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## THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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If you are in any doubt as to any aspect of this circular or as to the action to be taken, you shall consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in China Merchants Bank Co., Ltd., you shall at once hand this circular to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

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### DISCLOSEABLE AND CONNECTED TRANSACTION

**Independent Financial Adviser  
to the Independent Board Committee and the Independent Shareholders**



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A letter from the board of Directors of China Merchants Bank Co., Ltd. is set out on pages 4 to 11 of this circular. A letter from the Independent Board Committee of China Merchants Bank Co., Ltd. in respect of the Transactions is set out on pages 12 to 13 of this circular. A letter from BOCOM International containing its advice to the Independent Board Committee and the Independent Shareholders of China Merchants Bank Co., Ltd. is set out on pages 14 to 23 of this circular.

The Company will convene the AGM at 9:00 a.m. on Friday, 27 June 2008 at the Conference Room, 5/F., China Merchants Bank Tower, No. 7088 Shennan Boulevard, Shenzhen, PRC, at which, among other things, the Share Transfer Agreement and the Transaction contemplated thereby will be considered. The notice of AGM will be issued to Shareholders of the Company separately.

Whether or not you are able to attend, you should complete and return the proxy form in accordance with the instructions printed thereon and return it to Computershare Hong Kong Investor Services Limited at Rooms 1806-07, 18/F., Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, as soon as possible and in any event by not later than 24 hours before the time appointed for holding such meeting or any adjournment thereof.

Completion and return of the form of proxy will not preclude you from attending and voting at the AGM should you so wish.

13 May 2008

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## DEFINITIONS

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*In this circular, unless the context otherwise requires, the following expressions have the following meanings:*

“AGM”	the annual general meeting of the Company to be held at the Conference Room, 5/F., China Merchants Bank Tower, No. 7088 Shennan Boulevard, Shenzhen, PRC on Friday, 27 June 2008 at 9:00 a.m. to approve, inter alia, the Share Transfer Agreement and the Transaction contemplated thereby
“associates”	has the meaning ascribed to it in the Listing Rules
“Board”	the board of Directors of the Company
“BOCOM International” or “Independent Financial Adviser”	BOCOM International (Asia) Limited, a corporation registered under the SFO to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) Regulated Activities, is the independent financial adviser to the Independent Board Committee and Independent Shareholders with regard to the Share Transfer Agreement and the Transaction contemplated thereby
“CBRC”	the China Banking Regulatory Commission
“CIGNA & CMC Life Insurance”	means CIGNA & CMC Life Insurance Company Limited, 招商信諾人壽保險有限公司, a company incorporated in the PRC on 4 August 2003
“CIRC”	the China Insurance Regulatory Commission
“Closing”	the closing of the Transaction
“CM Steam Navigation”	招商局輪船股份有限公司 (China Merchants Steam Navigation Co., Ltd.), a substantial shareholder and promoter of the Company
“CM Group”	招商局集團有限公司 (China Merchants Group Limited) and its subsidiaries and associates
“Company”	招商銀行股份有限公司 (China Merchants Bank Co., Ltd.), a joint stock company incorporated in the PRC with limited liability and the H Shares of which are listed on the main board of the Stock Exchange

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## DEFINITIONS

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“connected persons”	has the meaning ascribed to it in the Listing Rules
“Dingzun”	means 深圳市鼎尊投資諮詢有限公司 (Shenzhen Municipal Dingzun Investment Advisory Company, Ltd.), a company incorporated in the PRC with limited liability on 21 October 1999
“Directors”	the members of the Board
“H Shares”	overseas listed shares of RMB1.00 each in the share capital of the Company which are listed on the Stock Exchange and traded in Hong Kong dollars
“Hong Kong Listing Rules”	the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange
“Independent Board Committee”	an independent board committee of the Company comprising of all the Independent Directors
“Independent Directors”	the independent non-executive Directors of the Company, who are invited to advise the Independent Shareholders in connection with the Transaction
“Independent Shareholders”	Shareholders of the Company other than CMG Group and its associates
“Latest Practicable Date”	5 May 2008, being the latest practicable date prior to the printing of this circular for ascertaining certain information in this circular
“PRC” and “China”	the People’s Republic of China, excluding, for the purpose of this circular only, Hong Kong Special Administrative Region, Macau Special Administrative Region and Taiwan
“RMB”	Renminbi, the lawful currency of the PRC
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share Transfer Agreement”	means the share transfer agreement dated 5 May 2008 entered into between Dingzun and the Company relating to the Transaction

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## DEFINITIONS

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“Share(s)”	the H Shares and domestic Shares of the Company
“Shareholder(s)”	holder(s) of the Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiaries”	has the meaning ascribed to it in the Hong Kong Listing Rules
“Transaction”	the transfer by Dingzun to the Company of its 50% equity interests in CIGNA & CMC Life Insurance

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LETTER FROM THE BOARD

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招商銀行股份有限公司  
**CHINA MERCHANTS BANK CO., LTD.**

*(a joint stock company incorporated in the People's Republic of China with limited liability)*  
(Stock Code: 3968)

*Executive Directors:*

Ma Weihua  
Zhang Guanghua  
Li Hao

*Registered address:*

China Merchants Bank Tower  
No. 7088 Shennan Boulevard  
Shenzhen 518040  
PRC

*Non-executive Directors:*

Qin Xiao  
Wei Jiafu  
Fu Yuning  
Li Yinquan  
Hong Xiaoyuan  
Ding An Hua Edward  
Sun Yueying  
Wang Daxiong  
Fu Junyuan

*Principal place of business*

*in Hong Kong:*  
21st Floor, Bank of America Tower  
12 Harcourt Road  
Central  
Hong Kong

*Independent Non-executive Directors:*

Wu Jiesi  
Yan Lan  
Yi Xiqun  
Chow Kwong Fai, Edward  
Liu Yongzhang  
Liu Hongxia

13 May 2008

*To the Shareholders*

Dear Sir or Madam,

**DISCLOSEABLE AND CONNECTED TRANSACTION**

**1. INTRODUCTION**

Reference is made to the announcement of the Company dated 5 May 2008 in relation to the discloseable and connected transaction with Dingzun.

