year. Its ratio in the total loan balance fell to 3.2%.

During the reporting period, the Corporation strengthened the risk management of the bank credit assets. Based on the five-category classification, the Corporation could identify risks of assets in a dynamic way and established a credit risk early warning system to identify and address potential risks. The Corporation also established a mechanism to deal with NPLs in a timely manner, including a staff performance evaluation system. It strengthened the monitoring and management of NPLs by recording detailed information of NPL accounts and recovering proceeds from major NPLs in order to reduce losses. It improved its efforts in NPL identification, write-off and reporting as well. The Corporation classified non-credit assets to get a complete picture of the related risks so as to promote its transformation from credit risk management to overall risk management.

Report of the Board of Directors

— — Institutional Management

As at the end of the reporting period, the Corporation had 11 branches (including the headquarters), 153 sub-branches, 19 off-premise 24-hour self-service banking locations, 121 on-premise 24-hour self-service banking locations and 140 ATMs.

During the reporting period, the Corporation carried out a network reform in a steady manner. In the principle of rational planning of location, rapid expansion, effectiveness and efficiency, the Corporation finished the abolition and merger of 7 branches, the relocation of 16 sub-branches and the establishment of 1 sub-branch, which enhanced its productivity and cost-effectiveness.

During the reporting period, the Corporation dispatched 60 ATMs, 4 CRS machines, 43 passbook entry machines, 36 self-service payment machines and 100 POS machines, which has helped to improve the Corporation's banking capacity and public image.

— — The Application of Information Technology

During the reporting period, the Corporation strengthened the planning, application and management of IT equipment. First, the Corporation successfully finished the data transference from the old computer room to the new one, which laid a solid foundation for the bank-wide application of information technology. Second, the Corporation promptly started data and accounting consolidation, which provided a platform for it to get a complete picture of the Corporation's performance, share data, use data efficiently and improve its efficiency and quality. Third, the Corporation established a computer network connecting the headquarters with all branches. It also established a bank-wide performance daily reporting system and a network system for reporting to the PBOC. The Corporation upgraded the network in all branches based on their specific conditions and finished the testing and evaluation of a modern payment system's interface with the PBOC. The Corporation also separated the accounts of the headquarters accounting center, the headquarters banking department and Hefei branch. All these efforts were strong evidence of its successful application of information technology across the Corporation. Fourth, the Corporation launched the second phase of R&D of a credit management system and began to optimize its core business systems. Fifth, the Corporation carried out centralized network security management and finished implementing the program for a Disaster Recovery Center and running several pilot tests, thus reducing relevant risks.

— — Corporate Banking Business

During the reporting period, the Corporation finished most of the work to establish corporate banking departments across the Corporation and worked out a marketing strategy. The headquarters gave full play to its leadership role in attracting large group clients in various industries by carrying out marketing campaigns targeted at companies under the direct leadership of the Provincial Government and other large companies in the province. The Corporation took advantage of its cooperation with China Development Bank to strengthen its support to key accounts through loan syndication and asset management programs with a total value of syndicate loans of RMB 1.5 billion in the year. The bank also implemented the pilot operation reform in Bengbu Branch in an incremental manner in accordance with the overall plan.

Report of the Board of Directors

— — SME Banking Business

During the reporting period, the Corporation made great efforts in implementing the “321 Project” based on “Small Giant” and “Eaglet” programs. The Corporation focused on a small number of branches to provide tailored banking services to SMEs so as to promote the business across the Corporation. The Corporation continued to increase its loans to credit-worthy SMEs with the intention of cultivating potential key accounts and promoting the development of SMEs in the Province. The net increase of its loans to SMEs and the number of new accounts of SMEs both ranked the first among banking institutions in Anhui.

— — International Business

During the reporting period, the Corporation followed the business model of “the consolidation of local and foreign currency accounts, professionalized management of foreign exchange business and accountable and centralized risk management”. The Corporation restructured itself to establish an accountability system and risk management mechanism in the international business departments. More branches, including those in Wuhu, Ma’anshan, Anqing, Tongling, Lu’an and Bengbu, started to offer foreign exchange business upon the approval of competent authorities, laying a foundation for the Corporation to carry out the full-fledged foreign currency services in all its branches. After it was established, the Corporation notified all the correspondent banks home and abroad to change its name from “Hefei Commercial Bank” to “Huishang Bank”. At present, the Corporation has 135 correspondent banks, enough to meet the demand of its settlement business.

— — Treasury Operation

During the reporting period, the Corporation achieved the following goals in treasury management: the centralized management of bank capital, business in the debt securities market and the bills business. The centralized management of interest rate risks and operational risks enhanced its operating efficiency. The Corporation also successfully diversified its channels of financing, which ensured that there was no liquidity crisis in the year when the Corporation was running at a loss. Through operation on the debt securities market, the ratio of medium and long-term bonds in its bond assets decreased, leading to a drop in the interest rate risk, a more rational mix and a higher ROI.

— — Status and Influence in the Banking Industry

As at the end of the reporting period, among 15 banking institutions in Anhui Province, the Corporation ranked the first in terms of net increase and increase rate of new RMB savings and loans, the sixth in terms of deposit balance, and the seventh in terms of loan balance.

The Corporation was the only one in Anhui that was awarded the “2006 Best Practice Award in SME Loan Business” by the CBRC. It was also the first prize winner of “Best Financial Institutions Award in Anhui Province” offered by the Provincial Government and was awarded the “Financial Institutions with the Best SME Loan Business” in the province. The headquarters banking department ranked the first in terms of profitability per capital among all the municipality-level bank branches in the jurisdiction of Anhui Province.

Report of the Board of Directors

2. Income from Core Business, Profit from Core Business, Net Profit and Net Increase (Decrease) in Cash and Cash Equivalents

Unit: RMB 1,000

Item	The Reporting Period	The Same Period Of Last Year	Increase/Decrease
Income from Core Business	2,656,103	865,300	1,790,803
Profit from Core Business	1,523,716	442,311	1,081,405
Net Profit	288,495	220,709	67,786
Net Increase in Cash and Cash Equivalents	373,684		

Income from Core Business

Unit: RMB 1,000

Business Category	Year 2006
Loans	2,067,882
Lending to and Placements with Banks and Other Financial Institutions	241,793
Investment Income	298,268
Other Businesses	48,160
Total	2,656,103

3. Financial Data

Unit: RMB 1,000

Item	Year 2006	Year 2005	Increase/Decrease	Main Cause
Total Assets	70,362,183	48,651,435	21,710,748	Growth in business scale
Long Term Equity Investment	23,628	22,874	754	Classification changes
Long Term Bond Investment	8,530,651	7,176,265	1,354,386	Growth in investment
Fixed Assets	755,475	614,296	141,179	Growth in investment
Total Liabilities	67,210,252	46,478,827	20,731,425	Growth in deposit
Long Term Liabilities	3,970,971	2,677,776	1,293,195	Growth in deposit
Shareholders' Equity	3,151,931	2,172,608	979,323	Growth in investment and transference of net profit
Profit from Core Business	1,523,716	442,311	1,081,405	Growth in business scale
Investment Income	298,268	214,840	83,428	Growth in investment
Net Profit	288,495	220,709	67,786	Growth in business scale

Report of the Board of Directors

4. Balance of Major Off-balance-sheet Items

Unit: RMB 1000

Item	Balance of Year 2006	Balance of Year 2005
Interest Receivable (OBSI)	428,687	443,531
Letters of Guarantee Issued	1,151,992	835,241
External Guarantee	-	-
Loan Commitment	371,600	102,000
Letters of Credit	181,638	147,885
Acceptances	10,960,970	7,031,478

(II) Overview of the Corporation's Business

1. Main Branches and Offices

No.	Branch	Location	No. of Sub-branches (166 in total)
1	Banking Department Of the Head Office	No. 79, Anqing Road, Hefei	1
2	Hefei Branch	No. 235, Anqing Road, Hefei	37
3	Wuhu Branch	No. 1, Beijing Road, Wuhu	20
4	Ma'anshan Branch	No. 3, Hunan Road, Ma'anshan	16
5	Anqing Branch	No. 528, Renmin Road, Anqing	20
6	Huaibei Branch	No. 282, Huaihai Road, Huaibei	13
7	Bengbu Branch	No. 155, Zhongrong Road, Bengbu	23
8	Lu'an Branch	No. 59, Meishan Zhong Road, Lu'an	11
9	Huainan Branch	No. 39, Shungeng Xi Road, Huainan	11
10	Tongling Branch	Yi'an Building, Yi'an Nan Road, Tongling	8
11	Fuyang Branch	No. 237, Qinghe Dong Road, Fuyang	4
12	Huangshan Branch	Floor 1-5, Kuanwang Building, No.39, Huangshan Middle Road, Huangshan	1
13	Chizhou Branch	No.219, Chiyang Road, Chizhou	1

Note: Huangshan Branch and Chizhou Branch are newly established branches in 2007.

Report of the Board of Directors

2. Five-tier Classification of Loans

Unit: RMB 10,000

Classification	Beginning of the Period		End of the Period	
	Balance	% of Total	Balance	of Total %
Normal Loans	2,179,576	71.49	3,516,169	79.53
Special Mention Loans	685,371	22.48	763,465	17.27
Substandard Loans	110,313	3.62	91,255	2.06
Doubtful Loans	31,164	1.02	21,963	0.50
Loss Loans	42,256	1.39	28,418	0.64
Total	3,048,680	100.00	4,421,270	100.00

3. Provision for Reserves

The Corporation provided loan loss reserves according to relevant laws and regulations.

(1) Loan loss reserves, including general and special reserves, are provided according to “The Guidance on Provisioning for Loan Losses” issued by the PBOC in April 2002, “Implementing Measures Regarding Financial Management of Urban Commercial Banks and Urban Credit Unions” (No. 3 of the State Administration of Taxation) and the “Administrative Measures for the Provisioning of Reserves for Non-performing Debts of Financial Enterprises” (No.49 [2005] of the Ministry of Finance) issued in June 2005. Due to historical reasons, the Corporation didn’t provide adequate loan loss reserves. As at the end of the reporting period, the Corporation provided loan loss reserves amounting to RMB 743 million.

(2) 1% of the total loans outstanding were provided as the general reserves for loans, discounts, advance payments and advances on import and export to cover unidentified possible loan losses. As at the end of the reporting period, the general reserves balance was RMB 442 million.

(3) The Corporation provided special reserves by the following percentages: the reserves were provided for special-mention loans by 2%, for substandard loans by 25%, for doubtful loans by 50%, and for loss loans by 100%. As at the end of the reporting period, the special reserves balance was RMB 301 million.

(4) Reserves of impairment for equity investment and bonds investment (excluding treasury bonds), inter-bank lending (lending to banks and other financial institutions), due from banks, interest receivable (excluding interest receivable of loans, treasury bonds and placements with other banks), other receivables and other assets are provided based on their risk levels. Due to historical reasons, the Corporation didn’t provide enough reserves. As at the end of the reporting period, the provisions balance was RMB 104 million.

(5) Pursuant to the requirement of “City Commercial Bank Supervision and Development Compendium” issued by CBRC, Huishang Bank plans to make sufficient provision in accordance with the risk of each class of assets gradually before the end of 2008 considering the Corporation’s profitability. Provisions are charged to the income statement.

Report of the Board of Directors

4. The Top 5 Sectors with the Largest Amount of RMB Loans from the Corporation

Unit: RMB 10,000

No.	Sector	Loan Balance	of Total Loans %
1	Manufacturing Industry	806,807	18.25
2	Wholesale and Retail Industry	480,533	10.87
3	Financial Industry	377,145	8.53
4	Renting Business and Commercial Service	333,129	7.53
5	Management of Water Conservancy, Environment and Public Facilities	312,154	7.06

Note: Loans in the financial industry are in the form of rediscount.

5. Ratio of Loans to Top 10 Clients

Unit: RMB 10,000

No.	Client	Loan Balance	of Total Loans %
1	Anhui Hefei City Construction Holding Company Limited	50,000.00	1.13
2	Ma'anshan Construction Investment Company Limited	40,000.00	0.90
3	Bengbu City Investment Holding Company Limited	37,000.00	0.84
4	Huaibei Construction Investment Company Limited	37,000.00	0.84
5	Ma'anshan Iron & Steel Company Limited	36,000.00	0.81
6	Wuhu Highway Administration Bureau	35,630.00	0.81
7	Hefei State-owned Assets Holding Company Limited	35,000.00	0.79
8	Hefei Land Reserve and Transaction Center	33,000.00	0.75
9	Huaibei Coal & Electricity Group	29,050.00	0.66
10	Anhui BBKA Biochemical Company Limited.	28,500.00	0.64
	Total	361,180.00	8.17

6. Credit Granting to Group Customers and Risk Management

The Corporation issued "The Management Methods of Unified Credit Granting to Corporate Clients of Huishang Bank" (For Trial Implementation). Based on its credit policy and the conditions of its clients, the Corporation worked out maximum credit quota for unified credit granting to group customers so as to control the risks in the business. As of the end of December, 2006, the largest group client of the Corporation was Ma'anshan Iron & Steel Company Limited, which had RMB 649 million of banking facility from the Corporation, 20.64% of its net capital.

7. Discount Loans Occupying over 20% (including 20%) of Total Loans at the End of the Year

During the reporting period, the Corporation did not issue any discount loan.

8. Balance of Restructured Loans at the End of Year and Overdue Loans

During the reporting period, the balance of restructured loans provided by the Corporation was RMB 155.3 million with no overdue loan.

Report of the Board of Directors

9. Main Loans and Deposit Category, Monthly Average Balance and Average Interest Rates

Unit: RMB 1,000

Category	Average Balance	Average Interest Rate %
Short-term, Medium-term and Long-term Loans	35,934,519	5.75
Corporate Deposits	39,723,266	1.19
Savings Deposits	11,685,770	1.54

10. Large Government Bond Held at the End of the Year

Unit: RMB 10,000

Bond Type	Coupon Rate (%)	Par Value	Maturity
1999 Registered Treasury Note	3.28-4.72	8,000	2007.08-2009.04
2000 Registered Treasury Note	2.90-3.50	18,000	2007.02-2010.09
2001 Registered Treasury Note	2.82-3.85	43,000	2008.06-2021.10
2002 Registered Treasury Note	2.00-2.93	173,000	2007.04-2032.05
2003 Registered Treasury Note	2.45-4.18	86,000	2008.04-2018.10
2004 Registered Treasury Note	3.20-4.89	76,000	2007.04-2011.11
2005 Registered Treasury Note	1.58-3.65	103,400	2007.07-2020.11
2006 Registered Treasury Note	1.92-2.89	89,000	2007.01-2016.03
Total		596,400	

11. Conditions of Non-Performing Loans and Countermeasures

As at the end of the reporting period, the total loans in the Corporation was RMB 44.213 billion, including RMB 4.2796 billion of normal and special mention loans, 96.80% of the total; RMB 1.416 billion of NPLs, 3.20% of the total, a decrease of RMB 421 million and 2.83 percentage points.

During the reporting period, through proactive measures, the Corporation recovered RMB 403 million of NPLs and wrote off RMB 138 million of NPLs.

The Corporation took the following measures to control and reduce NPLs: First, it strengthened its efforts in NPLs assessment. Second, it improved its regular monitoring system. Third, it established a centralized and professional management system. Fourth, it established a multi-tier risk early warning and control system that could send early warnings to branches and sub-branches based on different alarm signals. The Corporation could also supervise the branches or sub-branches in question to adopt timely measures to address potential risks. Fifth, it promoted more professional management of lawsuits and enhanced its supervision of the lawyers handling these cases, thus increasing the closure rate and enforcement rate. Sixth, it established an incentive mechanism and formulated "The Methods of Rewards for the Recovery of Non-performing Loans of Huishang Bank" and "The Implementation Measures of the Methods of Rewards for the Recovery of Non-performing Loans of Huishang Bank" to encourage the staff and successfully boosted the morale across the Corporation. Seventh, it imple-

Report of the Board of Directors

mented an accountability system so that employees could be held accountable, thus improving its risk control mechanism. Eighth, it strengthened its efforts in recovering the NPLs in the records of written-off accounts. Ninth, it worked out prudent restructuring plans for large NPLs to adjust factors including lending companies, means of guarantee, repayment periods, interest rates and types of repayment in order to achieve the “win-win” situation of reducing credit risks while promoting the development of the companies in question.

(III) The Development Prospect

1. Business Environment, Macro-control Policies and Industry Development Trend

First, the national macro-control policies are impacting the business expansion of banking institutions.

According to the central economic policy meeting, the macro-control policies this year are comprised of stable fiscal policy and stable monetary policy with an aim to prevent the excessive growth of investment and credit so as to achieve high-quality and rapid economic development while avoiding great volatility. These policies have brought about challenges to our business model of expansion.

Second, there have been new reforms in the financial industry. With further institutional reform in the financial industry and China’s opening to foreign-funded banks, state-owned commercial banks started to get listed. Joint-stock commercial banks have carried out institutional reform successfully. City commercial banks have been speeding up the process of restructuring. China Postal Savings Bank was established. The development of a rural financial system is in full swing. Policy banks are ready to start transformation. Therefore, the financial industry is at a turning point and is faced with many important opportunities.

Third, the regulatory authorities are tightening their supervision and regulation. The CBRC issued “Recommendations on Further Promoting the Supervision of the Development and Reform of Huishang Bank” in the latter half of 2006. The CBRC Anhui Bureau urged the Corporation to focus on institutional reform and finish institutional reform and process re-engineering in a timely manner so as to enhance its corporate governance, institutions, risk management and innovation. In the future, the supervision will continue to be strengthened, which will have proactive and profound impacts on the Corporation in terms institutional reform and risk management.

Fourth, the Corporation is at a critical juncture of reform and development. Currently, the Corporation is at a turning point of development. It will take full advantages of opportunities ahead to formulate concrete development strategies in order to promote reform and innovation and to win competitive edges. The Corporation aims at speeding up development while carrying out effective risk management to narrow the gap between the Corporation and its counterparts with best practices in the industry.