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## LETTER FROM THE BOARD

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The purpose of this circular is to provide you with information necessary to enable you to make an informed decision on whether to vote for or against, among other things, the ordinary resolutions to be proposed at the AGM relating to the approval of the Share Transfer Agreement and the Transaction contemplated thereby.

### 2. DISCLOSEABLE AND CONNECTED TRANSACTION

#### A. Introduction

After trading hours on 5 May 2008, the Company entered into the Share Transfer Agreement with Dingzun, pursuant to which the Company agreed to acquire from Dingzun its 50% equity interest in CIGNA & CMC Life Insurance for a consideration of RMB141,865,000.

CM Steam Navigation, a wholly owned subsidiary of CM Group, is one of the promoters and a substantial shareholder of the Company. CM Group is an indirect controlling shareholder of Dingzun which in turn holds 50% equity interest in CIGNA & CMC Life Insurance. Dingzun is therefore a connected person of the Company under the Hong Kong Listing Rules. The Transaction contemplated by the Share Transfer Agreement constitutes a connected transaction to the Company, which are subject to Independent Shareholders' approval pursuant to Rule 14A.18 of the Hong Kong Listing Rules.

#### B. Share Transfer Agreement

Date:	5 May 2008
Parties:	(1) Dingzun as vendor (2) the Company as purchaser
Interest to be acquired:	equity interests representing 50% of the registered capital of CIGNA & CMC Life Insurance
Consideration:	The consideration for the purchase of 50% equity interests in CIGNA & CMC Life Insurance is RMB141,865,000

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## LETTER FROM THE BOARD

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Conditions Precedent:

Closing is subject to the satisfaction or waiver of the following conditions:

- (1) the Independent Financial Adviser has advised the Independent Directors that the terms and conditions of the Transaction contemplated by the Share Transfer Agreement are fair and reasonable so far as the Independent Shareholders are concerned;
- (2) the Independent Directors recommended that the Independent Shareholders vote in favour of the Transaction;
- (3) the parties of the Transaction have obtained all necessary approvals (including but not limited to the approvals and consents from the CBRC and CIRC) as stipulated by the applicable PRC laws and the parties' respective articles of association;
- (4) there are no proceedings, orders or actions taken out or issued by any PRC government agencies or third parties where such proceedings, orders or actions will materially restrict or prohibit the conduct of the Transaction;
- (5) the existing shareholder of CIGNA & CMC Life Insurance has agreed to waive its pre-emptive right regarding the Transaction contemplated by the Share Transfer Agreement

Completion:

Closing shall take place on a date to be agreed between the parties, after the conditions having been satisfied or waived (only in respect of items (4) and (5) above)



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## LETTER FROM THE BOARD

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### C. Information Regarding CIGNA and CMC Life Insurance

CIGNA & CMC Life Insurance was incorporated on 4 August 2003, with a registered capital of RMB320 million to-date. The principal business of CIGNA and CMG Life Insurance includes the life insurance, accidents and health insurance products. Under the PRC laws, the participation in and operation of such business is subject to approval by the CBRC and CIRC.

The following sets out the net asset value of CIGNA & CMC Life Insurance as at 30 June 2007 and 31 December 2007, and the audited and unaudited net profits of CIGNA & CMC Life Insurance before and after taxation for the years ended 31 December 2006 and 31 December 2007, respectively, all prepared in accordance with PRC accounting standards:

Net Asset Value		Net Profits (losses)		Net Profits (losses)	
as at	as at	before taxation		after taxation	
30 June	31 December	2007	2006	2007	2006
2007	2007	2007	2006	2007	2006
(audited)	(unaudited)	(unaudited)	(audited)	(unaudited)	(audited)
<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
<i>(millions)</i>	<i>(millions)</i>	<i>(millions)</i>	<i>(millions)</i>	<i>(millions)</i>	<i>(millions)</i>
232	285	40.10	(14.72)	40.10	(14.72)

After Closing, the Company shall hold 50% equity interest in CIGNA & CMC Life Insurance which will become a non-wholly subsidiary of the Company. The future financial statements of CIGNA & CMC Life Insurance will be consolidated into the Company's financial statements after Closing. The other shareholder of CIGNA & CMC Life Insurance is Life Insurance Company of North America, a CIGNA Company.

Pursuant to the relevant constitutive documents of CIGNA & CMC Life Insurance, the sale or purchase of the shares in CIGNA & CMC Life Insurance by its shareholders is subject to obtaining approval from the CIRC. After Closing, the board of CIGNA & CMC Life Insurance will comprise a total of 6 directors, of which the Company shall be entitled to appoint 3 directors, one of whom will be the chairman of the board, whilst the other shareholder shall be entitled to appoint the other 3 directors.