2. Business Plan in 2007

(1) Guiding Principles

Based on the scientific outlook on development and the principle of prudent operation, the Corporation has “One Overall Objective”, i.e. building itself to be an “excellent bank” in line with modern commercial banking standards. The Corporation will also uphold advanced concepts, reform and opening up, re-

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search and development, innovation and compliance. It has a “Three-step Strategy”, i.e. investing outside of the province, attracting investment and talent and achieving excellence. The Corporation has “Two Specific Targets”, i.e. fulfilling the targets and missions from the Board of Directors and enhancing the management across the Corporation to lay a solid foundation for its high-quality and rapid development.

(2) Major Business Targets in 2007

The targets are as follows: total assets balance, RMB 90 billion, up 28% from 2006; deposit balance, RMB 76 billion, up 21%; daily average deposit balance, RMB 64 billion, up 27%; loan balance, RMB 57 billion, up 29%; NPL ratio, less than 2.5%; operating margin, RMB 1.2 billion, up 31%; total provisions, RMB 450 million; total profit, RMB 750 million; net profit, RMB 500 million, up 74%.

(3) Major Measures of Development

Enhancing corporate governance. In accordance with the new “Company Law of the PRC” and its realities, the Corporation formulated and revised its rules and regulations, which laid out clear-cut boundaries for the terms of reference of the Board of Directors, the Board of Supervisors, the shareholders’ meeting and the management. The corporation started to improve the meeting mechanism of Board of Directors to have more professional decision making processes and give full play to the key role of the Board of Directors in corporate governance. The Corporation strengthened its efforts to promote institutional innovation, evaluation of the management and its incentive and restriction mechanism.

Implementing key strategies and development plans. The corporation worked proactively to implement key strategies and development plans while taking advantages of important opportunities to ensure openness and development. At the same time, it continued to enhance its management to achieve balanced development of business, institutions and management capacity.

Improving the capacity of business expansion. The Corporation promoted further reform in its business to be more professional in marketing and better and bigger in operation. According to the standards of building a functional bank, the Corporation continued to implement projects including “Little Giant” and “Eaglet” to provide more professional and tailored service to SMEs. It strengthened the branding, channels and teams for retail banking. It also enhanced its capacity and competitiveness in international and capital business to promote restructuring, the transformation of its profit-making model and intermediary business.

Strengthening risk management and internal control. The Corporation carried out research on the establishment of a comprehensive risk management framework and started to establish a risk management system and models of analysis to improve its management of liquidity risk, credit risk, market risk, operational risk and compliance risk. The Corporation aimed to improve its capital management, especially the management of economic capital to have capital adequacy in line with relevant laws and regulations. It made great efforts in building a sophisticated internal control system and a vertical internal audit system accountable to the Board of Directors. It also strengthened its compliance work to identify and manage compliance risks to ensure compliance operation.

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Enhancing institutional innovation. In accordance with the principles of business unit regime and linear management, the Corporation carried out restructuring and process re-engineering to establish a management and operation mechanism that is conducive to the development of modern commercial banks. It increased the pace of promoting professional marketing and established a management system with clear-cut authority and reporting duties. It also established a standard and sophisticated business management process to improve efficiency. The Corporation continued to enhance its performance evaluation system and benefits distribution system and started to explore ways to establish a medium-to-long term incentive mechanism.

Improving the application of information technology. In order to meet the needs of development and its clients, the Corporation started to carry out IT project planning and build an information platform for management by integrating and sharing data. It developed a finance management system, capital transaction system and core business risk monitoring system and improved its data-analyzing capacity. It also enhanced its internet banking service and call bank system to promote e-banking business.

3. Risks the Corporation Faces and Countermeasures

(1) Credit Risk

First, promoting the establishment of a risk management mechanism in a steady manner. The Corporation started to build a sophisticated credit system by formulating specific rules and regulations, such as “Management Methods of Unified Credit Granting to Corporate Clients of Huishang Bank” (For Trial Implementation), “Standards for the Due Diligence for Credit Granting of Huishang Bank” (For Trial Implementation) and “Rules on the Early Warning System for corporate loan risks”, which were all included in “The Operation Manual for Credit Business”. Second, the establishment of a differential pricing mechanism. Based on the classification of clients, types and sizes of loans, cost of capital for the Corporation, fluctuations in market interest rates, the Corporation identified different interest rates for clients with different levels of credit risks. Third, enhancing processing management. The Corporation adopted a strict credit business process featuring the separation of approval and the provision of loans and vertical and horizontal supervision. Fourth, improving post-lending management. The Corporation formulated post-lending management measures to prevent and address material risks and managed loans strictly in accordance with the classification while closely watching changes in different categories. It strengthened its effort to manage NPLs and improve asset quality by preventing the emergence of new NPLs and promoting the recovery and disposition of existing NPLs.

(2) Liquidity Risk

First, the Corporation carried out daily rough estimate of fund positions and real-time monitoring. It established a reporting system for the flow of large amount of cash in branches and sub-branches and a multi-tier authorization system for the outflow of large amount of cash. Under special circumstances, it would require the branch in question to predict the liquidity and carry out meta-analyses. Second, the Corporation established a database that recorded the liquidity in all its branches and sub-branches and carried out analyses of changes in fund positions based on the data. Third, the Corporation established long-term stable relations with counterparts to maintain the stability and diversity of financing channels. Fourth, the Corporation established an emergency mechanism and improved its multi-tier excess reserve system to deal with sudden and unexpected liquidity risks.

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(3) Market Risk

The Corporation took proactive measures to address market risks, such as interest rate risks, through improving loan product pricing, internal funds transfer pricing (FTP) and centralized management of interest rate risks. It also strengthened its research on interest rate risks to adjust its management policies in an appropriate manner.

(4) Operational Risk

A. Risk Control through Authorization Management and Countermeasures

The Corporation has its head office as its only legal person and established authorization system for the management of branches, sub-branches and other departments. Based on the economic levels of different localities, the management levels of branches, types of products in the credit business, credit ratings of clients, means of guarantee, scales of clients and other factors, the headquarters would perform dynamic authorization in credit business for all branches annually and monitor and supervise the branches in their business so as to ensure compliance to relevant rules.

B. Employee Operation Management and Countermeasures

The Corporation formulated comprehensive business management rules and operational procedures and kept updating them to reflect the changes in business and the demands from management so as to ensure the smooth operation of all businesses. The business management of all levels in the Corporation carried out regular/surprise on-site inspections and off-site examinations of all branches and sub-branches. The internal audit department of the headquarters had the authority to get access to all management information, carry out overall and special auditing to identify problems and potential risks.

(5) Legal Risk

The Corporation continued to promote the principle of compliance operation and formulated comprehensive rules and processes according to relevant laws and regulations. The compliance department of the Corporation was responsible for the compliance risk management across the bank and the periodic review and assessment of rules and regulations so as to make sure that they were in line with national laws and regulations. It was also responsible for the assessment of specific businesses in terms of legitimacy and compliance. The auditing department of the Corporation was responsible for compliance audits for its businesses and processes. Other business management departments of the Corporation had different roles in supervising and examining relevant specific businesses in terms of compliance. These measures would ensure the Corporation's smooth operation in line with relevant laws and regulations and make sure that it could enjoy its rights while honoring its obligations.

II. Daily Work of the Board of Directors

(I) Meetings of the Board of Directors and Resolutions Adopted

1. On March 17th, 2006, the 2nd Board Meeting of the First Board of Directors was held in Hefei, Anhui. 15 Directors were required to attend the meeting and 14 Directors and an authorized representative were present.

Report of the Board of Directors

Convened and chaired by Chairman Dai Hedi and attended by pertinent personnel from the CBRC Anhui Bureau, Supervisors and members of the Senior Management, the meeting reviewed and adopted the following matters including:

- (1) "Work Report of the Board of Directors of Huishang Bank Corporation Limited"
- (2) "Work Report of the President of Huishang Bank Corporation Limited"
- (3) "2006 Report of the Business Plan and Financial Budget of Huishang Bank Corporation Limited"
- (4) "Outline of the Five-Year Development Strategy of Huishang Bank"
- (5) "Proposal on Establishing Inside Organizations of Huishang Bank Corporation Limited"
- (6) "Working Rules of the Board of Directors of Huishang Bank Corporation Limited"
- (7) "Working Rules of the Development Strategy Committee of Huishang Bank Corporation Limited"
- (8) "Working Rules of the Nomination and Compensation Committee of Huishang Bank Corporation Limited"
- (9) "Working Rules of the Risk Management Committee of Huishang Bank Corporation Limited"
- (10) "Working Rules of the Related Party Transaction Control Committee of Huishang Bank Corporation Limited"
- (11) "Working Rules of the Audit Committee of Huishang Bank Corporation Limited"
- (12) "Management Rules for the Control of Related Party Transactions of Huishang Bank"
- (13) "Proposal on the Make-Up of the Special Committees of Huishang Bank"
- (14) "Proposal on the Establishment of Special Committees in Huishang Bank Corporation Limited"
- (15) "Rules of Procedures of the General Meeting of Shareholders of Huishang Bank Corporation Limited"
- (16) "Report on the Convening of the 2005 General Meeting of Shareholders of Huishang Bank Corporation Limited"
- (17) "Emergency Plan for Major Risks of Huishang Bank Corporation Limited"
- (18) "Compensation Plan for Independent Directors and External Supervisors of Huishang Bank Corporation Limited"
- (19) "Proposal on Recruiting External Auditors"
- (20) "Report on Equity Confirmation and Capital Placement of Huishang Bank Corporation Limited"
- (21) "Notice on the Registration of Huishang Bank Corporation Limited"
- (22) "Matters on the Voluntary Subscription of Shares by Senior Managers in Huishang Bank to Cover the Funding Gap of RMB 76 million".

Report of the Board of Directors

2. On May 28th, 2006, the 3rd Board Meeting of the First Board of Directors was held in Huangshan, Anhui, with all 15 Directors present. Convened and chaired by Chairman Dai Hedi and attended by pertinent personnel from the CBRC Anhui Bureau, Supervisors and members of the Senior Management, the meeting reviewed and adopted the following matters including:

- (1) "Report on the Operation and Management of the Bank for the 1st Quarter of 2006"
- (2) "Provisional Methods on Equity Management of Huishang Bank Corporation Limited"
- (3) "Implementation Plan for the Increase of Equity of Huishang Bank Corporation Limited in 2006"
- (4) "Proposal on the Establishment of New Branches of Huishang Bank in 2006"
- (5) "Provisional Methods on the Authorization Management of Huishang Bank"
- (6) "Letter of Authorization for Chairman from the Board of Directors of Huishang Bank Corporation Limited"
- (7) "Proposal on the Authority of Chairman to Approve Major Related Party Transactions When the Board of Directors is in Recess".

The meeting reviewed the following matters including:

- (1) "Letter of Authorization for President from the Board of Directors of Huishang Bank Corporation Limited",
- (2) "Proposal on the Related Matters of the Transfer of Equity Held by Hefei Hi-Tech Venture Capital Company Limited".

3. On August 5th, 2006, the 4th Board Meeting of the First Board of Directors was held in Huangshan, Anhui, with all 15 Directors present. Convened and chaired by Chairman Dai Hedi and attended by pertinent personnel from the CBRC Anhui Bureau, Supervisor representatives and members of the Senior Management, the meeting reviewed and adopted the following matters including:

- (1) "Analysis Report on the Balance Sheet of Huishang Bank for the First Half of 2006"
- (2) "Plan on Capital Replenishment of Huishang Bank (2006 - 2010)"
- (3) "Proposal on the Adjustment of the '2006 Implementation Plan for the Increase of Equity of Huishang Bank Corporation Limited'"
- (4) "Letter of Authorization for President from the Board of Directors of Huishang Bank Corporation Limited"
- (5) "Proposal on Rewards for Excess Profit"
- (6) "General Plan on the Development and Improvement of Marketing Channels of Huishang Bank (2006 - 2010)".

The meeting reviewed the following matters including:

"Proposal on Another Review of Shanghai Sihai Construction and Decoration Engineering Company Limited's Plan to Take in the Equity of the Corporation".

Report of the Board of Directors

The meeting reviewed the following reports including:

- (1) "Report on Credit Risk Management of Huishang Bank for the First Half of 2006"
- (2) "Report on the Management of Related Party Transactions of Huishang Bank for the First Half of 2006"
- (3) "Report on the Internal Control System and its Implementation of Huishang Bank for the First Half of 2006".

At the meeting, the "Guiding Principles for Supervision of Huishang Bank", "Guidelines for Corporate Governance of Huishang Bank", "Recommendations on Risk Rating of Huishang Bank" and "Supervisory Meeting Minutes of the Senior Management of Huishang Bank" issued by the CBRC Anhui Bureau and the "Report on Implementing the Policies Based on the Results of the Corporate Governance Investigation" issued by the Corporation were circulated.

4. On September 14th, 2006, the 5th (interim) Board Meeting of the First Board of Directors was held in Hefei, Anhui. 15 Directors were required to attend the meeting and 14 Directors and an authorized representative were present. Convened and chaired by Chairman Dai Hedi and attended by pertinent personnel from the CBRC Anhui Bureau, Supervisor representatives and members of the Senior Management, the meeting reviewed and adopted the following matters including:

- (1) "Compensation System of Huishang Bank"
- (2) "Provisional Methods on Compensation of Senior Managers of Huishang Bank"
- (3) "Proposal on Another Review of Shanghai Sihai Construction and Decoration Engineering Company Limited's Plan to Take in the Equity of Huishang Bank Held by Anhui Quanchai Group Corporation".

At the meeting, participants acquainted themselves with the "Recommendations of the CBRC General Office on Further Promoting the Supervision of the Development and Reform of Huishang Bank" (No. 223 [2006] of the CBRC) and instructions from the former Director Yang Jiakai of the CBRC Anhui Bureau.

5. On November 17th, 2006, the 6th Board Meeting of the First Board of Directors was held in Hefei, Anhui. 15 Directors were required to attend the meeting and 13 Directors and two authorized representatives were present. Convened and chaired by Chairman Dai Hedi and attended by pertinent personnel from the CBRC Anhui Bureau, Supervisor representatives and members of the Senior Management, the meeting reviewed and adopted the following matters including:

- (1) "Analysis Report of the Balance Sheet of Huishang Bank for the 3rd Quarter of 2006"
- (2) "Report on the Increase of Equity of Huishang Bank in 2006"
- (3) "Proposal on the Shareholding by Another 6 Companies or Corporations Including China Life Insurance (Group) Company"
- (4) "Proposal on the Establishment of the Leading Group for Attracting Foreign Capital",
- (5) "Proposal on the Establishment of Intermediary Service Department, Compliance Department and Beijing Office"
- (6) "Report on the Application to the Board of Directors for Adjusting the 2006 NPLs Control Plan"

Report of the Board of Directors

6. On December 28th, 2006, the 7th Board Meeting of the First Board of Directors was held in Hefei, Anhui. 15 Directors were required to attend the meeting and 13 Directors and two authorized representatives were present. Convened and chaired by Chairman Dai Hedi and attended by pertinent personnel from the CBRC Anhui Bureau, Supervisor representatives and members of the Senior Management, the meeting reviewed and adopted the following matters including:

- (1) "Proposal on the Nomination of Li He as President of Huishang Bank"
- (2) "Proposal on the Nomination of Zou Guangming and Gao Guangcheng as Vice-Presidents of Huishang Bank"
- (3) "Request for Writing off Bad Loans"
- (4) "Request for Investing in the Mixed Capital Bonds Issued by Commercial Banks".

(II) Carrying Out Resolutions of the General Meeting of Shareholders

1. The 2005 General Meeting of Shareholders reviewed and adopted the "2006 Report of the Business Plan and Financial Budget of Huishang Bank Corporation Limited". In 2006, the Corporation performed better than planned and closely followed the budget.

2. In accordance with the "Proposal on Recruiting External Auditors" reviewed and adopted at the 2005 General Meeting of Shareholders, the Corporation appointed PricewaterhouseCoopers to perform the external audit in 2006.

3. In accordance with the "Notice on the Registration of Huishang Bank Corporation Limited" reviewed and adopted at the 2005 General Meeting of Shareholders, the Corporation completed its registration in the local industrial and commercial bureau in 2006.

Report of the Board of Supervisors

I. The Board of Supervisors in 2006

(I) Meetings of the Board of Supervisors

1. On March 18th, 2006, the 2nd Board Meeting of the First Board of Supervisors was held. 9 Supervisors were required to attend the meeting and 8 Supervisors and an authorized representative were present. Convened by Chairman Zhang Zhen and chaired by Vice-Chairman Li Xiaowan, the meeting reviewed and adopted the following matters including the "Work Report of the Board of Supervisors of Huishang Bank Corporation Limited", "Working Rules of the Board of Supervisors of Huishang Bank", "Working Rules of the Nomination Committee of the Board of Supervisors of Huishang Bank", "Working Rules of the Supervisory Committee of the Board of Supervisors of Huishang Bank" and "Proposal on the Make-Up of the Special Committees of Huishang Bank".

2. On May 27th, 2006, the 3rd Board Meeting of the First Board of Supervisors was held, with all 9 Supervisors present. Convened and chaired by Chairman Zhang Zhen, the meeting reviewed and adopted the following matters including "Supervision and Evaluation Measures of the Performance of the Board of Directors and Directors of Huishang Bank Corporation Limited" (for Discussion), "Supervision and Evaluation Measures of the Performance of the Senior Management and its Members of Huishang Bank Corporation Limited" (for Discussion), "Reporting System for Evaluating the Performance of the Board of Supervisors and Supervisors of Huishang Bank Corporation Limited" (for Discussion), "2006 Work Plan of the Nomination Committee of the Board of Supervisors of Huishang Bank Corporation Limited" and "2006 Work Plan of the Supervisory Committee of the Board of Supervisors of Huishang Bank Corporation Limited".