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## LETTER FROM THE BOARD

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### **D. Basis of Determination of Consideration under the Share Transfer Agreement**

The total consideration of RMB141,865,000 under the Share Transfer Agreement was determined after arm's length negotiation between the Company and Dingzun by reference to (i) the corresponding portion in the net asset value of CIGNA & CMC Life Insurance as at 30 June 2007 audited and 31 December 2007 unaudited; (ii) the transaction costs of the Company in the Transaction; and (iii) the satisfactory business results of CIGNA & CMC Life Insurance. Further, given that the Company has been conducting agency services relating to the sale of insurance products with CIGNA & CMC Life Insurance (please refer to the Company's announcement dated 23 January 2008) and that there has been an increasing demand for insurance products during the past few years, the Board is of the view that the business potential of CIGNA & CMC Life Insurance will continue to be promising. On this basis, the Board considers the basis of determination of the consideration to be fair and reasonable. Save for the aforesaid, there were no other prior transactions between the Company and Dingzun which may require aggregation under Rule 14A.25 of the Hong Kong Listing Rules.

The total consideration under the Share Transfer Agreement shall be payable by the Company in cash within 3 months after the Share Transfer Agreement becoming effective. The consideration will be funded by the Company's internal financial resources.

### **E. Reasons for Entering into the Transaction**

The participation in insurance business is in line with the Company's strategic development policy. Such measure will further improve the Company's income structure. The Company expects that the service fees and income to be derived from sale of insurance products will provide a steady non-interest income to the Company. The participation in insurance business realizes the Company's commitment of providing comprehensive services to customers, thereby increasing the Company's competitive edge. The Company believes that the participation in insurance business will enlarge the Company's customer base and operation scope that will better serve the customers' diversified needs. In addition, CIGNA & CMC Life Insurance is an insurance company operated in sizeable scale jointly with CIGNA Company. With the joint venture partner's enriched experience and expertise in the field, CIGNA & CMC Life Insurance has an advantageous position in banking insurance in its quality insurance services. Therefore, in line with the Company's strategic development policy for provision of a comprehensive banking service, the Transaction will enable the Company to broaden operation channels, enhance business structure, reinforce income base and further increase the competitiveness of the Company.

The Directors are of the view that the Share Transfer Agreement has been entered into on normal commercial terms in the ordinary and usual course of business of the Company and the terms of the Share Transfer Agreement are fair and reasonable and in the interests of the Company and its shareholders as a whole.

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## LETTER FROM THE BOARD

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### **F. Financial Effects of the Transaction on the Company's Earnings, Assets and Liabilities**

Upon completion of the Transaction, the financial results of CIGNA & CMC Life Insurance will be consolidated into the Company's financial statements. The Company's earnings, assets and liabilities will increase as a result of consolidation of the financial statements of CIGNA & CMC Life Insurance. Since the increase in earnings, assets and liabilities as a result of the acquisition of the equity interest in CIGNA & CMC Life Insurance is trivial as compared to the Company's overall earnings, assets and liabilities, the Directors are of the view that the acquisition of the 50% equity interest in CIGNA & CMC Life Insurance by the Company will have no material financial effects on the Company.

### **G. Implications Under the Hong Kong Listing Rules**

As certain applicable percentage ratios in respect of the Transaction is more than 5% but less than 25%, the Transaction, therefore, constitutes a discloseable and connected transaction of the Company for the purpose of the Hong Kong Listing Rules. The Transaction is subject to the disclosure requirements under Chapter 14 of the Hong Kong Listing Rules and the reporting and announcement requirements set out in Rules 14A.45 to 14A.47 of the Hong Kong Listing Rules as well as the Independent Shareholders' approval requirements of Chapter 14A of the Hong Kong Listing Rules.

### **H. The AGM**

Pursuant to Rule 14A.18 of the Listing Rules, the Company shall obtain the Independent Shareholders' approvals of the Share Transfer Agreement and the Transaction as contemplated thereby. The AGM will be held for considering and approving, inter alia, the Share Transfer Agreement and the Transaction as contemplated thereby by the Independent Shareholders. Through CM Steam Navigation and its affiliates, CM Group currently holds approximately 2,599,932,810 A Shares, representing 17.68% equity interest, in the Company. CM Group and its associates will abstain from voting in relation to the resolution approving the Share Transfer Agreement and the Transaction as contemplated thereby at the AGM, at which the proposed resolution will be passed by way of an ordinary resolution and voting will be taken by way of a poll in accordance with the requirements of the Listing Rules.

Notice of the AGM, together with the proxy form, will be issued to the Shareholders separately. Whether or not you are able to attend, you should complete and return the proxy form in accordance with the instructions printed thereon not less than 24 hours before the time fixed for holding the AGM or any adjournment thereof (as the case may be) to Computershare Hong Kong Investor Service Limited at Rooms 1806-07, 18/F., Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong. Completion and return of the proxy form will not preclude you from attending the AGM and voting in person if you so wish.

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## LETTER FROM THE BOARD

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### **I. General**

The Company is a leading retail bank in China, with a market capitalization of approximately RMB556.9 billion as at 30 April 2008. As at 31 December 2007, the Company had approximately RMB1,310.552 billion in total assets, RMB654.417 billion in total loans and RMB943.534 billion in total deposit from customers.

Dingzun is a company incorporated in the PRC with limited liability. Its principal business includes information advisory services, provision of services relating corporate image design, corporate operation planning (exclusive of restricted projects) and setting up of investment enterprises.

### **J. Recommendation from the Independent Board Committee**

Your attention is drawn to the letter from the Independent Board Committee to the Independent Shareholders of the Company, which is set out on pages 12 to 13 of this circular, and which contains their recommendation in respect of the Share Transfer Agreement and the Transaction as contemplated thereby.

The letter of advice from BOCOM International to the Independent Board Committee and the Independent Shareholders on the fairness and reasonableness of the terms of the Share Transfer Agreement and the Transaction as contemplated thereby and whether the Share Transfer Agreement and the Transaction as contemplated thereby is in the interests of the Company and its shareholders as a whole is set out on pages 14 to 23 of this circular.

The Independent Board Committee, having taken into account the advice of BOCOM International, considers that the terms of the Share Transfer Agreement and the Transaction as contemplated thereby are fair and reasonable so far as the Independent Shareholders are concerned and that the Share Transfer Agreement and the Transaction as contemplated thereby are in the interests of the Company and its shareholders as a whole. Accordingly, it recommends that the Independent Shareholders vote in favour of the resolution to approve the Share Transfer Agreement and the Transaction as contemplated thereby.

### **3. RECOMMENDATION FROM THE BOARD**

The Directors are of the opinion that the Share Transfer Agreement and the Transaction contemplated thereby are in the best interests of the Company and the Shareholders as a whole, and accordingly recommend the Shareholders to vote in favour of such ordinary resolution to be proposed at the AGM.

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## LETTER FROM THE BOARD

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#### 4. OTHER INFORMATION

Your attention is drawn to the general information set out in the appendix to this circular.

Yours faithfully,  
By order of the Board  
**China Merchants Bank Co., Ltd.**  
**Qin Xiao**  
*Chairman*



招商銀行股份有限公司  
**CHINA MERCHANTS BANK CO., LTD.**

*(a joint stock company incorporated in the People's Republic of China with limited liability)*  
(Stock Code: 3968)

*Registered address:*  
China Merchants Bank Tower  
No. 7088 Shennan Boulevard  
Shenzhen 518040  
PRC

13 May 2008

*To the Independent Shareholders*

Dear Sir or Madam,

**DISCLOSEABLE AND CONNECTED TRANSACTION**

We, the Independent Board Committee of China Merchants Bank Co., Ltd., are advising the Independent Shareholders in connection with the Share Transfer Agreement and the Transaction contemplated thereby, details of which are set out in the letter from the Board contained in the circular ("Circular") of the Company to the Shareholders dated 13 May 2008, of which this letter forms part. Terms defined in the Circular shall have the same meanings when used herein unless the context otherwise requires.

Under the Listing Rules, the Transaction as contemplated by the Share Transfer Agreement constitute connected transaction to the Company. Accordingly, the conduct of Transaction as contemplated by the Share Transfer Agreement will require the approval of the Independent Shareholders at the AGM.

We wish to draw your attention to the letter of advice from BOCOM International set out on pages 14 to 23 of the Circular. We have discussed the letter and the opinion contained therein with BOCOM International.

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## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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Having considered, inter alia, the factors and reasons considered by, and the opinion of BOCOM International, as stated in its aforementioned letter, we consider the terms of the Share Transfer Agreement and the Transaction contemplated thereby to be fair and reasonable so far as the Independent Shareholders are concerned. We are of the view that the Share Transfer Agreement and the Transaction contemplated thereby are in the interests of the Company and its shareholders as a whole. Accordingly, we recommend that the Independent Shareholders vote in favour of the ordinary resolution to approve the Share Transfer Agreement and the Transaction contemplated thereby, as set out in the Notice of AGM to be issued to Shareholders of the Company separately.

Yours faithfully,

**Wu Jiesi, Yan Lan, Yi Xiqun,  
Chow Kwong Fai, Edward,  
Liu Yongzhang and Liu Hongxia**  
*Independent Non-Executive Directors*

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## LETTER FROM BOCOM INTERNATIONAL

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*The following is the text of a letter from BOCOM International (Asia) Limited to the Independent Shareholders and the Independent Board Committee prepared for the purpose of incorporation in this circular:*



13 May 2008

*To the Independent Board Committee and  
the Independent Shareholders of  
China Merchants Bank Co., Ltd.*

Dear Sirs,

### **DISCLOSEABLE AND CONNECTED TRANSACTION**

#### **INTRODUCTION**

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the terms of Share Transfer Agreement and the Transaction as contemplated thereby, particulars of which are set out in a circular to the Shareholders dated 13 May 2008 (the “Circular”) and in which this letter forms part. Unless the context requires otherwise, terms used in this letter shall have the same meanings as given to them under the definitions section of the Circular.

As set out in the letter from the Board contained in the Circular, CM Steam Navigation, a wholly owned subsidiary of CM Group, is one of the promoters and a substantial shareholder of the Company. CM Group is an indirect controlling shareholder of Dingzun which in turn holds 50% equity interest in CIGNA & CMC Life Insurance. As such, each of CM Group, CM Steam Navigation and Dingzun is therefore a connected person of the Company under the Hong Kong Listing Rules. Pursuant to Rule 14A.18 of the Hong Kong Listing Rules, the Transaction contemplated by the Share Transfer Agreement constitutes a connected transaction to the Company, which are subject to Independent Shareholders’ approval.

Accordingly, the Company will convene the AGM on 27 June 2008, among other things, to approve the Share Transfer Agreement and the Transaction as contemplated thereby. Pursuant to the Hong Kong Listing Rules, CM Group and its associates will abstain from voting in respect of the resolution approving the Share Transfer Agreement and the Transaction as contemplated thereby at the AGM. The voting at the AGM in relation to the resolution for approval by the Independent Shareholders to the Share Transfer Agreement and the Transaction as contemplated thereby will be taken by poll.

As certain applicable percentage ratios in respect of the Transaction (as defined in Rule 14.07 of the Hong Kong Listing Rules) exceed 5%, but less than 25%, the Transaction also constitutes a discloseable transaction of the Company under the Hong Kong Listing Rules.