3. On July 27th, 2006, the 4th Board Meeting of the First Board of Supervisors was held. 9 Supervisors were required to attend the meeting and 7 Supervisors were present. Convened and chaired by Chairman Zhang Zhen, the meeting reviewed and adopted the following matters including the "Work Report of the Board of Supervisors of Huishang Bank Corporation Limited for the First Half of 2006", "Supervision and Evaluation Measures of the Performance of the Board of Directors and Directors of Huishang Bank Corporation Limited" (for Trial Implementation), "Supervision and Evaluation Measures of the Performance of the Senior Management and its Members of Huishang Bank Corporation Limited" (for Trial Implementation), "Reporting System for Evaluating the Performance of the Board of Supervisors and Supervisors of Huishang Bank Corporation Limited" (for Trial Implementation) and "Investigation Plan of the Board of Supervisors on Classification of Asset Quality of the Corporation".

4. On December 17th, 2006, the 5th Board Meeting of the First Board of Supervisors was held, with all 9 Supervisors present. Convened and chaired by Chairman Zhang Zhen, the meeting reviewed and adopted the following matters including the "Analysis of the Board of Supervisors on the Operation of Huishang Bank for the First Three Quarters of 2006", "Investigation Report on Classification of Asset Quality of Huishang Bank", "Investigation Plan of the Board of Supervisors on the Financial and Accounting Systems and Implementation", "Working Program on Supervising and Evaluating the Performance of the Board of Directors, Directors, the Senior Management and its Members for 2006" and "Brief Summary on the Work of 2006 and Priorities of 2007 for the Board of Supervisors of Huishang Bank".

Report of the Board of Supervisors

(II) Participation in the General Meeting of Shareholders

On April 22nd, 2006, all 9 Supervisors from the First Board of Supervisors participated in the 2005 General Meeting of Shareholders. At the meeting, Chairman Zhang Zhen delivered the “Work Report of the Board of Supervisors of Huishang Bank Corporation Limited”.

(III) Supervision of the Performance of the Board of Directors and the Senior Management in Accordance with Law

1. Attending Board Meetings of the Board of Directors

In 2006, the Board of Supervisors attended the 2nd to the 7th Board Meetings of the First Board of Directors, and supervised the performance of the Board of Directors, the Directors and the decision-making procedures.

2. Evaluation of the Performance of the Board of Directors and the Senior Management

In 2006, the Board of Supervisors formulated the “Supervision and Evaluation Measures of the Performance of the Board of Directors and Directors of Huishang Bank Corporation Limited” (for Trial Implementation) and “Supervision and Evaluation Measures of the Performance of the Senior Management and its Members of Huishang Bank Corporation Limited” (for Trial Implementation), which serve as the institutional guarantees for the Board of Supervisors to fulfill its duty.

3. Investigation

In September, 2006, the Board of Supervisors carried out an investigation into the authenticity of asset classification and issued the “Investigation Report on Classification of Asset Quality of Huishang Bank”.

In December, 2006, the Board of Supervisors carried out an investigation into the financial and accounting systems and the implementation in the Corporation and issued the “Investigation Report on the Financial and Accounting Systems of Huishang Bank”.

The above investigation reports have been reviewed and adopted by the Board of Supervisors and submitted in writing to the Board of Directors and the Senior Management.

II. Independent Opinions from the Board of Supervisors

(I) Legal Operation of the Corporation

During the reporting period, the Corporation operated in compliance with laws and regulations. Its management was well-regulated and its operating results were objective and authentic. The Corporation, with legitimate decision-making procedures, improved its business activities, business structure, asset quality, internal control and corporate governance and actively refined itself by implementing suggestions from supervisory and regulatory authorities. The Board of Supervisors did not find any violation of laws and regulations or act against the interest of shareholders during the reporting period.

Report of the Board of Supervisors

(II) Authenticity of Financial Statements

PricewaterhouseCoopers audited the annual financial statements of the Corporation within the reporting period prepared in accordance with the Generally Accepted Accounting Principles of the People's Republic of China and selected International Financial Reporting Standards and expressed unqualified opinion in the auditor's report. The 2006 financial statements of the Corporation reflected the financial position and operating results truthfully and fairly.

(III) Use of Proceeds from the Shares

During the reporting period, the Corporation issued 350 million shares worth RMB 381.5 million in total. All the proceeds have been transferred to the capital account of the Corporation to strengthen its capital base.

(IV) Asset Purchase and Sales

During the reporting period, the Corporation did not make major purchases or sales of assets.

(V) Related Party Transactions

In accordance with the "Administrative Measures for the Connected Transactions between the Commercial Banks and their Insiders or Shareholders", the Corporation established the "Management Rules for the Control of Related Party Transactions of Huishang Bank", "Reporting System for Related Parties of Huishang Bank" and "Operating Procedures for Related Party Transactions of Huishang Bank". The Corporation strengthened its control over major related party transactions and effectively managed the risks involved.

During the reporting period, the Corporation mainly engaged in deposit and loan businesses with its related parties. The Corporation carried out the transactions with integrity and impartiality. The Board of Supervisors did not find any act against the interest of shareholders during the reporting period.

(VI) Internal Control System

During the reporting period, the Corporation strengthened its institution building and internal control system and improved its internal management.

(VII) Information Disclosure

The Board of Supervisors earnestly reviewed the 2006 annual report of Huishang Bank and concluded that the Corporation disclosed its finance, operation and management of 2006 truthfully and completely and the report complied with the rules and requirements of supervisory and regulatory authorities of the banking industry.

(VIII) Implementation of Resolutions Adopted at the General Meeting of Shareholders

The Board of Supervisors had no objection to the reports or proposals submitted by the Board of Directors to the General Meeting of Shareholders during the reporting period. The Board of Supervisors concluded that the Board of Directors earnestly implemented the resolutions adopted at the General Meeting of Shareholders.

Significant Events

I. Major Legal Actions and Arbitration

As at the end of the reporting period in 2006, the Corporation was involved in 776 legal actions concerning loans, among which the Corporation was the plaintiff in 766, with a total claimed amount of RMB 296 million, and the defendant or the third party in 10, with a total claimed amount of RMB 20.7 million. The top 10 actions with the Corporation as the plaintiff and the top 3 actions with the Corporation as the defendant are as follows.

Unit: RMB 10,000

No.	Borrower	Means of Guarantee	Borrowing Date	Overdue Date	Unresolved Amount (Capital as of Dec. 31st, 2006)	Notes
1	Anhui Feiya Textile Development Co., Ltd.	Guarantee	2004-7-19	2006-5-25	6291.55	Anhui Huaibei First Textile Co., Ltd. guaranteed RMB 31.8955 million.
2	Wuhu Dongtai Paper Co., Ltd.	Guarantee	2004-3-18	2005-1-25	1622.65	Sichuan DongTai Industry (Holdings) Co., Ltd. Daoqin Holding Co., Ltd.
3	Anqing Sanli Industry Co., Ltd.	Mortgage	2001-3-2	2004-8-30	1200.00	Jixian Building Anqing International Hotel
4	Anqing Glass Co., Ltd	Guarantee Mortgage	2005-8-30	2007-4-2	1199.32	Anqing Qifa Guarantee & Investment Co., Ltd Equipment
5	Anhui Fuyang Meilu Food Co., Ltd	Mortgage	2005-10-27	2008-10-20	520.00	Own Properties as the Mortgage
6	Anhui Kangyada Printing Co., Ltd	Guarantee	1995-1-24	1996-1-24	518.00	Hefei Xinshidai Electronics Trading Co., Ltd
7	Anqing Beicheng Real Estate Development Co.	Mortgage	2004-12-31	2006-12-30	500.00	Properties of Anqing Beicheng Real Estate Development Co.
8	Hefei Youyi Pharmaceuticals	Guarantee	1995-10-12	1997-4-12	450.00	Hefei Hua'an Real Estate Co.
9	Anhui Garments Shoes & Caps Industrial Institute	Mortgage	2003-3-31	2005-3-25	380.00	Estate Properties as the Mortgage
10	Hefei Shenlong Transformer Co., Ltd.	Guarantee	2003-3-31	2004-3-30	361.99	Anhui Rural Electrification Development Co.
Total					13043.51	

Significant Events

Unit: RMB 10,000

No.	Plaintiff	Defendant Branch	Claimed Amount	Case Brief	Court	Status
1	Anhui Anzhen Investment Co.	Hefei Branch	750	Dispute on Advanced Money	Higher People's Court of Anhui Province	Anzhen claimed payment of RMB 7.5 million and interest of RMB 3.4 million. The Corporation was to engage lawyers for risk representation.
2	Tongling Textile Construction Engineering Co.	Tongling Branch	355	Recovery of Executed Money	Higher People's Court of Anhui Province	Reversal as Ruled by the Court
3	China Construction Bank Co., Ltd	Hefei Branch	300	Dispute on Loan Contract	Intermediate People's Court of Hefei City	The borrower was suspected of fraud and its legal representative was sentenced. The corporation was engaging the procuratorate for counter-claims.

II. Changes of Shareholding Status of Top 10 Shareholders

See "Changes in Share Capital and Shareholding of Substantial Shareholders" in this report.

III. Increase in or Reduction of Registered Capital, Division and Merger

The increase of equity of the Corporation started during the reporting period and has not completed as at the end of the reporting period. The Corporation has not gone through procedures for modification of its registration and there has not been any increase in or reduction of registered capital nor division or merger as at the end of the reporting period.

IV. Related Party Transactions

In handling related party transactions, the Corporation strictly abided by relevant laws, rules and regulatory policies of the Corporation with integrity and impartiality. The Corporation carried out related party transactions on terms and conditions similar to those offered to unrelated parties. As at the end of the reporting period, the loan balance of related parties totaled RMB 154.0046 million.

In accordance with the "Administrative Measures for the Connected Transactions between the Commercial Banks and their Insiders or Shareholders", in 2006 the Corporation established the "Management Rules for the Control of Related Party Transactions of Huishang Bank", "Reporting System for Related Parties of Huishang Bank" and "Operating Procedures for Related Party Transactions of Huishang Bank". The Corporation strengthened the examination and approval of major related party transactions and the record-keeping of other related party transactions. By reviewing and examining its related parties and transactions, the Corporation regulated its management of related party transactions.

Significant Events

(I) Loans Provided to Shareholders Holding 5% Shares or Above

The Corporation had no controlling shareholders. Hefei Xingtai Holding Group Company Limited was the related party shareholder holding 5% shares or above of the Corporation. As at the end of the reporting period, the outstanding loan balance of the company from the Corporation was RMB 100 million.

(II) Loans Provided to Other Related Parties

As at the end of the reporting period, Directors, Supervisors and the Senior Management of the Corporation and their close relatives had no connection with companies or corporations that were directly or indirectly related to the Corporation or that were able to exercise control or significant influence on the Corporation.

V. Asset Purchase and Sales, Merger and Acquisition

In 2006, the Corporation did not make major purchases or sales of assets nor carry out mergers or acquisitions.

VI. Major Contracts and Performance of Obligations Thereunder

During the reporting period, the Corporation has not held on trust to a material extent or entered into any major sub-contract or lease arrangement in respect of assets of other companies or corporations. The Corporation did not have any material guarantees that need to be disclosed except for the financial guarantee services within the approved business scope. The Corporation was not entrusted for cash management during the reporting period.

During the reporting period, the Corporation did not have major contract disputes except for legal actions concerning loans (see "Major Legal Actions and Arbitration" in this report).

VII. Appointment of Accounting Firms

During the reporting period, the Corporation appointed PricewaterhouseCoopers to audit the financial statements of the Corporation prepared in accordance with the Generally Accepted Accounting Principles of the People's Republic of China and the selected International Financial Reporting Standards.

VIII. Penalty for the Corporation, Directors, Supervisors and Senior Managers

During the reporting period, the Corporation, the Board of Directors and Directors, the Board of Supervisors and Supervisors, and the Senior Managers were not penalized by supervisory and regulatory authorities.

Significant Events

IX. Other Major Events

(I) Establishment of Huangshan Branch and Chizhou Branch

Approved by the China Banking Regulatory Commission on November 24th, 2006 (No. 391 [2006] of the CBRC), Huangshan Branch of Huishang Bank was established and began its operation on January 16th, 2007.

Approved by the China Banking Regulatory Commission on December 31st, 2006 (No. 498 [2006] of the CBRC), Chizhou Branch of Huishang Bank was established and began its operation on June 6th, 2007.

(II) Senior Managers Hired

Nominated by Chairman Dai Hedi, adopted by the 7th Board Meeting of the First Board of Directors on December 28th, 2006, and reviewed by the CBRC Anhui Bureau (No. 85 [2007] of the CBRC Anhui Bureau), Li He was appointed as President of Huishang Bank.

Nominated by President Li He, adopted by the 7th Board Meeting of the First Board of Directors on December 28th, 2006, and reviewed by the CBRC Anhui Bureau (No. 342 and 343 [2007] of the CBRC Anhui Bureau), Zou Guangming and Gao Guangcheng were appointed as Vice-Presidents of Huishang Bank.

(III) Increase of Equity

Approved by the CBRC Anhui Bureau on December 31st, 2006 (No. 341 [2006] of the CBRC Anhui Bureau), Anhui Province Energy Group Company Limited acquired 300 million shares of Huishang Bank and Anhui Changjiang Steel Responsibility Company Limited acquired 50 million shares of Huishang Bank.

(IV) Institutional Reform

In September, 2006, the CBRC General Office issued the "Recommendations on Further Promoting the Supervision of the Development and Reform of Huishang Bank", setting the guiding principles for the institutional reform and development of Huishang Bank. Under the leadership of the CBRC Anhui Bureau, specific implementation plans were formulated and the "Leading Group for the Institutional Reform of Huishang Bank" was established. Investigations on subjects under 6 categories - including development strategy, corporate governance, process re-engineering, risk management, internal control, bank - government relations and human resources development - and 18 sub-categories were carried out and specific implementation recommendations and reform plans were formulated.

On February 14th, 2007, the 8th Board Meeting of the First Board of Directors of Huishang Bank reviewed and adopted eight implementation recommendations and reform plans including the "Recommendations on Strengthening the Decision Making of the Board of Directors of Huishang Bank", and entrusted the Board of Directors for implementation.

Financial Statements and Documents for Reference

I. Financial Statements (Prepared in Accordance with the Generally Accepted Accounting Principles of the People's Republic of China and the International Financial Reporting Standards)

II. Documents for Reference

1. Financial statements endorsed with the signatures and stamps of the legal representative and the person in charge of finance of the Corporation
2. Original auditor's report endorsed with the stamp of the accounting firm and the signatures and stamps of the certified public accountants
3. Original Annual Report endorsed with the signature and stamp of Chairman of the Board of Directors of the Corporation
4. Texts and original copies of documents and announcements released by the Corporation within the reporting period
5. "Articles of Association of Huishang Bank Corporation Limited"

Attachment I : The Financial Statements (Domestic)



Report of the Auditors

[English translation for reference only]

PwC ZT Shen Zi (2007) No.21321

To the Board of Directors of Huishang Bank Corporation Limited:

We have audited the accompanying financial statements of Huishang Bank Corporation Limited (the "Bank"), which comprise the balance sheet as at 31 December 2006 and the related statements of income, cash flows and changes in equity for the year then ended and notes to these financial statements .

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Accounting Standards for Business Enterprises, the Accounting System for Financial Institutions (1993), the Accounting System for City Commercial Banks and the Regulations for the Financial Management of City Commercial Banks and City Credit Cooperation. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the China Audit Standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as of 31 December 2006, and of its financial performance and its cash flow for the year then ended in accordance with Accounting Standards for Business Enterprises, the Accounting System for Financial Institutions (1993), the Accounting System for City Commercial Banks and the Regulations for the Financial Management of City Commercial Banks and City Credit Cooperation.

The Financial Statements (Domestic)

BALANCE SHEET

ASSETS	Note IV	31 December 2006	31 December 2005
Current assets:			
Cash at bank and in hand		463,710	288,816
Balances with central banks	1	9,131,092	5,006,893
Due from banks and other financial institutions	2	646,807	2,674,002
Placements with banks and other financial institutions		36,853	51,853
Discounted bills and trade finance balances	3	10,227,238	5,593,567
Short-term loans	4	19,760,470	15,484,833
Interest receivable	5	77,179	61,296
Short-term investments	6	3,921,587	759,153
Repurchased assets		1,775,431	162,564
Other current assets	7	179,157	162,310
Long-term investments maturing within one year	11	999,368	1,214,849
Total current assets		47,218,892	31,460,136
Non-current assets:			
Medium to long-term loans	8	13,398,159	8,570,464
Overdue loans	9	826,839	837,936
Less: allowance for doubtful loans	10	(743,314)	(476,086)
Long-term investments	11	8,554,279	7,199,139
Fixed assets	12	755,475	614,296
Construction-in-progress	13	103,410	194,372
Fixed assets pending disposal		2,581	-
Total non-current assets		22,897,429	16,940,121
Intangible assets and other assets:			
Intangible assets		77,040	79,293
Foreclosed assets		131,960	138,254
Long-term prepaid expenses		36,862	33,631
Total intangible assets and other assets		245,862	251,178
TOTAL ASSETS		70,362,183	48,651,435

The accompanying notes form an integral part of these financial statements.

The Financial Statements (Domestic)

BALANCE SHEET (Continued)

LIABILITIES AND SHAREHOLDERS' EQUITY	Note IV	31 December 2006	31 December 2005 (Note II)
Current liabilities			
Short-term deposits	14	39,858,322	27,727,796
Short-term savings deposits	15	12,167,906	8,973,928
Fiscal deposit		17,411	143,010
Due to banks and other financial institutions		711,580	184,685
Placement from banks and other financial institutions		9,020	65,586
Reverse repurchased securities		2,433,951	1,484,480
Short-term security deposits	16	6,947,793	3,989,482
Interest payable		198,407	142,421
Salary and welfare benefits payable		105,008	89,292
Tax payables	17	206,465	141,564
Dividends payable		48,539	151,115
Other payables	18	436,465	520,955
Other current liabilities	19	98,414	186,737
Total current liabilities		63,239,281	43,801,051
Long-term liabilities			
Long-term fixed deposits		2,230,314	1,202,793
Long-term fixed savings deposit		1,740,657	1,474,983
Total long-term liabilities		3,970,971	2,677,776
Total liabilities		67,210,252	46,478,827
Shareholders' equity			
Paid-in Capital		2,773,637	2,114,309
Capital surplus		89,799	58,299
Surplus reserve		28,850	-
Undistributed profits	20	259,645	-
Total shareholders' equity		3,151,931	2,172,608
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		70,362,183	48,651,435

The accompanying notes form an integral part of these financial statements.