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## LETTER FROM BOCOM INTERNATIONAL

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In this connection, the Circular containing, inter-alia, details of the terms of the Share Transfer Agreement and the Transaction as contemplated thereby, the recommendation from the Independent Board Committee and this letter, is despatched to the Shareholders. In particular, this letter will set out our recommendation to the Independent Board Committee and the Independent Shareholders as to whether the terms of the Share Transfer Agreement and the Transaction as contemplated thereby are fair and reasonable so far as the Independent Shareholders are concerned and whether the terms of the Share Transfer Agreement and the Transaction as contemplated thereby, are in the interests of the Company and its Shareholders as a whole.

### **BASIS OF OUR OPINION**

In formulating our opinion and recommendation, we have relied on the accuracy of the information and representations contained in the Circular and have assumed that all information and representations made or referred to in the Circular were true at the time they were made and continue to be true as at the date of the Circular. We have also assumed that all statements of belief, opinion and intention made by the Directors in the Circular were reasonably made after due enquiry. We consider that we have reviewed sufficient information to reach an informed view, to justify relying on the accuracy of the information contained in the Circular and to provide a reasonable basis for our opinion. We have no reason to suspect that any material facts have been omitted or withheld from the information contained or opinions expressed in the Circular nor to doubt the truth, accuracy and completeness of the information and representations provided to us by the Directors. Our opinion is based on the information and representations available to us as at the date of this letter. We have no obligation to update our opinion and recommendation to take into account circumstances and event occurring after the date of this letter. We have not, however, conducted an independent in-depth investigation into the affairs and the business of the Company, the CM Group, CM Steam Navigation, Dingzun and CIGNA & CMC Life Insurance.

### **PRINCIPAL FACTORS CONSIDERED**

In arriving at our opinion and recommendation in respect of the Share Transfer Agreement and the Transaction as contemplated thereby, we have taken into consideration the principal factors and reasons set out below:

#### **A. Background**

The Company is a leading retail bank in China with a market capitalization of approximately RMB557.5 billion as at 5 May 2008. As at 31 December 2007, the Company had approximately RMB1,310.55 billion in total assets, RMB654.42 billion in total loans and RMB943.53 billion in total deposit from customers. According to the financial report for the year ended 31 December 2007 (“2007 Annual Report”) of the Company, in light of the full opening-up of the financial market, the persisting marco-control policies and profound changes in market situations, it is one of the Company’s strategies to maximize its income base by increasing the proportion of non-interest income and to develop its fee-based businesses. Furthermore, as stated in the announcement of the Company dated 6 December 2007, one of the strategies of the Company is to place emphasis to promote the insurance agency services for its clients.

## LETTER FROM BOCOM INTERNATIONAL

As stated in the letter from the Board in the Circular, on 5 May 2008, the Company entered into the Share Transfer Agreement with Dingzun, pursuant to which the Company agreed to acquire 50% equity interest in CIGNA & CMC Life Insurance from Dingzun for a consideration of RMB141,865,000 (the "Consideration"). The Consideration under the Share Transfer Agreement shall be payable by the Company in cash within 3 months after the Share Transfer Agreement becoming effective. The Consideration will be funded by the Company's internal financial resources.

We also noted that the Transaction is subject to approvals obtaining from the CIRC pursuant to the relevant constitutive documents of CIGNA & CMC Life Insurance.

### *(i) Background information of CIGNA & CMC Life Insurance*

CIGNA & CMC Life Insurance was incorporated on 4 August 2003, with a registered capital of RMB320 million as at the Latest Practicable Date. Each of Dingzun and CIGNA Company holds 50% of the equity interest in CIGNA & CMC Life Insurance. The principal business of CIGNA & CMC Life Insurance includes the life insurance, accidents and health insurance products. Under the PRC laws, the participation in and operation of such business by the Company is subject to approval by the CBRC and the CIRC.

According to the announcements of the Company dated 6 July 2007, 6 December 2007 and 23 January 2008, the Company has been conducting agency services relating to the sale of insurance products of CIGNA & CMC Life Insurance during the past few years. The amount of insurance agency service fees received by the Company for the sale of the insurance products of CIGNA & CMC Life Insurance were approximately RMB980,000, RMB7,070,000 and RMB17,670,000 for the three years ended 31 December 2006 respectively.

### *(ii) Financial information of CIGNA & CMC Life Insurance*

The following sets out the audited net asset value of CIGNA & CMC Life Insurance as at 30 June 2007 and the unaudited net asset value of CIGNA & CMC Life Insurance as at 31 December 2007, and the audited and unaudited net profits of CIGNA & CMC Life Insurance before and after taxation for the years ended 31 December 2006 and 31 December 2007, respectively, all prepared in accordance with PRC accounting standards:

<b>Net Asset Value</b>		<b>Net Profits (losses)</b>		<b>Net Profits (losses)</b>	
<b>As at</b>	<b>As at</b>	<b>before taxation</b>		<b>after taxation</b>	
<b>30 June</b>	<b>31 December</b>	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
2007	2007	2007	2006	2007	2006
(audited)	(unaudited)	(unaudited)	(audited)	(unaudited)	(audited)
<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
<i>(Millions)</i>	<i>(Millions)</i>	<i>(Millions)</i>	<i>(Millions)</i>	<i>(Millions)</i>	<i>(Millions)</i>
232	285	40.10	(14.72)	40.10	(14.72)

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## LETTER FROM BOCOM INTERNATIONAL

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After Closing, the Company shall hold 50% equity interest in CIGNA & CMC Life Insurance which will become a non-wholly owned subsidiary of the Company and the future financial statements of CIGNA & CMC Life Insurance will be consolidated into the Company's financial statements.