The Financial Statements (Domestic)

INCOME STATEMENT

	Note IV	2006	2005 (Note II)
1. Interest income - net	21	1,500,049	436,464
Interest income		2,067,882	588,140
Income from inter-bank placements		241,793	43,015
Interest expense		(653,573)	(185,938)
Expense from inter-bank placements		(156,053)	(8,753)
2. Fee and commission income - net		23,667	5,847
Fee and commission income		48,160	19,305
vFee and commission expenses		(24,493)	(13,458)
3. Other operating income - net		1,055	1,739
Other operating income		2,061	1,768
Other operating expenses		(1,006)	(29)
4. Operating expenses		(719,123)	(289,549)
5. Depreciation expenses	12	(79,591)	(22,060)
6. Business and other taxes	22	(117,469)	(33,384)
7. Investment income - net		298,268	214,840
8. Profit from operations - net		906,856	313,897
Non-operating income	23	13,695	3,395
Non-operating expenses	23	(1,179)	(4,383)
9. Profit before impairment loss or allowance for doubtful debts		919,372	312,909
Less: Impairment loss or allowance for doubtful debts	10	(400,000)	(41,831)
10. Profit after impairment loss and allowance for doubtful debts		519,372	271,078
Less: Income tax expenses		(230,877)	(50,369)
11. Net profit		288,495	220,709

The accompanying notes form an integral part of these financial statements.

The Financial Statements (Domestic)

STATEMENT OF CHANGE IN EQUITY

	Note IV	Paid-in Capital	Capital surplus	Surplus reserve	Undistributed profits	Total
Balance as at 1 January 2005		500,000	34,849	119,367	145,381	799,597
Net profit of the year		-	-	-	220,709	220,709
Profit transfer to dividends payable for the period from valuation day to acquisition completion day (Note I)		-	-	-	(88,088)	(88,088)
Capitalization of equities (Note I)		389,264	8,105	(119,367)	(278,002)	-
Issue of new shares (Note I)		1,225,045	15,345	-	-	1,240,390
Balance as at 31 December 2005		2,114,309	58,299	-	-	2,172,608
	Note IV	Paid-in Capital	Capital surplus	Surplus reserve	Undistributed profits	Total
Balance as at 1 January 2006		2,114,309	58,299	-	-	2,172,608
Issue of new shares		659,328	31,500	-	-	690,828
Net profit of the year		-	-	-	288,495	288,495
Appropriations to surplus reserve for 2006	20	-	-	28,850	(28,850)	-
Balance as at 31 December 2006		2,773,637	89,799	28,850	259,645	3,151,931

The accompanying notes form an integral part of these financial statements.

The Financial Statements (Domestic)

STATEMENT OF CASH FLOW

	Note IV	2006
1. Cash flows from operating activities		
Net cash received from deposits from and payment to customers		16,492,100
Net cash received from increase in due to and placement from banks		470,329
Net cash received from decrease of placement with banks		15,000
Net cash received from decrease of due from banks maturing more than three months		110,919
Interest of loan and inter-bank placement received		2,293,792
Fees and commission received		46,246
Cash received from treasury business		1,914
Bad and doubtful recovered		4,890
Cash received relating to other operating activities		3,970,847
Sub-total of cash inflows		23,406,037
Net cash paid for loans, discounted bills and trade finance		(13,863,568)
Net cash paid for increase in reserve deposits with central bank and fiscal deposits		(2,009,134)
Interest of deposit and inter-bank placement paid		(753,640)
Fees and commission paid		(24,490)
Cash paid for treasury business		(3)
Cash paid to and on behalf of employees		(351,733)
Payment of Income tax		(183,300)
Payments of business and other taxes		(100,145)
Cash paid relating to other operating activities		(1,975,446)
Sub-total of cash outflows		(19,261,459)
Net cash flows from operating activities	25	4,144,578
2. Cash flows from investing activities		
Interest received from bond investments		298,268
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		30
Net cash received from disposal of equity investment		100
Sub-total of cash inflows		298,398
Cash paid to acquire fixed assets, intangible assets and other long-term assets		(92,862)
Cash paid to acquire bond investments		(4,302,193)
Sub-total of cash outflows		(4,395,055)
Net cash flows from investing activities		(4,096,657)
3. Cash flows from financing activities		
Cash received from issuance of new shares		428,339
Cash payments for distribution of dividends		(102,576)
Net cash flows from financing activities		325,763
4. Net increase in cash and cash equivalent	25	373,684

The accompanying notes form an integral part of these financial statements.

Notes to the Financial Statements (Domestic)

I. GENERAL INFORMATION AND PRINCIPAL ACTIVITIES

Huishang Bank Corporation Limited (original named as Hefei City Commercial Bank, the “Bank”) is a joint stock limited financial institution incorporated in Anhui Province, the People’s Republic of China (“the PRC”). Approved by China Banking Regulatory Commission (“CBRC”) Anhui Branch notice WYJF[2005]No.283, the Bank revised its name to Huishang Bank Corporation Limited on 30 November 2005. Also approved by CBRC Anhui Branch notice WYJF[2005]No.335 and WYJF[2005]No.356, the Bank acquired five city commercial banks, i.e., Wuhu, Ma’anshan, Anqing, Huaibei and Bengbu and seven urban credit unions, i.e., Liu’an, Huainan, Tongling, Fuyang technology, Xinying, Yinghe, and Jinda which were incorporated in Anhui Province on 31 December 2005 and began to operate in the name of Huishang Bank Corporation Limited starting from 1 January 2006. As at 31 December 2006, the Bank’s largest shareholders include Anhui Province Energy Group Limited, Hefei Xingtai Group Limited, Anhui Province Antong Development Co. Ltd., Wuhu City Construction Investment Co. Ltd., Anhui Province Innovation Investment Co. Ltd., Hefei Xintai Trust Investment Co. Ltd., Anhui Xinhua Group Investment Limited, and Anhui Quanchai Group Limited.

Registered capital of the Bank before merger (i.e. original Hefei City Commercial Bank) was amounting to RMB 500 million. According to the requirement of *the Anhui Province City Commercial Banks Joint Restructure Project Plan notice WZ[2005]No.85* issued by Anhui Province Government on 26 September 2005, net assets and profit per share of the five city commercial banks and seven urban credit unions being acquired by the Bank should be reassessed based on the result of assets revaluation. The Bank then issued stocks to shareholders of banks and credit unions being acquired, and the shareholders swap their original shares with shares of the Bank based on result of assets revaluation. As at 31 December 2005, The Bank’s registered capital after the acquisition transaction being done was amounting to RMB 1.225 billion, and after capitalising undistributed profits (minus dividends payable to original shareholders) and other shareholders’ equity balances as at 31 December 2005 audited by Shenzhen Rongxin CPAs amounting to RMB 389 million to, the Bank’s registered capital increased to RMB 2.114 billion as at 31 December 2005.

According to the result of subsequent audit, net assets after the transaction exceeds issued share by 58.3 million. Since the transaction has been completed by 31 December 2005, the surplus was then accounted as capital surplus.

According to *the Huishang Bank Corporation Limited Acquisition Contract* signed on 30 November 2005, net profit of Hefei City Commercial Bank and other acquired banks and credit unions during the period from the valuation day to acquisition completion day being verified by third independent party belongs to their original shareholders respectively. The valuation day was 31 August 2005 and the acquisition completion day was 31 December 2005. So Hefei City Commercial Bank’s net profit of the period from 1 September 2005 to 31 December 2005, amounting to RMB 88.09 million, belongs to its former shareholders, which was transferred to dividend payable in the end of 2005.

During the year of 2006, the Bank received registered capital amounting to RMB 659 million from original shareholders and new shareholders including Anhui Changjiang Steel Co. Ltd. and Anhui Province Energy Group Limited, as well as other shareholders. The Bank’s registered capital increased to RMB 2.774 billion as at 31 December 2006.

Notes to the Financial Statements (Domestic)

The Bank obtained financial institution license #D10113610H0002 from CBRC Anhui Branch on 19 December 2005, and obtained legal entity business license #3400001300154 from Anhui Province Industry and Commercial Administration Bureau on 28 December 2005. After the capital injection in 2006, the Bank was still in the process of applying an updated license.

The Bank's is primarily engaged in the business of banking in all its aspects including: Deposit taking, loan granting, international and domestic settlement, foreign currency sell and settlement, issuing financial bonds, bond investment, inter-bank placement, providing guarantee and other commercial bank business approved by the People's Bank of China.

II. BASIS OF PREPARATION

The financial statements have been prepared in accordance with the Accounting Standards for Business Enterprises, the Accounting System for Financial Institutions (1993), the Accounting System for City Commercial Banks and the Regulations for the Financial Management of City Commercial Banks and City Credit Cooperation and other regulations as applicable to the Bank. The Regulations for the Financial Management of City Commercial Banks and City Credit Cooperation has the priority over other regulations if there are discrepancies existing between the regulations and the accounting treatment was not disclosed in the principal accounting policies.

The Bank completed the acquisition transaction on 31 December 2005. The Bank's Balance Sheet as at 31 December 2005 is a combination of Hefei City Commercial Bank and other 12 banks and credit unions, while the Income Statement for the year then ended only consisted the result of Hefei City Commercial Bank. These financial statements were audited by another Accounting Firm.

III. PRINCIPAL ACCOUNTING POLICIES

(a) Accounting period

The Bank's accounting year starts on 1 January and ends on 31 December.

(b) Basis of accounting and measurement bases

The Bank follows the accrual basis of accounting, and assets are initially recorded at historical costs, unless otherwise stated.

(c) Foreign currency translation

The Bank's reporting currency is Renminbi (RMB). Foreign currency transactions are recorded in multi-currency ledgers. Items are recorded in the currencies in which the transactions are denominated. All foreign currency assets, liabilities and income statement items are translated into RMB at the exchange rates in effect at the balance sheet date. Contributions to shareholders' equity are translated into RMB at the stipulated exchange rates at the contribution dates.. Exchange differences arising from foreign currency denominated assets contributed as capital are separately dealt with as "Translation differences" in shareholders' equity.

Notes to the Financial Statements (Domestic)

(d) Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents refer to cash in hand and short-term and highly-liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, including non-restricted balances with the PBOC and placement with other banks.

(e) Discounted bills

Discounted bills are recorded in the balance sheet at face value. Interest income, being the difference between the face value and transacted amount, are taken to the income statement. Bills that have been subsequently rediscounted with the central banks and other financial institutions without repurchase agreement are derecognized from the balance sheet on the transaction date.

(f) Loans

Loans originated by the Bank and entrusted loans are accounted for separately.

Loans originated by the Bank are stated at the principal amount outstanding and interest is accrued based on the outstanding principal and applicable interest rates. The Bank bears the credit risks of the borrowers.

For entrusted loans, the Bank grants loans to borrowers, as an agent, at the direction of the third-party lenders who funds these loans. The Bank has been contracted by these third-party lenders to manage the administration and collection of these loans on their behalf. The third-party lenders determine both the underwriting criteria for and all terms of the entrusted loans including their borrowing purposes, amounts, repayment schedule and interest rates. The Bank charges a commission related to its activities in connection with the entrusted loans, but the risk of credit loss is borne by the third-party lenders. Entrusted loans are recorded as off-balance sheet item.

(g) Investments

Investments are classified as follows:

(1) Short-term investments

Short-term investments are recorded at cost less dividends declared but not paid or unpaid interest on bonds at the time of acquisition. Except for the amount recorded as receivables, dividend income and interest income on short-term investments are recognised as a reduction of the investment cost.

Short-term investments are carried at the lower of cost and market value as at the balance sheet date. Where the market value of short-term investments is lower than cost, a provision against diminution in value is made on an aggregate basis and is recognised in the income statement. When the market value of short-term investments is greater than the carrying value, the provision for diminution in value is reversed to the extent of the provision previously recognised.

Notes to the Financial Statements (Domestic)

(2) Long-term equity investments

Long-term equity investments comprise equity investments which the Bank intends to hold for more than one year, has no control on, and gives no significant influence on. Long-term equity investments are recorded at the cost on acquisition less dividends which have been declared but not paid at the time of acquisition. The Bank accounts for long-term equity investments using the cost method of accounting. When dispose the investments, the difference between the cash received and the carrying amount will be recorded in income statement.

(3) Long-term bond investments

Long-term bond investments are recorded at the cost paid on acquisition adjusted for the amortisation of premiums or discounts. Interest income is computed based on face value and coupon interest rate, and is recognised on an accrual basis in the income statement. When long-term bond investments are sold, gains and losses are included as investment income or losses in the income statement.

(h) Provision for doubtful loan and bad debt written-off

Pursuant to a notice issued by the Ministry Of Finance ("MOF") (Caijin [2001] 127) "Notice to Financial Institutions on Administrative Policy for Provision for Bad and Doubtful Debts and Bad Debt Write-offs", the Bank makes provisions against all loans, discounted bills, letter of credit, credit card overdrafts, equity investments and bond investments (except for government bonds), inter-bank placements, and interest receivable (excluding interest receivable on loans, government bonds and inter-bank placements). Provisions rate are set according to the risk of each class of assets. The Bank has not provided sufficient provision for each class of assets as at 31 December 2006 reference to "Loan Loss Provision Guidance" (Yinfa [2002] 98) issued by the PBOC.

Pursuant to the requirement of "City Commercial Bank Supervision and Development Compendium" issued by CBRC, the Bank plans to make sufficient provision in accordance with the risk of each class of assets gradually before the end of 2008 considering the Bank's profitability. Provisions are charged to the income statement. The provisions for bad and doubtful assets are utilised upon the write-off of the corresponding assets. Recoveries of assets, which were previously written off, are credited to the income statement as provision for bad and doubtful debts.

Debts are written off when they meet the criteria set out in the Caijin [2001] 127 Notice and the approval from the tax authorities is obtained.

(i) Fixed assets and depreciation

Fixed assets are tangible assets, including buildings and improvements, motor vehicles and equipments used in the Bank's operations which have useful lives of more than one year. Fixed assets purchased or constructed by the Bank are recorded at cost.

Fixed assets are depreciated using the straight-line method to allocate the cost of the assets to their estimated residual values over their estimated useful lives. For the fixed assets being provided for impairment loss, the related depreciation charge is prospectively determined based upon the adjusted carrying amounts over their remaining useful lives.

Notes to the Financial Statements (Domestic)

The estimated useful lives, estimated residual values expressed as a percentage of cost and annual depreciation rates are as follows:

	Estimated useful lives	Estimated residual value (%)	Annual depreciation rate (%)
Building and improvement	20 years	3	4.85
Motor vehicle, electronic equipment and others	5 years	3	19.40

When fixed assets are sold, transferred, disposed of or damaged, gains and losses on disposal are determined by comparing the proceeds with the carrying amount of the assets, adjusted by related taxes and expenses, and are included in non-operating income or expenses.

Repairs and maintenance of fixed assets are expensed as incurred. Subsequent expenditure for major reconstruction, expansion, improvement and renovation are capitalised when it is probable that future economic benefits in excess of the original assessment of performance will flow to the Bank. Capitalised expenditures arising from major reconstruction, expansion and improvement are depreciated using the straight-line method over the remaining useful lives of the fixed assets. Capitalised expenditures arising from the renovation of fixed assets are depreciated on the straight-line basis over the expected beneficial periods.

(j) Construction in progress

Construction in progress represents fixed assets under construction, which is recorded at cost. Cost comprises the original cost of machinery and equipment, installation costs, construction costs and other direct costs. Construction in progress is transferred to fixed assets when the assets are ready for their intended use, and depreciation begins from the month following the transfer to fixed assets.

(k) Intangible assets

Intangible assets include land use rights and computer software. Intangible assets are initially recorded at cost and are amortised on the straight-line basis over their estimated useful lives or useful lives as stated in the contract. Amortisation is taken to income statement.

(l) Long-term prepaid expenses

Long-term prepaid expenses include prepaid renovation expenses and other prepayments that should be amortised over more than one year (excluding one year). Prepaid renovation expenses are amortised on the straight-line basis over the expected beneficial periods.

(m) Foreclosed assets

Foreclosed assets are initially recognised at a value equal to the collateralised amount of the related outstanding loan principal plus the accrued interest.

Notes to the Financial Statements (Domestic)

Pursuant to a notice issued by the MOF (Caijin [2002] 1) "Notice governing the accounting for Foreclosed Assets", the value of foreclosed assets in excess of the sum of the outstanding principal and interest receivable is not recognised as income, but recorded in off balance sheet account. Any gain or loss from the disposal of foreclosed assets is recorded in the income.

The maintenance costs of the foreclosed assets are recorded as non-operating expense as incurred. Expenses incurred in the disposal of the foreclosed assets are netted off against the proceeds of disposal.

(n) Repurchased securities and reverse repurchased securities

Repurchased securities ("Repos") refer to securities and bills sold to counterparty with an obligation to repurchase at a pre-determined price on a specified future date under a repurchase agreement. Reverse repurchased securities ("Reverse repos") refer to securities and bills purchased from counterparty with an obligation to resell to the counterparty at a pre-determined price on a specified future date under a resale agreement.

Repos are initially recorded in the balance sheet in "Bond investments" or "Discounted bills" at the actual amounts received from the counterparties. Reverse repos are initially recorded in the balance sheet at the actual amount paid to counterparties. The securities purchased under the resale agreements are not recorded on the balance sheet. The difference in prices for purchase and sales are recognised as interest income or interest expenses on the accrual basis in the income statement.

(o) Operating leases

Leases where substantially all the risk and rewards of ownership of assets remain with the lessor are accounted for as operating leases.

Where the Bank is the lessee, the assets subject to the lease are not accounted for as fixed assets. Lease rentals are charged to the income statement on a straight-line basis over the lease term.

Where the Bank is the lessor, the assets subject to the lease are accounted for as fixed assets. Rental income from operating leases is recognised on a straight-line basis over the lease term.

(p) Revenue recognition

(1) Interest income

Interest income is recognised in the income statement on accrual basis except for the interest income transferred to off balance sheet.

Pursuant to the notice issued by the MOF (Caijin [2005] 5) "Notice on Shortening the Accounting Term for Interest Receivable of Financial Institutions", for loans in which either the principal or the interest receivable has been overdue for more than 90 days (excluding 90 days), the Bank ceases to accrue interest income in the income statement. All outstanding interest receivable, which has previously been recognised as income is reversed against interest income and recorded in a off balance sheet account. The subsequent interest due, regardless of whether

Notes to the Financial Statements (Domestic)

the principal is overdue or not, is recorded in the off balance sheet account and recognised in the income statement only when the amount has been received.

According to the letter issued by the MOF (Caijinhan [2005] 43) "Letter Regarding the Accounting Treatment of Lawsuit Fees", for placements with banks and other financial institutions, when the principal or the interest receivable has been overdue for more than 90 days (excluding 90 days), the Bank ceases to accrue interest income in the income statement. All outstanding interest receivable, which has previously been recognised as income is reversed against interest income and recorded in a off balance sheet account. The subsequent interest due, regardless of whether the principal is overdue or not, is recorded in the off balance sheet account and recognised in the income statement only when the amount has been received.

(2) Fee and commission income

Fee and commission income related to financial services provided is recognised in the income statement when the services are rendered and the payments are received or the documents supporting the rights to receive the payment are obtained.

(q) Employee social security and benefits

(1) Retirement benefits

Employees of the Bank participate in employee social security plans, including pension, unemployment, housing and other welfare benefits, organised and administered by the governmental authorities. The Bank has no other substantial commitments to employees.

According to the relevant regulations, the premium and welfare benefit contributions that should be borne by the Bank are calculated based on percentages of the total salary of employees, and are paid to the labour and social welfare authorities. Contributions to the plans are capitalised as production costs or expensed as incurred. Provision rate of premium and welfare benefit contributions are as following:

	Rate
Pension	18-24% (borne by employees 3-8%)
Housing fund	10-20% (borne by employees 10-20%)
Unemployment benefits	2-3% (borne by employees 1%)

(2) Early retirement benefits

Early retirement benefits are paid to those employees who accept the voluntary redundancy before the normal retirement dates. Such benefits are recognised in the income statement during the period where payment is made.

Notes to the Financial Statements (Domestic)

(r) Taxation

(1) Income tax

Income tax is provided for at the income tax rate applicable to the Bank's operations for the prevailing period using the tax payable method. The applicable income tax rate is 33%.

(2) Other taxes

Taxation	Basis of provision	Tax rate (%)
Business tax	Gross service income	5
City development and construction tax	Business tax payable	7
Education levies	Business tax payable	3
Local education levies	Business tax payable	1

IV. NOTES TO THE FINANCIAL STATEMENTS

1. Balances with central bank

	31 December 2006	31 December 2005
Current account	4,096,472	1,981,407
RMB reserve	5,027,463	3,021,966
Foreign currency reserve	5,452	3,075
Fiscal deposit	1,705	445
	9,131,092	5,006,893

The Bank is required to place a RMB reserve, a foreign currency reserve and a fiscal deposit with the PBOC, which cannot be used for daily operations. The required RMB reserve is 9% (From 25 April 2004 to 5 July 2006: 7.5%, from 5 July 2006 to 15 August 2006: 8%, from 15 August 2006 to 15 November 2006: 8.5%). The required foreign currency reserve is 4% (2005: 3%). The fiscal deposit of the Bank comprises funding from the MOF allocated to or receivable from government agencies, funding from local government to local enterprises and proceeds of bonds issued on behalf of the MOF. The foreign currency deposit reserve and fiscal deposits placed with PBOC are non-interest bearing. The prevailing interest rate of RMB reserve at 31 December 2006 was 1.89% (31 December 2005: 1.89%).

Notes to the Financial Statements (Domestic)

2. Due from banks and other financial institutions

	31 December 2006	31 December 2005
Current balance	365,447	1,756,990
Time balance maturing within three months from the date of acquisition	35,455	560,187
Time deposit maturing over three months from the date of acquisition	(Note a) 245,905	356,825
	646,807	2,674,002

(Note a): It includes balance amounting to 6 million which belongs to original Daximen credit union, and there is still discrepancy over the ownership of the balance. The Bank does not have actual control right over the balance.

3. Discounted bills and trade finance balances

	31 December 2006	31 December 2005
Banker's acceptance	9,329,997	5,367,099
Commercial acceptance	872,920	135,000
Trade finance balances	24,321	91,468
	10,227,238	5,593,567

4. Short-term loans

	31 December 2006	31 December 2005
Unsecured loans	2,609,166	2,791,880
Guaranteed loans	6,781,280	5,561,598
Collateralised and other secured Loans	10,107,052	6,707,023
Personal loans	262,972	424,332
	19,760,470	15,484,833

5. Interest receivable

	31 December 2006	31 December 2005
Interest receivable from loans	76,541	56,837
Others	638	4,459
	77,179	61,296

Notes to the Financial Statements (Domestic)

6. Short-term investments

	31 December 2006	31 December 2005
Bills issued by the central bank	3,313,275	541,734
Government bonds	149,225	217,419
Other short-term investments	459,087	-
	3,921,587	759,153

7. Other current assets

	31 December 2006	31 December 2005
Other receivables	146,373	161,602
Suspense settlement balance	32,691	-
Prepaid expenses	93	708
	179,157	162,310

8. Medium to long-term loans

	31 December 2006	31 December 2005
Unsecured loans	1,949,715	970,242
Guaranteed loans	4,445,731	2,518,968
Collateralised and other secured loans	2,807,196	1,941,072
Personal loans	4,195,517	3,140,182
	13,398,159	8,570,464

9. Overdue loans

	31 December 2006	31 December 2005
Overdue loan within 90 days	189,867	155,224
Overdue loan beyond 90 days	573,938	642,260
Bad and doubtful loans	63,034	40,452
	826,839	837,936

Notes to the Financial Statements (Domestic)

10. Allowance for doubtful loans

	2006	2005
At the beginning of year	476,086	176,914
Add: general provision	58,748	-
specific provision	341,252	41,831
write-back of provision	4,890	-
Less: write-off	(137,662)	(46,674)
transfer to bad provision	-	(49,783)
Add: issue of share (Note I)	-	353,798
At the end of year	743,314	476,086

11. Long-term investments

	31 December 2006	31 December 2005
Long-term bond investments	9,525,195	8,385,436
Long-term equity investments	28,452	28,552
Less: long-term investments maturing within 1 year	(999,368)	(1,214,849)
	8,554,279	7,199,139

12. Fixed assets

	Buildings	Motor vehicles	Other equipments	Total
Cost				
At 1 January 2006	593,582	56,368	149,760	799,710
Add: additions	17,585	818	21,245	39,648
Add: transfer from construction in progress	109,023	-	74,710	183,733
Less: disposal	(3,679)	-	(348)	(4,027)
At 31 December 2006	716,511	57,186	245,367	1,019,064
Accumulated depreciation				
At 1 January 2006	(90,743)	(20,475)	(74,196)	(185,414)
Add: additions	(35,041)	(10,041)	(34,509)	(79,591)
Less: disposals	1,098	-	318	1,416
At 31 December 2006	(124,686)	(30,516)	(108,387)	(263,589)
Net book value				
At 31 December 2006	591,825	26,670	136,980	755,475
At 1 January 2006	502,839	35,893	75,564	614,296

Notes to the Financial Statements (Domestic)

As of 31 December 2006, the Bank has not obtained land use right certificates for buildings amounting to Rmb 449 million in original cost and Rmb 360 million in net book value, has not obtained building ownership certificates for buildings amounting to Rmb 199 million in original cost and Rmb 168 million in net book value, and has obtained neither land use right certificates nor building ownership certificates for buildings amounting to Rmb 199 million in original cost and Rmb 168 million in net book value.

The Bank is of the view that the absence of such title certificates will not impact its business operating with related buildings and will not have material impact to the Bank's financial statements. As of 31 December 2006, the Bank is in the process of applying for such certificates.

As at 31 December 2006, fixed assets with original cost amounting to 51 million and net book value amounting to 1.5 million respectively have been fully depreciated while are still in the use.

13. Construction-in-progress

	2006	2005
At the beginning of year	194,372	111,411
Additions	92,771	78,086
Transfer to fixed assets	(183,733)	(7,037)
Issue of new share (Note I)	-	11,912
At the end of year	103,410	194,372

The Bank has no capitalized interest expense.

14. Short-term deposits

	31 December 2006	31 December 2005
Current deposits	33,982,012	24,921,141
Call deposit	795,008	66,344
Time deposits maturing within 1 year	5,081,302	2,740,311
	39,858,322	27,727,796

15. Short-term saving deposits

	31 December 2006	31 December 2005
Current saving deposits	6,523,247	4,190,806
Time deposits maturing within 1 year	5,644,659	4,783,122
	12,167,906	8,973,928

Notes to the Financial Statements (Domestic)

16. Short-term security deposits

	31 December 2006	31 December 2005
Bank's acceptance	6,084,690	3,505,820
Letter of credit	59,648	30,024
Letter of guarantee	375,375	268,089
Other	428,080	185,549
	6,947,793	3,989,482

17. Tax payables

	31 December 2006	31 December 2005
Enterprise income tax	156,104	108,527
Business tax	49,099	32,250
Other taxes	1,262	787
	206,465	141,564

18. Other payables

	31 December 2006	31 December 2005
Advances received from MOF for the redemption of government bonds	105,372	104,556
Payable to high management for acquisition of stock	76,363	-
Welfare benefits payable	42,710	48,375
Pending Lawsuits payable	17,497	-
On-behalf payroll payable	63,112	42,529
Advances received for capital injection	-	262,490
Balance of dormant customer account	15,549	17,644
Payable for construction in progress	53,321	-
Others	62,541	45,361
	436,465	520,955

19. Other current liabilities

	31 December 2006	31 December 2005
Remittance payable	92,192	98,925
Outward remittance	816	27,081
Accrue expenses	4,806	60,731
Other	600	-
	98,414	186,737

Notes to the Financial Statements (Domestic)

20. Undistributed profits and profit distribution

	2006	2005
At the beginning of year	-	145,381
Add: Current year net profit	288,495	220,709
Distributable profits	288,495	366,090
Less: Profit transfer to dividends payable for the period from valuation day to acquisition completion day	-	(88,088)
Less: Capitalization of equities	-	(278,002)
Less: Appropriations to reserve fund	(28,850)	-
At the end of year	259,645	-

The Bank completed the acquisition transaction on 31 December 2005, pursuant to the regulation of the *Anhui Province City Commercial Bank Joint Restructure Project Plan*, undistributed profits (excluding net profit for the period from valuation day to acquisition day which should be paid to its former shareholders) of former Hefei City Commercial Bank's amounting to RMB 278 million has been capitalised.

In accordance with Company Law amended on 27 October 2005 and implemented from 1 January 2006 and resolution of the Board Director's meeting, the Bank will not accrue welfare reserve since 2006.

The appropriation of profit to the discretionary reserve fund is proposed by the Board of Directors and is subject to the passing of resolutions to be considered at the Shareholders' Meeting. Upon obtaining related approval, discretionary reserve fund can be utilized to offset prior year's loss or for increasing paid up capital. Board of Directors and Shareholders' meetings related with 2006 profit appropriation have not yet been held, so discretionary accumulation reserve is not presented in financial statements ended with 31 December 2006.

21. Net interest income

	2006	2005
Interest income from		
Loans	1,803,729	541,380
Discounted bills	264,153	46,760
Due from and placements with banks and other financial institutions	151,710	43,015
Bill rediscount	90,083	-
	2,309,675	631,155
Interest expense for		
Deposits from customers	(653,573)	(185,938)
Due to and placements from banks and other financial institutions	(57,387)	(7,760)
Bill rediscount	(98,666)	(993)
	(809,626)	(194,691)
Net interest income	1,500,049	436,464

Notes to the Financial Statements (Domestic)

22. Business and other taxes

	2006	2005
Business tax	107,898	30,143
City maintenance and construction tax	6,480	2,113
Education levy	3,091	1,128
	117,469	33,384

23. Non-operating incomes/(expenses), net

	2006	2005
Gain from clearing of dormant customer deposit	4,583	-
Rental income	4,695	3,395
Gains less losses on disposal of foreclosed assets	3,140	-
Others	1,277	-
Non-operating income	13,695	3,395
Write-off of other receivables	-	(4,100)
Others	(1,179)	(283)
Non-operating expense	(1,179)	(4,383)
	12,516	(988)

24. Key off-balance sheet items

	31 December 2006	31 December 2005
Bankers' acceptance	10,960,970	7,031,478
Letters of guarantee issued	1,151,992	835,241
Letter of credit issued	181,638	147,885
Entrusted loans	1,547,838	1,026,498

Notes to the Financial Statements (Domestic)

25. Notes to cash flow statement

	2006
I. Reconciliation of net profit to cash flow for operating activities	
Net profit	288,495
Less: Interest income arising from bond investments	(298,268)
Add: Allowance for bad and doubtful debts	400,000
Depreciation of fixed assets	79,591
Amortisation of intangible and deferred assets	12,786
Increase in receivables	(17,381,196)
Increase in payables	20,966,808
Net cash flows from operating activities	4,068,216
II. Net changes in cash and cash equivalents	
Cash and cash equivalents at 31 December 2006	4,961,084
Less: Cash and cash equivalents at 1 January 2006	(4,587,400)
Net increase in cash and cash equivalents	373,684

26. Related party relationships and transactions

(a) Related party relationships

(1) Shareholders with more than 5%(including 5%) shares of the Bank

Shareholders with more than 5%(including 5%) shares of the Bank are listed as follow:

	31 December 2006		31 December 2005	
	Share (thousand)	Ratio %	Share (thousand)	Ratio %
Anhui Province Energy Group Limited ("Anhui Energy")	300,000	10.53	-	-
Hefei Xingtai Group Limited ("Hefei Xingtai")	248,960	8.74	248,960	11.77
Anhui Province Antong Development Co., Ltd. ("Anhui Antong")	110,050	3.86	110,050	5.14
	659,010	23.13	359,010	16.91

(2) Other related parties refer to key management personnel, or the companies over which the key management personnel and close family members of such individuals have the power to, directly or indirectly, control, jointly control or exercise significant influence.

Notes to the Financial Statements (Domestic)

(b) Related party transactions

(1) Pricing policies

The Bank's pricing policies on business with related parties are based on market interest rate.

(2) Material related party transactions

(i) Loan granting

	2006	2005
Anhui Antong	-	40,000
Hefei Xingtai	50,000	50,000

(ii) Loan repayment

	2006	2005
Anhui Antong	40,000	-

(iii) Interest income from loans

	2006	2005
Anhui Antong	1,667	2,838
Hefei Xingtai	4,751	2,371

(iv) Interest expense of deposit

	2006	2005
Anhui Energy	421	316
Hefei Xingtai	203	139
Anhui Antong	2	47

(3) Related party balances

(i) Loans

	31 December 2006	31 December 2005
Anhui Antong	-	40,000
Hefei Xingtai	100,000	50,000

Notes to the Financial Statements (Domestic)

(ii) Deposit

	31 December 2006	31 December 2005
Anhui Energy	17,901	21,247
Hefei Xingtai	44,097	6,883
Anhui Antong	47	153

27. Commitments

As at 31 December 2006, the bank has the following non-cancellable operating lease commitments:

Operating commitments

	31 December 2006	31 December 2005
Less than 1 year	14,377	15,171
Between 1 and 5 years	35,379	44,413
More than 5 years	3,888	5,348
	53,644	64,932

Assets pledged

	31 December 2006	31 December 2005
Bonds	3,080,374	1,193,500
Bills	1,243,451	133,566

These assets are pledged as collateral under repurchase agreements with other banks or loan from financial institutions.

28. Reclassification of comparative figures

Certain comparative figures have been restated in the current year to conform to current year's presentation.

	31 December 2005
Undistributed profits audited by Shenzhen Rongxin CPAs	91,104
Adjustments of undistributed profits	54,277
Undistributed profits after adjustments	145,381

Notes to the Financial Statements (Domestic)

	2005
Current year net profit audited by Shenzhen Rongxin CPAs	227,050
Audit adjustments:	
- Cut-off adjustment for interest income and expense of loans and deposits	3,417
- Reverse accrued interest income of short-term bond	11,732
- Accrued interest income for government bonds	13,742
Statement Write-off prior-year profit adjustment recorded in income	(35,232)
	(6,341)
Current year net profit after adjustment	220,709
Includes:	
Adjust prior year net profit to 2005	(36,469)
Adjust net profit of 2005 to 2006	30,128
	(6,341)

V. POST BALANCE SHEET EVENT

On 16 March 2007, the National People's Congress passed the China Corporate Income Tax Law. This new law will become effective on 1 January 2008.

By signing-off day of the financial statements, detailed implementation guilds have not been issued. Detail regulations such as applicable tax rate of the period after 2008, calculation of taxable income, detail policies of tax preference, provision policy of tax preference are not available. So the Bank is not able to make an assessment over the effects of the changes of income tax rate.