### **B. Reasons for the Transaction**

The Directors are of the view that the participation in the insurance business is in line with the Company's strategic development policy. Such measure will further enhance the Company's income structure. The Company expects that the service fees and income to be derived from the sale of insurance products will provide a steady non-interest income to the Company. The participation in insurance business realizes the Company's commitment of providing comprehensive services to customers, thereby enhance the Company's competitive edge. The Company also believes that the participation in insurance business will enlarge the Company's customer base and operation scope that will better serve the customers' diversified needs. In addition, CIGNA & CMC Life Insurance is an insurance company operated in sizeable scale jointly with CIGNA Company, the Directors consider that with the joint venture partner's enriched experience and expertise in the insurance field, CIGNA & CMC Life Insurance has an advantageous position in the banking insurance in its quality insurance services. Therefore, the Directors consider that the Transaction is in line with the Company's development policy for provision of a comprehensive banking service and will enable the Company to broaden operation channels, enhance business structure, reinforce income base and further improve the competitiveness of the Company.

As stated in the 2007 Annual Report, the Company has been providing its retail customers with diversified retail banking products and services, including agency sale of insurance products. According to the announcement of the Company dated 6 December 2007 and the information provided by the Company, the insurance agency service fees generated from the sales of the insurance products from CIGNA & CMC Life Insurance was amounted to approximately RMB17.67 million and approximately RMB83.63 million for the year ended 31 December 2006 and 31 December 2007 respectively, representing an increase of approximately 3.7 times. We also noted in the interim report of the Company for the six months ended 30 June 2007 that one of strategies of the Company is to consolidate and expand high-end retail customers by providing quality service and innovative products, including insurance and fee-based business with the view to strive to adjust its income structure.

Given that the Company has been conducting agency services relating to the sale of insurance products from CIGNA & CMC Life Insurance during the past few years, the Company is familiar with the products of CIGNA & CMC Life Insurance. Moreover, as mentioned above, the sales generated from the sale of insurance products of CIGNA & CMC Life Insurance have been increasing during the past few years, we concur with the view of the Directors that the business potential of CIGNA & CMC Life Insurance will be continue to be promising.

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## LETTER FROM BOCOM INTERNATIONAL

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Taking into account the above reasons for the Transaction and the business strategies of the Company, we concur with the views of the Directors that the Transaction will add value to the Company's business and enhance its competitive edge and are of the view that the Transaction is consistent with the Company's stated business strategies. We therefore consider the Transaction is in the interests of the Company and its Shareholders as a whole.

### **C. Consideration**

Pursuant to the Share Transfer Agreement, the Consideration of RMB141,865,000 was determined after negotiation between the Company and Dingzun by reference to (i) the corresponding portion in the net asset value of CIGNA & CMC Life Insurance as at 30 June 2007 audited and 31 December 2007 unaudited; (ii) the transaction costs of the Company in the Transaction; and (iii) the satisfactory business results of CIGNA & CMC Life Insurance.

The Consideration under the Share Transfer Agreement shall be payable by the Company in cash within 3 months after Closing of Share Transfer Agreement. The consideration will be funded by the Company's internal financial resource.

To ascertain the fairness and reasonableness of the Consideration, we have conducted market comparison analysis and precedent transaction comparison.

#### *(i) Market comparison analysis*

In the market comparison analysis, we have conducted the ratio analysis namely price to book ratio ("PBR", being the share price divided by net asset value per share) and price to earnings ratio ("PER", being the share price divided by earnings per share). These two indicators are regarded as the common valuation methods to value a financial institution. As CIGNA & CMC Life Insurance mainly engaged in the provision of life insurance, accidents and health insurance products, we selected insurance companies listed in Hong Kong principally engaging in the life and general insurance business in Hong Kong and the PRC. Given the limited number of Hong Kong-listed insurance companies with operations in Hong Kong and the PRC, we have also considered listed insurance companies engaging in the life and general insurance business in selected relatively developed Asian Markets, including Singapore, Taiwan and Malaysia. To the best of our knowledge, we have identified 8 listed companies (the "Comparables") which have similar business as CIGNA & CMC Life

## LETTER FROM BOCOM INTERNATIONAL

Insurance. Set out below is the summary of the Comparables as at 5 May 2008 (being the date of the Share Transfer Agreement):

Stock Code	Name of Comparables	Places of listing	Principal businesses	PER Appr. (times) (Note 1)	PBR Appr. (times) (Note 2)
966	China Insurance International Holdings Co. Ltd	Hong Kong	Underwriting of all classes of non-life and life reinsurance business and direct life insurance business, asset management, holds money market, fixed income, equity and property investments	20.4	3.9
2318	Ping An Insurance (Group) Co. of China Ltd.	Hong Kong	Providing multiple financial services and products with a core insurance business	26.6	4.8
2628	China Life Insurance Co. Ltd	Hong Kong	Providing life insurance and annuity products	23.3	4.9
2823	China Life Insurance Co. Ltd	Taiwan	Providing life insurance and other insurance products	17.2	2.1
2833	Taiwan Life Insurance Co., Ltd.	Taiwan	Providing life insurance and other insurance products	21.4	2.5
2888	Shin Kong Financial Holding Co.,Ltd.	Taiwan	Providing life insurance and other insurance products	27.2	1.8
GE	Great Eastern Holdings Ltd.	Singapore	Operating life insurance business	15.0	2.5
MLI	Manulife Insurance (Malaysia) Berhad	Malaysia	Underwriting of life insurance business and general insurance operations	8.1	1.6
			Average	19.9	3.0
			High	27.2	4.9
			Low	8.1	1.6
			CIGNA & CMC Life Insurance		1.2 or (Note 4)
				7.1 (Note 3)	1.0 (Note 5)

Source: Bloomberg and the respective public financial information of the above listed companies (except for CIGNA & CMC Life Insurance).