VI. OTHER SIGNIFICANT MATTERS

According to the China banking regulatory standards, the Bank's loan balances and result of five-grade classification are as following:

	31 December 2006	31 December 2005
Short-term loans	19,760,470	15,484,833
Medium to long-term loans	13,398,159	8,570,464
Overdue loans	826,839	837,936
Discounted bills and trade finance balance	10,227,238	5,593,567
	44,212,706	30,486,800
	31 December 2006	31 December 2005
Pass	35,161,694	21,795,764
Special mention	7,634,645	6,853,708
Sub-standard	912,551	1,103,137
Doubtful	219,632	311,636
Loss	284,184	422,555
	44,212,706	30,486,800

Notes to the Financial Statements (Domestic)

Since the financial statements are prepared in accordance with the Accounting System for Financial Institutions (1993), the Accounting System for City Commercial Banks and the Regulations for the Financial Management of City Commercial Banks and City Credit Cooperation, the Bank has not provided full provision against impaired assets as at 31 December 2006.

	Impaired in 2006	Impaired in prior years	Total
Due from banks	-	6,003	6,003
Placement with banks	-	35,753	35,753
Repurchased assets	-	6,990	6,990
Other current assets	-	86,765	86,765
Loan, discounted bills and trade finance balances	*(404,591)	846,529	441,938
Long-term investments	-	3,258	3,258
Foreclosed assets	22,985	-	22,985
	(381,606)	985,298	603,692

Note*: The Bank reversed impairment loss for loans through non-performing loans recovery and write-off in 2006. The Bank will provide sufficient provision for assets as above by the end of 2008.

Attachment II : The Financial Statements (International)



Report of the Auditors

[English translation for reference only]

2007/SH-085/JWKL/YNM

To the Shareholders of Huishang Bank Corporation Limited

We have audited the accompanying financial statements of Huishang Bank Corporation Limited (the "Bank"), comprising its balance sheet as at 31 December 2006 and the related statements of income, cash flows and changes in equity for the year ended 31 December 2006 and a summary of significant accounting policies and other explanatory notes (hereinafter referred to as "special-purpose financial statements").

Management's Responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the special purpose financial statements for the year ended 31 December 2006 have been prepared, in all material respects, in accordance with the basis set out in Note II, which describes the selected International Financial Reporting Standards ("IFRS") and other specific management assumptions adopted by the Bank.

This report is intended solely for the information and use of the Bank's management in connection with its preparation of the Bank's first complete set of financial statements in accordance with IFRS in the future. We are not responsible for any consequence of the improper use of the report.

PricewaterhouseCoopers Zhong Tian Certified Public Accountants Limited Company

The Financial Statements (International)

INCOME STATEMENT

	Notes	2006
Interest income	V.1	2,521,292
Interest expense	V.1	(712,804)
Net interest income		1,808,488
Fee and commission income	V.2	46,247
Fee and commission expenses	V.2	(24,491)
Net fee and commission income		21,756
Dividend income		64
Net gain or loss on trading securities		7,089
Other operating income, net	V.3	17,691
Operating income		1,855,088
Impairment losses for loans and advances	V.4	(11,039)
Operating expenses	V.5	(942,249)
Profit before tax		901,800
Income tax expense	V.7	(341,847)
Net profit		559,953
Earnings per share (expressed in Rmb per share)		
- Basic and diluted earnings per share	V.8	0.25

The accompanying notes form an integral part of these financial statements.

The Financial Statements (International)

BALANCE SHEET

ASSETS	Notes	At 31 December 2006
Cash and due from other banks and financial institutions	V.9	2,422,092
Deposits with the PBOC	V.10	9,131,092
Trading assets and other financial instruments at fair value through profit or loss	V.11	671,216
Securities, bills and loans purchased under resale agreements, net	V.12	1,755,885
Loans, net	V.13	42,403,442
Investment securities		
- loans and receivables	V.14	746,158
- available-for-sale	V.14	5,286,260
- held-to-maturity	V.14	7,435,829
Property, plant and equipment, net	V.15	881,018
Deferred income tax assets	V.16	240,319
Other assets	V.17	295,813
TOTAL ASSETS		71,269,124
LIABILITIES		
Due to other banks and financial institutions	V.18	1,466,152
Customer deposits	V.19	63,702,050
Securities and bills sold under repurchase agreements	V.20	2,426,034
Other liabilities	V.21	869,500
TOTAL LIABILITIES		68,463,736
EQUITY		
Capital stock	V.22	2,773,637
Capital surplus	V.22	31,500
Revaluation reserve	V.23	52,342
Statutory reserves	V.23	28,850
Accumulated losses	V.23	(80,941)
TOTAL EQUITY		2,805,388
TOTAL LIABILITIES AND EQUITY		71,269,124

These financial statements have been approved for issue by the Board of Directors on 18 May 2007.

Dai He Di

Li He

Chairman

President

The accompanying notes form an integral part of these financial statements.

Notes to the Special-purpose Financial Statements (International)

STATEMENT OF CHANGES IN EQUITY

	Capital stock Note V.22	Capital surplus Note V.22	Revaluation reserve Note V.23	Statutory reserves Note V.23	Accumulated losses Note V.23	Total equity
Balance at 1 January 2006	2,114,309	-	12,416	-	(612,044)	1,514,681
Capital injection	659,328	31,500	-	-	-	690,828
Available-for-sale securities - fair value gain, net of tax	-	-	39,926	-	-	39,926
Net profit for 2006	-	-	-	-	559,953	559,953
Appropriations to statutory reserves for 2006	-	-	-	28,850	(28,850)	-
Balance at 31 December 2006	2,773,637	31,500	52,342	28,850	(80,941)	2,805,388

STATEMENT OF CASH FLOWS

	Notes	2006
Cash flows from operating activities		
Profit before tax:		901,800
Adjusted by:		
Provision for impaired loans	V.4	15,929
Depreciation of Property, plant and equipment	V.15	84,252
Net gains on disposal of property, plant and equipment	V.3	(21)
Change in operating assets and liabilities:		997,070
Due from other banks and financial institutions not included as cash and cash equivalents		1,143,441
Restricted deposits with the PBOC		(2,009,134)
Trading assets and other financial instruments at fair value through profit or loss		30,438
Securities, bills and loans purchased under resale agreements		(1,600,311)
Loans		(15,766,416)
Other assets		35,944
Customer deposits		19,918,455
Due to other banks and financial institutions		1,215,882
Securities and bills sold under repurchase agreements		942,177
Other liabilities		113,730
Payment of income tax		(183,300)
Net cash provided by operating activities		4,842,866

The accompanying notes form an integral part of these financial statements.

Notes to the Special-purpose Financial Statements (International)**STATEMENT OF CASH FLOWS (Continued)**

	Notes	2006
Cash flows used in investing activities		
Cash received from sale and maturity of investment securities		2,493,841
Cash received from disposal of property, plant and equipment		1,293
Purchases of investment securities		(7,199,568)
Purchases of property, plant and equipment		(90,511)
Net cash used in investing activities		(4,794,945)
Cash flows provided by financing activities		
Cash received from capital contributions		428,339
Dividends paid to shareholders		(102,576)
Net cash provided by financing activities		325,763
Net increase in cash and cash equivalents		373,684
Cash and cash equivalents at beginning of year	V.24	4,587,400
Cash and cash equivalents at end of year	V.24	4,961,084
Supplemental disclosures of cash flow information		
Interest received		2,505,408
Interest paid		(653,366)

The accompanying notes form an integral part of these financial statements.

Notes to the Special-purpose Financial Statements (International)

I. GENERAL INFORMATION AND PRINCIPAL ACTIVITIES

Huishang Bank Corporation Limited (original named as Hefei City Commercial Bank, the “Bank”) is a joint stock limited financial company incorporated in Anhui Province, the People’s Republic of China (“the PRC”). With approval from China Banking Regulation Commission (“CBRC”) Anhui Bureau, the Bank revised its name to Huishang Bank Corporation Limited on 30 November 2005 after acquisition of five city commercial banks, i.e., Wuhu, Ma’anshan, Anqing, Huaibei and Bengbu city commercial bank and seven urban credit unions, i.e., Liu’an, Huainan, Tongling, Fuyang technology, Xinying, Yinghe, Jinda urban credit union which were incorporated in Anhui Province and began to operate in the name of Huishang Bank Corporation Limited starting from 1 January 2006. As at 31 December 2006, The Bank’s largest shareholders include Anhui Province Energy Group Limited, Hefei Xingtai Group Limited, Anhui Province Antong Development Co. Ltd., Wuhu City Construction Investment Co. Ltd., Anhui Province Innovation Investment Co. Ltd., Hefei Xintai Trust Investment Co. Ltd., Anhui Xinhua Group Investment Limited, Anhui Quanchai Group Limited.

Registered capital of the Bank before merger (i.e. original Hefei City Commercial Bank) was amounting to 500 million. According to the requirement of *the Anhui Province City Commercial Bank Joint Restructure Project* issued by Anhui Province Government on 26 September 2006, net assets and profit per share of the five city commercial banks and seven urban credit unions being acquired by the Bank should be reassessed based on the result of assets revaluation. The Bank issued directional stocks to shareholders of banks and credit unions being acquired, and the shareholders swap their original shares with share of the Bank based on result of assets revaluation. As at 31 December 2005, The Bank’s registered capital after acquisition was amounting to 1,225 million, and after transferring accumulated retained earnings (minus profit payable to original shareholders) and other equity balances to registered capital as at 31 December 2005 audited by Shenzhen Rongxin Accounting Firm, the Bank’s registered capital was increased to 2,114 million as at 31 December 2005.

The Bank received registered capital amounting to 659 million from original shareholders and new shareholders including Anhui Changjiang Steel Co. Ltd. and Anhui Province Energy Group Limited in 2006. The Bank’s registered capital was increased to 2,774 million as at 31 December 2006.

The Bank obtained financial institution license coded with D10113610H0002 from CBRC Anhui Bureau on 19 December 2005, and obtained legal person business license code with 3400001300154 from Anhui Province Industry and Commercial Administration Bureau on 28 December 2005. After the capital injection in 2006, the Bank was still in the process of applying a new business license.

The Bank is primarily engaged in the business of banking in all its aspects including: deposit-taking, loan granting, internal and domestic settlement, foreign currency sell and settlement, issuing financial bonds, bond investment, inter-bank placement, providing guarantee and other commercial bank business approved by the People’s Bank of China.

Notes to the Special-purpose Financial Statements (International)

II. PRINCIPAL ACCOUNTING POLICIES

1. Basis of preparation

1.1 Purpose of the financial statements

The balance sheet as at 31 December 2006 and related statements of income, cash flow and changes in equity for the year then ended (the “special purpose financial statements”) are prepared solely for the use of management of the Bank in order to assist the Bank in preparation of its first complete set of financial statements in accordance with International Financial Reporting Standards (“IFRS”) in the future.

The accounting policies adopted by the Bank to prepare the special purpose financial statements differ from IFRS in certain aspects. The IFRS not adopted are as follows:

◆ Comparative information

Paragraph 36 of IAS 1 “Presentation of Financial Statements” requires comparative information be disclosed in respect of the previous period for all amounts reported in the financial statements.

The purpose of these special-purpose financial statements is to assist the Bank in preparation of its first complete set of IFRS financial statements in the future. Management believes the benefits of comparative information to users of these financial statements is likely to be less than the costs of complying IAS1. Accordingly no comparative information has been presented.

◆ Disclosure of related party transactions and balances

IAS 24 “Related Party Disclosures” (including amendments up to December 2006) requires disclosure of information relating to related parties transactions.

However, since the Bank had not commenced to make a comprehensive summary of related party transactions, and the Bank considered transactions of related party were not material, no disclosure of such information has been made.

◆ Disclosure of interest rate risk and liquidity risk

IAS 32 “Financial Instruments: Disclosure and Presentation” requires disclosure of interest rate risk and liquidity risk relating to its assets and liabilities on maturity date and interest rate re-pricing date.

However, since the Bank has not began to summarise such information, and the management believes the Bank does not face material liquidity risk and interest rate risk currently, no disclosure of such information has been made.

1.2 Historical cost convention

The special purpose financial statements are prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, financial assets and financial liabilities (including derivative instruments) held at fair value through profit or loss.

Notes to the Special-purpose Financial Statements (International)

1.3 Critical accounting estimates

The preparation of the special-purpose financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Bank's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the special-purpose financial statements are disclosed in Note IV.

2. Foreign currency translation

Items included in the special purpose financial statements of the Bank are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The special purpose financial statements are presented in Renminbi ("Rmb") Yuan, which is the Bank's functional and presentation currency.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Changes in the fair value of monetary securities denominated in foreign currency classified as available-for-sale are analyzed between translation differences resulting from changes in the amortized cost of the security, and other changes in the carrying amount of the security. Translation differences are recognised in the income statement, and other changes in carrying amount are recognised in equity.

Translation differences on non-monetary financial assets and liabilities are reported as part of the fair value gain or loss. Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in the income statement as part of the fair value gain or loss. Translation differences on non-monetary financial assets such as equities classified as available-for-sale are included in the fair value reserve in equity.

3. Offsetting financial instruments

Financial assets and liabilities are offset and the net amount is reported in the balance sheet when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

4. Interest income and expense

Interest income and expense for all interest-bearing financial instruments are recognised within 'interest income' and 'interest expense' in the income statement using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial

Notes to the Special-purpose Financial Statements (International)

instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument (e.g., prepayment options) but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

5. Fee and commission income

Fee and commissions are generally recognised in the period in which on an accrual basis when the related service has been provided.

6. Financial assets

The Bank classifies its financial assets into the following categories: financial assets at fair value through profit or loss; loans and receivables; held-to-maturity investments and available-for-sale financial assets. Management determines the classification of its investment at initial recognition.

(1) Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are also categorised as held for trading unless they are designated as hedges.

(2) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Bank provides money, goods or services directly to a debtor with no intention of trading the receivables.

(3) Held-to-maturity

Held-to-maturity securities are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Bank's management has the positive intention and the ability to hold to maturity. If the Bank were to sell other than an insignificant amount of held-to-maturity assets, the entire category would be reclassified as available for sale.

(4) Available-for-sale

Financial assets classified as available-for-sale are those that are either designated as such or are not classified in any of the other categories. They are intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

Notes to the Special-purpose Financial Statements (International)

(5) Initial recognition and de-recognition of financial assets

Purchases and sales of financial assets at fair value through profit or loss, available-for-sale and held-to-maturity are recognised on the settlement date, the date on which an asset is delivered to or by the Bank. Loans are recognised when cash is advanced to the borrowers. Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Bank has transferred substantially all risks and rewards of ownership.

(6) Subsequent measurement of financial assets

Except for certain instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortized cost using the effective interest method. Gains and losses arising from changes in the fair value of financial assets at fair value through profit or loss category are included in the income statement in the period in which they arise. Gains and losses arising from changes in the fair value of financial assets classified as available-for-sale financial assets are recognized directly in equity, until the financial assets are de-recognized or impaired at which time the cumulative gain or loss previously recognized in equity should be recognized in the income statement. However, interest calculated using the effective interest method is recognized in the income statement.

(7) Fair value of financial assets

The fair values of quoted investments in active markets are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Bank establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants.

7. Bills re-discounting

The Bank transfers (or "re-discounts") certain discounted bills to banks and other financial institutions. These discounted bills are derecognised when substantially all risks and rewards have been transferred. When the criteria for derecognising have not been met, the related transactions are accounted for as secured borrowings and an obligation is recorded as placements from other banks and financial institutions or deposits with the PBOC, as appropriate.

8. Resale and repurchase agreements

Securities and bills sold subject to repurchase agreements ("repos") are retained in the financial statements as investment securities, due from other banks and financial institutions or loans and advances, and the related liability is recorded as securities or bills sold under repurchase agreements. Securities, bills and loans purchased under agreements to resell ("reverse repos") are recognized in the balance sheet as an advance to the counterparty. The difference between sale and repurchase price is treated as interest and accrued over the life of the agreement using the effective yield method.

Notes to the Special-purpose Financial Statements (International)

9. Impairment of financial assets

(1) Assets carried at amortised cost

The Bank assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a “loss event”) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

The amount of the loss is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset’s original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Bank may measure impairment on the basis of an instrument’s fair value using an observable market price.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar and relevant credit risk characteristics. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors’ ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the Bank and historical loss experience for assets with credit risk characteristics similar to those in the Bank. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

When a loan is uncollectible, it is written off against the related allowance for impairment losses. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of the Impairment losses for loans and advances in the income statement.

Notes to the Special-purpose Financial Statements (International)

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the income statement.

(2) Assets carried at fair value

The Bank assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity investments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss, measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the income statement, is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the income statement, the impairment loss is reversed through the income statement.

10. Property, plant and equipment

(1) Buildings, motor vehicles, electronic and other equipments.

Buildings comprise mainly sub-branches, offices and related land use rights that are not separately presented from building (please see Note II.11 "Land use rights" below). All property, plant and equipment are stated at historical cost less accumulated depreciation and impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation is calculated on the straight-line method to allocate the cost of such assets to their residual values over their estimated useful lives as follows:

	Useful lives	Residual rate (%)	Yearly depreciation rate (%)
Buildings	20 years	3	4.85
Motor vehicles	5 years	3	19.40
Electronic and other equipments	5 years	3	19.40

Notes to the Special-purpose Financial Statements (International)

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Property, plant and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use. The repairs and renewals of property, plant and equipment are charged to the income statement during the financial period in which they are incurred.

Gains and losses on disposal of property, plant and equipment are determined by reference to their carrying amount and are recognised in the income statement.

(2) Construction in process

Construction in progress consists of assets under construction or being installed and is stated at cost. Cost includes equipment cost, cost of construction, installation and other direct costs. Items classified as construction in progress are transferred to of property, plant and equipment when such assets are ready for their intended use, and the depreciation charge commences from the following month after such assets are transferred to property, plant and equipment.

Impairment losses are recognised for idle projects with respect to which management has determined that resumption in the foreseeable future is not probable, including those projects that are the subject of litigation. The impairment loss is equal to the extent to which the estimated recoverable amount of a specific project is less than its carrying amount. Impairment losses are charged to the income statement.

11. Land use rights

Land in the PRC is state-owned and will not be transferred to any entities. The Bank obtained the rights to use the land for a specific period of time through either a free appropriation from the government or the payment of premium to the government.

The premium paid by the Bank to obtain the land use rights are accounted for as an operating lease prepayment, which are amortised using the straight-line method over their lease term of 30 to 70 years.

However, certain land use rights are not separately presented from buildings, and consequently, their costs are recorded together with cost of buildings.

12. Foreclosed assets

Foreclosed assets are initially recorded at fair value on the date of foreclosure. Subsequently foreclosed assets are measured at the lower of their cost and net realisable value.

13. Operating Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases.

Notes to the Special-purpose Financial Statements (International)

The total payments made under operating leases (net of any incentives received from the lessors) including the land use rights (Note II.11) are charged to in the income statement on a straight-line basis over the period of the lease. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognized as an expense in the period in which termination takes place.

14. Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with no more than three months' maturity from the date of acquisition, including cash, non-restricted balances with central banks, due from banks and other financial institutions, and short-term bills.

15. Provision

Provisions are recognized when the Bank has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. Such provisions are charged to other operating expenses.

16. Employee benefits

In accordance with the policies of relevant state and relevant domestic governments, local employees of the Bank participate in various defined contribution retirement schemes managed by local Labour and Social Security Bureaus. The Bank contributes monthly to pension and insurance schemes administered by the local pension and insurance agencies using applicable contribution rates stipulated in the relevant local regulations. The contributions made by the Bank are charged to the income statements when it is incurred. Upon retirement of the employees, the local Labour and Social Security Bureaus are responsible for the payment of the basic retirement benefits to the retired employees.

Historically, the Bank has paid early retirement benefits to those employees who accepted an early retirement arrangement prior to the normal retirement date, as approved by the management. Early retirement benefit payments are made from the date of early retirement through normal retirement date. The Bank has recorded a liability for its obligation to its employees who retired before normal retirement age. The present value of the liability is determined through estimated future cash payments discounted by interest rates of government bonds which have terms to maturity similar to the term of the Bank's obligations under the early retirement arrangements.

17. Business tax

Pursuant to tax notices issued by the Tax Bureau, except for the income of inter-bank and inter-branch activities, the Bank's business income is subject to business tax. Gross taxable income of the Bank is subject to business tax at the rate of 5% and accordingly the Bank accrued for business tax expense in the income statement.

18. Deferred income taxes

Deferred income tax is provided in full, using the balance sheet liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred

Notes to the Special-purpose Financial Statements (International)

income tax is determined using tax rates and laws that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

The principal temporary differences arise from impairment losses for loans and other receivables and revaluation of certain financial assets and liabilities. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Income tax payable on profit, based on the applicable tax law, is recognised as an expense in the period in which profit arises. The tax effect of income tax losses available for carry forward is recognised as an asset when it is probable that future taxable profit will be available against which these losses can be utilised.

Deferred income tax related to fair value re-measurement of available-for-sale investments which are charged or credited directly to equity, is also credited or charged directly to equity and is subsequently recognised in the income statement together with the deferred gain and loss.

The Bank's deferred tax assets and liabilities are netted as the amounts are recoverable from or due to the same tax authority.

19. Borrowings

Borrowings are recognised initially at fair value net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between proceeds net of transaction costs and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

20. Capital stock

(1) Share issue costs

The incremental costs directly attributable to the issue of new ordinary shares are shown in equity as a deduction, net of tax, from the proceeds.

(2) Dividends on ordinary shares

Dividends on ordinary shares are recognised in equity in the period in which they are declared. Dividends for the year which are declared after the balance sheet date are addressed in the subsequent event note to the special-purpose financial statements.

21. Capital surplus

Capital surplus is the excess of share issue proceeds over the par value of ordinary shares.

Notes to the Special-purpose Financial Statements (International)

22. Acceptances

Acceptances comprise undertakings by the Bank to pay bills of exchange drawn on customers. The Bank expects most acceptances to be settled simultaneously with the reimbursement from the customers. Acceptances are accounted for as off-balance sheet transactions and are disclosed as contingent liabilities and commitments in Note V.25.

23. Contingent liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Bank. It can also be a present obligation arising from past events that is not recognised because it is not probable that an outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognized as a provision but is disclosed in the notes to the financial statements. When a change in the probability of an outflow occurs so that outflow is probable, it will then be recognised as a provision.

24. Fiduciary activities

The Bank acts as a trustee, or in other fiduciary capacities, that result in the holding or placing of assets on behalf of individuals, trusts, retirement benefit plans and other institutions. These assets and any income or losses arising thereon are excluded from these special purpose financial statements, as they are not assets of the Bank.

The Bank also administers entrusted loans on behalf of third-party lenders. In this regard, the Bank grants loans to borrowers, as agent, at the direction of third-party lenders, who fund these loans. The Bank has been contracted by these third-party lenders to manage the administration and collection of these loans on their behalf. The third-party lenders determine both the underwriting criteria for and all terms of the entrusted loans, including borrower, their purposes, amounts, terms, interest rates, and repayment schedule. The Bank charges a commission related to its activities in connection with the entrusted loans, but the risk of loss is borne by the third-party lenders. Entrusted loans are not recognised in the special purpose financial statements of the Bank.

25. Financial guarantee contracts

The Bank has the following types of financial guarantee contracts: letters of credit and letters of guarantees issued. These contracts provide for specified payments to be made to reimburse the holder for a loss it incurs when a guaranteed party defaults under the original or modified terms of a debt instrument.

The Bank initially recognises all financial guarantee contracts at fair value, which is amortised over the life of the guarantee period as fee income earned on a significant basis. Subsequently, they are carried at the higher of amortised carrying value and any provision related to the Bank's guarantee obligation. The change in fair value of the provision due to impairment is recognized in the income statement as impairment loss.

Notes to the Special-purpose Financial Statements (International)

The contractual amounts of financial guarantee contracts are disclosed as credit commitments in Note V.25.

III. FINANCIAL RISK MANAGEMENT

1. Strategy in using financial instruments

By its nature, the Bank is engaged in the extensive use of financial instruments. The Bank accepts deposits from customers at both fixed and floating rates and for various periods and seeks to earn above average interest margins by investing these funds in high quality assets. The Bank seeks to increase these margins by consolidating short-term funds and lending for longer periods at higher rates whilst maintaining sufficient liquidity to meet all claims that might fall due. The Bank predominantly operates its business in Anhui Province, the PRC, under an interest rate scheme regulated by the People's Bank of China (the PBOC).

2. Credit risk

The Bank also seeks to raise its interest margins by obtaining above-average margins, net of impairment losses for loans and advances, through lending to commercial and retail borrowers with a range of credit standing. Such exposures involve not only on-balance sheet loans and advances, but also other commitments, such as letters of credit, guarantees, and acceptances.

The Bank is exposed to credit risk, which is the risk that a counter-party will be unable to pay amounts in full when due. Credit risk is increased when counter parties are concentrated in the same industries or geographical regions. The Bank's operation is located within Anhui Province, the PRC. This represents a concentration of credit risk, which the Bank is exposed to the general economic conditions in this area.

The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to individual borrowers. Such risks are monitored on a regular basis and subject to an annual review.

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and principal repayment obligations and by changing lending limits where appropriate. Exposure to credit risk is also managed in part by obtaining collateral and corporate and personal guarantees.

The Bank has issued credit related commitments including guarantees and letters of credit. The primary purpose of these instruments is to ensure that funds are available to customers as required. These instruments represent irrevocable assurances that the Bank will make payments in the events that a customer cannot meet its obligations to third parties, carry the same credit risk as loans and advances. Guarantee deposits are received by the Bank to lessen the credit risks related to certain of these commitments provided by the Bank. The guarantee deposit which is established at a certain percentage of the notional amount of the guarantee, standby letters of credit or other credit related commitments, is determined by the creditworthiness of the related customer.

The following table breaks down the Bank's main credit exposure at their carrying amounts, as categorised by the industry sectors of our counterparties.

Notes to the Special-purpose Financial Statements (International)

	As at 31 December 2006	%
Loans to corporations		
Energy and chemical	2,458,065	6
Manufacturing	6,465,947	15
Construction	1,983,555	5
Trading	3,701,703	8
Services	2,753,623	6
Education and media	1,580,041	4
Real estate	3,181,790	7
Non-profit governmental institution	4,940,942	11
Transportation	1,302,264	3
Others	1,490,865	3
Sub-total	29,858,795	68
Loans to individuals	7,107,449	16
Discounted bills - Accepted by banks	6,228,355	15
Discounted bills - Accepted by corporate customers	316,916	1
Accrued interest receivable	77,180	-
Total, gross	43,588,695	100

Off-balance sheet lending commitments are analyzed as follows:

	As at 31 December 2006	%
Loan commitments	371,600	4
Acceptance	8,004,513	82
Letter of credit issued	181,638	2
Letter of guarantee issued	1,151,992	12
Total	9,709,743	100

The following table breaks down the Bank's main credit exposure at their carrying amounts, as categorised by the economic type of our counterparties.

	As at 31 December 2006	%
Loans to corporations		
State owned entities	15,051,876	35
Collective owned entities	981,794	2
Private owned entities	8,318,458	19
Foreign invested enterprises	1,021,088	2
Other domestic entities	4,485,579	10
Sub-total	29,858,795	68
Loans to individuals	7,107,449	16
Discounted bills- accepted by other financial institutions	6,228,355	15
Discounted bills- accepted by corporate customers	316,916	1
Accrued interest receivable	77,180	-
Total, gross	43,588,695	100

Notes to the Special-purpose Financial Statements (International)

3. Market risk

The Bank takes on exposure to market risks. Market risks arise from open positions in interest rate products, currency products and derivatives instruments, which are exposed to general and specific market movements. The management of the specific market risks is summarised below in Note III.4 and Note III.5.

4. Currency risk

The Bank conducts the majority of its business in RMB, with certain transactions denominated in United State dollars ("USD") and to a much lesser extent, other currencies. The Bank's principle in controlling exchange rate risk is to match its assets and liabilities in each currency and to maintain exchange rate risk within established limits. The Bank has set risk limits which are consistent with the guidelines established by the Risk Management Committee and are in accordance with relevant regulatory requirements, and reflect the management's assessment of current circumstances. The Bank also manages its sources and uses of foreign currencies to minimise potential mismatches in accordance with management directives.

The table below summarises the Bank's exposure to foreign currency exchange rate risk as at 31 December 2006. Included in the table are the carrying accounts of the Bank's assets and liabilities in RMB equivalent, categorised by the original currency.

	RMB	USD	EUR	Other	Total
As at 31 December 2006					
Assets					
Cash and due from other banks and financial institutions	2,258,523	150,445	10,833	2,291	2,422,092
Deposits with the PBOC	9,125,312	5,760	-	20	9,131,092
Trading assets and other financial instruments at fair value through profit or loss	513,636	157,580	-	-	671,216
Securities, bills and loans purchased under resale agreements, net	1,755,885	-	-	-	1,755,885
Loans, net	42,379,121	24,321	-	-	42,403,442
Investment securities					
- loans and receivables	746,158	-	-	-	746,158
- available-for-sale	5,286,260	-	-	-	5,286,260
- held-to-maturity	7,435,829	-	-	-	7,435,829
Other assets, including deferred tax assets	1,417,150	-	-	-	1,417,150
Total assets	70,917,874	338,106	10,833	2,311	71,269,124
Liabilities					
Customer deposits	(63,555,228)	(135,623)	(10,504)	(695)	(63,702,050)
Due to other banks and financial Institutions	(1,465,126)	(1,026)	-	-	(1,466,152)
Securities and bills sold under repurchase agreements	(2,426,034)	-	-	-	(2,426,034)
Other liabilities	(869,106)	(8)	-	(386)	(869,500)
Total liabilities	(68,315,494)	(136,657)	(10,504)	(1,081)	(68,463,736)
Net on-balance sheet position	2,602,380	201,449	329	1,230	2,805,388
Financial guarantees and credit related commitments	9,528,105	90,693	89,914	1,031	9,709,743

Notes to the Special-purpose Financial Statements (International)

5. Interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The Bank takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on both fair value and cash flow risks. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise.

Currently, the interest rate framework within mainland China is set by the PBOC. According to the PBOC regulations, the ceiling for loan interest rates was adjusted from 30% to 70% above the stipulated interest rates on 1 January 2004 and was finally removed on 29 October 2004, whilst the floor is 10% below the stipulated rates. The Bank operates its business predominantly in Anhui Province, the PRC, under the interest rate scheme regulated by the PBOC. It is a normal practice for the interest rates of both interest-bearing assets and liabilities to move in the same direction. Consequently, this mitigates the Bank's exposure to RMB interest rate risk. However, there is no guarantee that the PBOC will continue this practice in future.

The Bank conducts most of its domestic on-balance-sheet businesses including loans and deposits as well as the majority of financial guarantees and credit related commitments based upon basic interest rates. The basic interest rates for the loans and the deposits normally move in tandem.

Under this regulated environment, the Bank is not subject to significant interest rate risk exposure. The interest rate repricing risk for foreign currency denominated debt securities and the remaining part of financial guarantees and credit related commitments businesses which are not based upon these basic interest rates is not expected to be significant.

The interest rate for discounted bills is determined by reference to the PBOC/market re-discount interest rate. However, it is generally lower than the interest rate for a loan with same term (including the above floating rate).

The benchmark interest rates stipulated by the PBOC for loans and deposits during 2006 are as follows:

For customer loans and deposits	From 19 August 2006 to 31 December 2006	From 28 April 2006 to 18 August 2006	From 1 January 2006 to 27 April 2006
Loans with original terms less than one year	5.58-6.12	5.40-5.85	5.22-5.58
Loans with original terms longer than one year	6.30-6.84	6.03-6.39	5.76-6.12
Personal and corporate floating rate deposits	0.72	0.72	0.72
Negotiate deposit	1.44	1.44	1.44
Time deposit (3 months to 5 years)	1.8-4.14	1.71-3.60	1.71-3.60
Corporate deposits (1 to 7 days)	1.08-1.62	1.08-1.62	1.08-1.62
From 1 Jan 2006 to 31 December 2006			
Balances with the PBOC:			
Mandatory reserve deposits		0.99	
Rediscount with the PBOC		3.24	

Notes to the Special-purpose Financial Statements (International)

6. Liquidity risk

The Bank is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits, loan draw downs, guarantees and from margin and other calls on cash settled derivatives. The Bank does not maintain cash resources to meet all of these needs, as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty. The management sets limits on the minimum proportion of maturing funds available to meet such calls and on the minimum level of interbank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand.

In addition, the Bank limits its loan to deposit ratio at below 75% as required by the PBOC. At 31 December 2006, the Bank was required to maintain reserve equal to 9% of the total RMB denominated deposits and 4% of the total foreign currency denominated deposits with the PBOC.

The matching and controlled mismatching of the maturities of assets and liabilities is fundamental to the management of the Bank. It is unusual for banks ever to be completely matched since business transactions are often of uncertain terms and of different types. An unmatched position potentially enhances profitability, but also increases the risk of losses.

The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature are important factors in assessing the liquidity of the Bank and its exposure to changes in interest rates and exchange rates.

The Bank provides guarantees and issues letters of credit based on a third party's creditworthiness and deposit amount. Liquidity requirements to support calls under guarantees and letters of credit are considerably less than the amounts under commitments because the Bank does not generally expect the third party to draw funds under those agreements. The total outstanding contractual amount of commitments to extend credit does not necessarily represent future cash requirements, since many of these commitments will expire or terminate without being funded.

7. Fair values of financial assets and liabilities

Fair value estimates are made at a specific point in time based on relevant market information and information about the various financial instruments. The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value.

(1) Cash and due from other banks and financial institutions, Deposit with the PBOC, due to other banks and financial institutions

Given that maturities and repricing of these financial assets and liabilities are less than one year, the carrying amount approximates fair value.

Notes to the Special-purpose Financial Statements (International)

(2) Loans and advances to customers

The carrying amount of loans and advances to customers is a reasonable estimate of fair value because interest rates are tied to the central bank rates and are adjusted when the central bank announces interest rate changes.

(3) Investment securities

The fair value of securities is based on bid market price, if available. If a quoted market price is not available, fair value is estimated using the methods as described in Notes II.6.

(4) Customer deposits

The fair value of checking, savings and money market accounts and other deposits with no stated maturity is the amount payable on demand at the reporting date. The estimated fair value of fixed interest-bearing deposits and placements without quoted market price is based on discounted cash flows using interest rates for new debt issuance with similar remaining maturities.

(5) Resale and repurchase agreements

The underlying of resale and repurchase agreements comprise investment securities, discounted bills and loans to customers. The fair value of those short-term financing arrangements approximates their carrying value.

The estimated fair values of the Bank's financial instruments, of which the respective carrying values are different are summarized as follows:

	Carrying value At 31 December 2006	Fair value At 31 December 2006
Financial assets		
Investment securities		
- loans and receivables	746,158	737,201
- held-to-maturity	7,435,829	7,420,737
Financial liabilities		
Customer deposits	63,702,050	63,537,833

8. Fiduciary activities

The Bank provides custody, entrusted loan administration, trustee and investment management services to third parties. Assets that are held in a fiduciary capacity are not included in these special purpose financial statements. As at 31 December 2006, the Bank had a balance of entrusted loans of approximately RMB 1,548 million.

Notes to the Special-purpose Financial Statements (International)

IV. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

The Bank makes estimates and assumptions that affect the reported amounts of assets and liabilities in the financial statements. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Areas susceptible to changes in essential estimates and judgements, which affect the carrying value of assets and liabilities, are set out below. It is impracticable to determine the effect of changes to either the key assumptions discussed below or other estimation uncertainties. It is possible that actual results may be materially different to the estimates referred to below.