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## LETTER FROM BOCOM INTERNATIONAL

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*Notes:*

- (1) The PER of the Comparables are calculated base on their respective closing prices on 5 May 2008 as quoted on the respective stock exchanges of the Comparables divided by the net profit after taxation disclosed in their respective latest published financial reports of the Comparables
- (2) The PBR of the Comparables are calculated base on their respective closing prices on 5 May 2008 as quoted on the respective stock exchanges of the Comparables divided by the net asset value disclosed in their respective latest published financial reports of the Comparables
- (3) Based on the Consideration divided by the corresponding portion in the unaudited net profit after taxation of CIGNA & CMC Life Insurance for the year ended 31 December 2007
- (4) Based on the Consideration divided by the corresponding portion in the audited net asset value of CIGNA & CMC Life Insurance as at 30 June 2007
- (5) Based on the Consideration divided by the corresponding portion in the unaudited net asset value of CIGNA & CMC Life Insurance as at 31 December 2007

From the above table, the PER of the Comparables ranged from approximately 8.1 times to approximately 27.2 times, with an average of approximately 19.9 times. The Consideration represents an implied PER of approximately 7.1 times the net profit after taxation of CIGNA & CM Life Insurance for the year ended 31 December 2007, which is slightly below the lowest range of the PER of the Comparables. The average PBR of the Comparables is approximately 3.0 times with a range from approximately 1.6 times to 4.9 times. The calculated PBR of approximately 1.2 times (based on the net asset value of CIGNA & CM Life Insurance as at 30 June 2007) or approximately 1.0 time (base on the net asset value of CIGNA & CM Life Insurance as at 31 December 2007) of the Transaction is slightly below the lowest end of the PBR of the Comparables.

*(ii) Precedent transactions comparison*

In our precedent transactions analysis, we have identified 3 completed transactions which involved the acquisition of the operations of insurance companies in Hong Kong (the “Precedent Transactions”). Accordingly, we have reviewed the information which is publicly available and that have been announced and completed. The following table sets out the relevant information of the Precedent Transactions:

<b>The target company (the “Target”)</b>	<b>Acquirer</b>	<b>Announcement Date</b>	<b>Operating geography of the Target</b>	<b>Principal businesses of the Target</b>	<b>PER (times) (Note 1)</b>	<b>PBR (times) (Note 2)</b>
Hang Seng Life Limited	Hang Seng Bank Limited (11.HK)	22 June 2007	Hong Kong	Life insurance services	15.2	2.6

## LETTER FROM BOCOM INTERNATIONAL

The target company (the "Target")	Acquirer	Announcement Date	Operating geography of the Target	Principal businesses of the Target	PER (times) <i>(Note 1)</i>	PBR (times) <i>(Note 2)</i>
Pacific Century Insurance Holding Limited ("PCI") (65.HK)	Fortis Insurance International	1 March 2007	Hong Kong	Life insurance services	21.7	2.4 <i>(Note 3)</i>
BOC Group Life Assurance Company Limited ("BOC Life")	BOC Hong Kong (Holdings) Limited (2388.HK)	11 April 2006	Hong Kong	Life insurance and asset management	12.6 <i>(Note 4)</i>	1.8
				Average	16.5	2.3
				High	21.7	2.6
				Low	12.6	1.8
CIGNA & CMC Life Insurance	The Company		PRC			1.2 <i>(Note 5)</i>
					7.1 <i>(Note 6)</i>	1.0 <i>(Note 6)</i>

*Source:* The circulars and public information of the above listed Companies (except for CIGNA and CMC Life Insurance)

*Notes:*

- (1) Except for BOC Life and CIGNA and CMC Life Insurance, the PER are calculated based on the acquisition price divided by the corresponding portion in the latest available audited net profit of the respective Target on the date of respective announcements
- (2) Except for PCI and CIGNA and CMC Life Insurance, the PBR are calculated based on the acquisition price divided by the corresponding portion in the latest available audited net asset value of the respective Target on the date of respective announcements
- (3) The PBR is calculated based on the acquisition price divided by the corresponding portion in the unaudited net asset value of PCI as at 31 March 2007
- (4) The PER is calculated based on the acquisition price divided by the corresponding portion in the adjusted net profit after taxation of BOC Life for the year ended 31 December 2005, which is calculated by deducting approximately HK\$63.5 million for income tax credit
- (5) The PBR is calculated based on the Consideration divided by the corresponding portion in the audited net asset value of CIGNA & CMC Life Insurance as at 30 June 2007
- (6) The PER and PBR are calculated based on the Consideration divided by the corresponding portion in the unaudited net profit after taxation and the unaudited net asset value of CIGNA & CMC Life Insurance as at 31 December 2007 respectively

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## LETTER FROM BOCOM INTERNATIONAL

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We chose the above Precedent Transactions for our comparison because those cases were recently completed transactions in the insurance sector and their respective businesses are similar to those insurance services offered by CIGNA & CMC Life Insurance. It should be noted that the business scope, operations, track records, geographic coverage, prospects and other relevant criteria of those companies set out in the table above are not the same as CIGNA & CMC Life Insurance, under such circumstances, the Transaction may not fully comparable to the Precedent Transactions. As such, this information should be referenced with care.