Allowance for impairment losses on loans and advances

The Bank reviews its loan portfolios to assess impairment, at least, on a quarterly basis. In determining whether an impairment loss should be recorded in the income statement, the Bank makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group (e.g. payment delinquency or default), or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when estimating expected future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Fair value of financial instruments

The fair value of financial instruments that are not quoted in active markets are determined by using valuation techniques. To the extent practical, models use only observable data, however, areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect reported fair value of financial instruments.

Held-to-maturity investments

The Bank follows the guidance of IAS 39 on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. This classification requires significant judgement. In making this judgement, the Bank evaluates its intention and ability to hold such investments to maturity. If the Bank fails to keep these investments to maturity other than for specific circumstances defined in IAS 39, for example, selling an insignificant amount close to maturity, it will be required to reclassify the entire class as available-for-sale. The investments would therefore be measured at fair value not amortised cost.

Income taxes

Significant estimates are required in determining the provision for income tax. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Bank recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. In

Notes to the Special-purpose Financial Statements (International)

particular, the deductibility of certain items in the PRC is subject to tax authority's approval. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred income tax provisions in the period during which such determination is made.

V. NOTES TO THE SPECIAL-PURPOSE FINANCIAL STATEMENTS

1. Net interest income

	2006
Interest income	
Loans	1,979,746
Deposit with the PBOC	81,831
Investment and trading securities	336,063
Due from other banks and financial institutions	119,184
Others	4,468
	2,521,292
Interest expense	
Due to customers	(657,023)
Due to other banks and financial institutions	(51,487)
Others	(4,294)
	(712,804)
Net interest income	1,808,488

Included in interest income is about 15.63 million with respect to interest income accrued on impaired financial assets.

2. Net fee and commission income

	2006
Fee and commission income	
Settlement and clearing fees	20,130
Agency commissions	14,642
Bank card fees	2,472
Custodian and other fiduciary service fees	4,188
Others	4,815
	46,247
Fee and commission expense	
Brokerage fees paid	(11,105)
Other fees paid	(13,386)
	(24,491)
Net fee and commission income	21,756

Notes to the Special-purpose Financial Statements (International)

3. Other operating income, net

	2006
Net foreign exchange gain	1,951
Net gains less losses on disposal of property, plant and equipment	21
Rental income	4,695
Gain from clearing of dormant customer deposit	4,583
Gains less losses on disposal of foreclosed assets	3,140
Others	3,301
	17,691

4. Impairment losses on loans and advances

	2006
Impairment allowance for loans to corporations (Note V.13)	(15,929)
Write-back of impairment provision for loans to individuals	4,890
	(11,039)

5. Other operating expense

	2006
Staff costs (Note V.6)	(361,105)
General operating and administrative expenses	(330,560)
Business and other taxes	(117,469)
Depreciation of property, plant and equipment (Note V.15)	(84,252)
Amortisation of intangible assets and other long-term assets	(8,125)
Operating lease rentals	(14,033)
Others	(26,705)
	(942,249)

6. Staff costs

	2006
Salaries and welfare	(243,386)
Housing funds	(32,765)
Other social security costs	(84,954)
	(361,105)

Notes to the Special-purpose Financial Statements (International)

7. Income tax expense

The Bank is incorporated and operates in the PRC, and is only subject to PRC income tax. The income tax has been provided at the rate of 33%.

Taxation in the income statement represents:

	2006
Current income tax	(230,877)
Deferred tax expense (Note V. 16)	(110,970)
	(341,847)

The tax expense on profit differs from the amount that would arise using the PRC standard rate of income tax as follows:

	2006
Profit before income tax	901,800
Provision for income tax calculated at a rate of 33%	(297,594)
Effect of income not subject to tax	64,246
Effect of expenses not deductible for tax purposes	(108,499)
Income tax expense	(341,847)

8. Earnings per share

Basic and diluted earnings per share is calculated by dividing the net profit attributable to ordinary shares by the weighted average number of ordinary shares in issue. There were no dilutive potential ordinary shares.

	2006
Net profit attributable to ordinary shares	559,953
Weighted average number of ordinary shares in issue	2,243,196
Basic and diluted earnings per share (Rmb per share)	0.25

Notes to the Special-purpose Financial Statements (International)

9. Cash and due from other banks and financial institutions

(a) Cash and due from other banks and financial institutions

	31 December 2006
Cash	463,710
Placement with other banks maturing less than three months from acquisition date	400,902
Included in cash and cash equivalents (Note V.26)	864,612
Bills rediscounted from other banks	1,474,058
Loans to other banks and financial institutions	125,178
Less: Allowance on impairment losses for loans to other banks and financial institutions	(41,756)
	2,422,092

(b) Movement of allowance on impairment losses for loans to other banks and financial institutions is as follows:

	2006
At the beginning of year	(41,756)
Impairment losses	-
At the end of year	(41,756)

10. Deposits with the PBOC

	31 December 2006
Restricted reserve deposits with the PBOC	5,034,620
Balances with the PBOC other than restricted reserve deposits (Note V.26)	4,096,472
	9,131,092

The Bank is required to place reserve deposits with the PBOC. The amount of these reserve deposits is calculated based on the amount of deposits placed with the Bank by its customers. The reserve rates for deposits denominated in RMB and foreign currencies are 9 % and 4% respectively at 31 December 2006.

Restricted reserve deposits are not available for use by the Bank in its day-to-day operations.

Notes to the Special-purpose Financial Statements (International)**11. Investment securities and other assets at fair value**

	31 December 2006
Trading securities	
Government bonds	513,636
Other assets at fair value through profit or loss Structured deposits	157,580
	671,216

12. Securities, bills and loans purchased under resale agreements, net**(a) Securities, bills and loans purchased under resale agreements**

	31 December 2006
Securities purchased under resale agreements	131,951
Bills purchased under resale agreements	1,230,724
Loan purchased under resale agreements	400,200
Less: Allowance on impairment losses for securities purchased under resale agreements	(6,990)
	1,755,885

(b) Movement of allowance on impairment losses for security purchased under resale agreements is as follows:

	2006
Balance at 1 January	(6,990)
Impairment losses	-
Balance at 31 December	(6,990)

13. Loans, net**(a) Loans and advances to customer**

	31 December 2006
Loans to corporate customers	39,053,026
Loans to individuals	4,458,489
Accrued interest receivable	77,180
	43,588,695
Less: Allowance on impairment losses for loans and advances	(1,185,253)
Loans, net	42,403,442

Notes to the Special-purpose Financial Statements (International)

(b) Movement in the provision for impairment on loans and advances is as follows:

	2006
At 1 January	(1,322,615)
Provision for loan impairment (Note V.4)	(15,929)
Loans written off	137,662
Unwind of discount on allowance	15,629
At 31 December	(1,185,253)

14. Investment securities

(a) Investment securities

	31 December 2006
Securities classified as loans and receivables (at amortised cost)	
- Government bonds	746,158
Securities classified as available-for-sale (at fair value)	
- Government bonds	3,464,467
- Financial bonds	1,796,099
- Equity securities	33,528
Less: Allowance on impairment loss for equity securities	(7,834)
	5,286,260
Securities classified as held-to-maturity (at amortised cost)	
- Government bonds	2,141,664
- Financial bonds	4,586,980
- Corporate bonds	707,185
	7,435,829
Total	13,468,247

(b) Movements in the provision for impairment on investment securities and Investment securities are as follows:

	2006
At 1 January	(7,834)
Impairment losses	-
At 31 December	(7,834)

Notes to the Special-purpose Financial Statements (International)

	Loans and receivables	Available-for-sale	Held-to-maturity	Total
At 1 January 2006	553,163	4,111,066	4,038,700	8,702,929
Additions	296,816	1,632,433	5,270,319	7,199,568
Sale and redemption	(103,821)	(516,830)	(1,873,190)	(2,493,841)
Gains on changes in fair value	-	59,591	-	59,591
At 31 December 2006	746,158	5,286,260	7,435,829	13,468,247

The Bank did not dispose of any held to maturity investment securities during 2006. These securities are all redeemed upon maturity.

15. Property, plant and equipment

	31 December 2006
Cost	1,052,630
Accumulated depreciation	(275,022)
Net book value	777,608
Construction in progress	103,410
	881,018

Year 2006	Buildings	Motor Vehicles	Electronic and other equipment	Total
Cost				
At 1 January 2006	617,025	56,368	149,760	823,153
Add: Transfer from construction in progress	109,023	-	74,710	183,733
Add: Other additions	29,198	818	21,245	51,261
Less: Disposals	(5,169)		(348)	(5,517)
At 31 December 2006	750,077	57,186	245,367	1,052,630
Accumulated depreciation				
At 1 January 2006	(97,763)	(20,475)	(74,196)	(192,434)
Add: Additions	(39,702)	(10,041)	(34,509)	(84,252)
Less: Disposals	1,346	-	318	1,664
At 31 December 2006	(136,119)	(30,516)	(108,387)	(275,022)
Net book value				
At 31 December 2006	613,958	26,670	136,980	777,608
At 31 December 2005	519,262	35,893	75,564	630,719

Notes to the Special-purpose Financial Statements (International)

As of 31 December 2006, the Bank has not obtained land use right certificates for buildings amounting to 449 million in original cost and 360 million in net book value, has not obtained building ownership certificates for buildings amounting to 199 million in original cost and 168 million in net book value, and has obtained neither land use right certificates nor building ownership certificates for buildings amounting to 199 million in original cost and 168 million in net book value.

The Bank is of the view that the absence of such title certificates will not impact business operation in related buildings and will not have material impact to the Bank's financial statements. As of 31 December 2006, the Bank is in the process of applying for such certificates.

The movement in construction in progress is summarised as follows:

	2006
Balance at 1 January	194,372
Additions	92,771
Transfer to other categories of property, plant and equipment	(183,733)
Balance at 31 December	103,410

16. Deferred income tax assets

Deferred income taxes are calculated on all temporary differences under the liability method using an effective tax rate of 33% (Note V.7).

The movement in the net deferred income tax account is as follows:

	2006
At 1 January	370,954
Income statement charge (Note V.7).	(110,970)
Available-for-sale securities fair value re-measurement	(19,665)
At 31 December	240,319

Net deferred income tax assets consist of the following items:

	31 December 2006
Provision for impaired loans and other assets	274,493
Subtotal of deferred tax assets	274,493
Fair value measurement of available-for-sale securities	(25,780)
Fair value measurement of trading securities	(8,394)
Subtotal of deferred tax liabilities	(34,174)
Deferred tax assets, net	240,319

Notes to the Special-purpose Financial Statements (International)**17. Other assets**

	31 December 2006
Foreclosed assets	110,283
Other receivables	56,130
Long term deferred assets	14,729
Land use rights	76,394
Others	38,277
	295,813

18. Due to other banks and financial institutions

	31 December 2006
Deposits from other banks and financial institutions	711,580
Loan from other banks and financial institution	754,572
	1,466,152

19. Due to customers

	31 December 2006
Corporate demand deposits	33,925,744
Corporate time deposits	8,106,624
Individual demand deposits	6,453,653
Individual time deposits	7,903,232
Pledged deposits	6,947,793
Other deposits	163,145
Accrued interest payable	201,859
	63,702,050

Included in pledged deposits were deposits of 264 million held by the Bank as collateral for commitments under letters of credit and letter of guarantee, and 6,085 million held by the Bank as collateral for commitments of bank acceptances issued.

20. Securities and bills sold under repurchase agreements

	31 December 2006
Securities sold under repurchase agreements	1,190,594
Bills sold under repurchase agreements	1,235,440
	2,426,034

Notes to the Special-purpose Financial Statements (International)

21. Other liabilities

	31 December 2006
Settlement suspense	63,112
Payable to high management for acquisition of share	76,363
Dividends payable	48,539
Staff payroll and welfare payable	147,718
Early retirement obligation (Note V. 24)	58,871
Income tax payable	156,104
Dormant customer account	15,549
Payable of business tax and other tax	50,038
Advances received from Ministry of Finance (" MOF ") for the redemption of government bonds	105,371
Others	147,835
	869,500

22. Share capital and capital surplus

	Number of shares issued (thousands)	Paid-in capital	Capital surplus	Total
At January 2006	2,114,309	2,114,309	-	2,114,309
At 31 December 2006	2,773,637	2,773,637	31,500	2,805,137

The number of issued shares at 31 December 2006 was 2,773,637 thousand with a par value of RMB 1 per share. All issued shares were fully paid.

Generally, transactions of the following nature are recorded in the capital surplus account:

- (i) Share premium arising on the issue of shares at prices in excess of their par value;
- (ii) Donations received from shareholders;
- (iii) Any other items required by the PRC regulations to be so treated.

Amounts in the capital surplus can be utilised to offset prior year's losses or for issue of bonus shares or for increasing paid up capital with the approval from the Board of Directors.

23. Reserves and retained earning

In accordance with the PRC regulations, 10% of the net profit of the Bank, as determined under the PRC accounting regulations, is required to be transferred to a non-distributable statutory reserve until this reserve reached 50% of the share capital of the Bank.

Notes to the Special-purpose Financial Statements (International)

Pursuant to Circulars No.49 and No.90 issued by MOF in 2005 (the "MOF Circulars"), effective from 1 July, 2005, banks and certain other financial institutions in the PRC, are required to maintain adequate allowances for impairment losses against their risk assets as defined. In addition, a general reserve should be established and maintained within shareholders' equity through the appropriation of retained earnings. This general reserve should form part of the shareholders' equity of financial institutions. As a guiding principle Caijin[2005] No.49, the balance of general reserve should not be less than 1% of the aggregate amount of all risk assets. Financial institutions should not distribute profit to shareholders before adequate allowance for loan impairment and general reserve is established.

The appropriation of profit to the discretionary accumulation reserve is based on the recommendations of the Board of Directors and is subject to the passing of resolutions to be considered at the Shareholders' Meeting. Discretionary accumulation reserve can be utilized to offset prior year's loss or for increasing paid up capital. Board of Directors and Shareholders' meetings related with 2006 profit appropriation have been not hold yet, so discretionary accumulation reserve is not presented in financial statements end with 31 December 2006.

Revaluation reserve for available-for-sale securities

	2006
At 1 January	12,416
Gains from changes in fair value	59,591
Deferred income taxes (Note V.16)	(19,665)
At 31 December	52,342

24. Retirement benefit obligations

The Bank participates in a defined contribution retirement benefit plan organized by the Anhui provincial Municipal Government of each districts under which it is required to make monthly contributions to the plan at certain rate (18%-24%) of the employees' basic salary for the relevant periods. The Bank's contributions to these pension plans are charged to the income statement in the year to which they relate. Expenses incurred by the Bank in connection with the retirement benefit plan amounted to 32,765 thousand for the year ended 31 December 2006.

At 31 December 2006, the Bank's liabilities to its employees who accepted the early retirement arrangement amounted to 58,871 thousand which was included in "other liabilities." The movement of it is as follows:

	2006
At beginning of year	59,550
Amount expensed	-
Contributions paid	(679)
At the end of year	58,871

Notes to the Special-purpose Financial Statements (International)

25. Contingent liabilities and commitments

(1) Legal proceedings

There were no significant legal proceedings outstanding against the Bank at 31 December 2006.

(2) Operating lease commitments

Future minimum lease payments under non-cancelable operating leases in respect of buildings are as follows:

	31 December 2006
Within 1 year	14,377
Above 1 year and within 5 years	35,379
Above 5 years	3,888
	53,644

(3) Long commitment, guarantee and other financial facilities

	31 December 2006
Loan commitment	371,600
Acceptances	8,004,513
Letters of credit issued	181,638
Letters of guarantee issued	1,151,992
	9,709,743

(4) Bearer treasury bonds redemption commitments

The Bank is entrusted by the MOF to underwrite certain Certificate Treasury Bonds. The investors of Certificate Treasury Bonds have a right to redeem the bonds at par any time prior to maturity and the Bank is committed to redeem those bonds. The redemption price is the principal value of the Certificate Treasury Bonds plus unpaid interest.

The Bank's redemption commitments, representing the principal value of the bonds underwritten and sold by the Bank, amounted to 2,596 million as at 31 December 2006 and 2005 respectively. The original maturities of these bonds vary from 3 to 5 years.

The MOF will not provide funding for the early redemption of these Certificate Treasury Bonds on a back-to-back basis but will pay interest through maturity and repay the principal at maturity.

Notes to the Special-purpose Financial Statements (International)**(5) Assets pledged**

	31 December 2006
For Repos and loan from financial institutions:	
Bills rediscounted from other banks	1,243,451
Trading securities	458,785
Available-for-sale investment securities	1,460,949
Held-to-maturity investment securities	1,216,152
	4,379,337

These assets are pledged as collateral under repurchase agreements with other banks or loan from financial institutions.

Mandatory reserve deposits are also held with the PBOC in accordance with statutory requirements (Note V.10). These deposits are not available to finance the Bank's day-to-day operations.

26. Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise the following balances with no more than three months' maturity from the date of acquisition:

	31 December 2006
Cash and due from other banks and financial institutions (Note V.9)	864,612
Deposits with the PBOC (Note V.10)	4,096,472
	4,961,084

27. Post balance sheet event

On 16 March 2007, the National People's Congress approved the PRC Corporate Income Tax Law (2007). Most significantly, this legislation reduces the corporate tax rate for domestic enterprises from 33% to 25%. Prospectively, from 2008, this reduction of 8% will directly affect the Bank's effective tax rate, which was 38% for the year ended 31 December 2006.

This tax rate reduction will also affect the carrying value of the Bank's net deferred tax assets, which were 245 million at 31 December 2006. The Bank's net deferred tax assets, which were calculated based on realisation at 33%, will be written down to reflect realisation at 25% in the future. This write-down will occur during 2007 as IAS 12 requires deferred tax items to be recorded in the balance sheet at "enacted" tax rates, upon approval by the National People's Congress. The Bank has performed a preliminary assessment and estimates the write-down to that it will be approximately 56.42 million.

Among other things, this new legislation also significantly increases the deductibility to staff salary expense for all PRC companies.



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