On the basis of the information shown above, we note that the calculated PER of the Transaction represented by the Consideration of approximately 7.1 times lies below the lowest end of the PER of the Precedent Transaction of approximately 8.1 times. In addition, the calculated PBR of approximately 1.2 times (base on the audited net asset value of CIGNA & CM Life Insurance as at 30 June 2007) or approximately 1.0 time (base on the unaudited net asset value of CIGNA & CM Life Insurance as at 31 December 2007) of the Transaction is slightly below the lowest end of the PBR of the Precedent Transactions of approximately 1.8 times.

Based on the above market comparable analysis and the precedent transaction comparison, we are of the view that the Consideration is fair and reasonable and in the interest of the Company and its Shareholders as a whole.

### **D. Possible financial effects of the Transaction on the Company**

#### *Net asset value*

According to the 2007 Annual Report of the Company, the audited consolidated net asset value of the Company was approximately RMB67,984 million as at 31 December 2007. As at 31 December 2007, CIGNA & CMC Life Insurance recorded unaudited net asset value of approximately RMB285.36 million, the attributable 50% equity interest in the registered capital of CIGNA & CMC Life Insurance would be approximately RMB142.68 million. Assuming that the Transaction was completed on 31 December 2007, the net asset value of the Company would increase slightly of approximately RMB0.82 million, being the difference between the Consideration and the net asset value of CIGNA & CMC Life Insurance, which in turn representing an increase in the net assets of the Company as at 31 December 2007 by approximately 0.001%. We consider the Transaction will only have negligible effect to the net asset value of the Company.

#### *Earnings*

The Company recorded the audited consolidated net profit attributable to the bank equity holders for the year ended 31 December 2007 of approximately RMB15,243 million. For the year ended 31 December 2007, CIGNA & CMC Life Insurance recorded unaudited net profit of approximately RMB40.10 million, the 50% attributable unaudited net profit in CIGNA & CMC Life Insurance was approximately RMB20.05 million, representing approximately 0.13% of the net profit attributable to the bank equity holders of the Company for the year ended 31 December 2007.



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## LETTER FROM BOCOM INTERNATIONAL

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After Closing, the Company's will hold 50% equity interest in CIGNA & CMC Life Insurance which will become a non-wholly owned subsidiary of the Company. The Company will consolidate the results of CIGNA & CMC Life Insurance into the future financial statements of the Company.

### *Cash position and working capital position*

As stated in the letter from the Broad in the Circular, the Consideration shall be payable by cash and funded by internal financial resources of the Company upon Closing. As stated in the 2007 Annual Report of the Company, the Company recorded a total cash and cash equivalent of approximately RMB167,031 million at 31 December 2007. Upon payment of the Consideration under the Share Transfer Agreement, the Company's total cash and cash equivalents position would reduce by approximately RMB141.87 million, representing a slightly decrease in the total cash and cash equivalent of the Company as at 31 December 2007 by approximately 0.085%. Given the strong cash position of the Company, the Directors consider that, and we have no reason to doubt the basis of their view, the Company will have sufficient financial resources to fund the Consideration without affecting the normal operations of the Company.

Based on the above analysis, in particular that, (i) there would have a negligible impact to the net asset value of the Company; (ii) there might have moderate positive impact to the earnings of the Company; and (iii) there would have negligible impact to the cash position of the Company, we are of the view that the Share Transfer Agreement has been entered into on normal commercial terms in the ordinary and usual course of business of the Company and the terms of the Share Transfer Agreement are fair and reasonable so far as the Independent Shareholders are concerned and are in the interest of the Company and its Shareholders as a whole.

### RECOMMENDATION

Taking into account the above principal reasons and factors, in particular, the background of and the reasons for the Transaction, the Consideration for the Transaction and the possible financial effects of the Transaction on the Company, we are of the view that the terms of the Share Transfer Agreement and the Transaction as contemplated thereby are fair and reasonable so far as the Independent Shareholders are concerned and the Share Transfer Agreement has been entered into the ordinary and usual course of business with normal commercial terms, and the terms of the Share Transfer Agreement and the Transaction as contemplated thereby are in the interest of the Company and its Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to and also recommend the Independent Shareholders to vote in favour of the resolution to approve the Share Transfer Agreement and the Transaction as contemplated thereby.

Yours faithfully,  
For and on behalf of  
**BOCOM International (Asia) Limited**  
**Christine Au**  
*Director*

*Corporate Finance, Investment Banking Division*

## 1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief there are no other facts the omission of which would make any statement herein misleading.

## 2. DISCLOSURE OF INTEREST

### (a) Directors and Supervisors of the Company

As at the Latest Practicable Date, none of the directors, supervisors or senior executives of the Company held or was deemed to hold interest or short position in the shares, underlying shares and/or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which are required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO) or which are required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which are required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers to be notified to the Company and the Stock Exchange.

### (b) Substantial Shareholders

As at the Latest Practicable Date, save as disclosed below, so far as is known to the Board, no persons (not being a director, chief executive or supervisor of the Company) had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who is directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at the general meeting of any other member of the Company:

*Substantial shareholders' and other persons' interests and short positions in shares and underlying shares*

As at 5 May 2008, the following persons (other than the directors, supervisors and chief executives of the Company (defines as to the Listing Rules) had interests and short

positions in the shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO:

Name of Substantial Shareholder	Class of Shares	Long/short position	Capacity	No. of shares held	Notes	Percentage of the relevant class of share in issue (%)	Percentage of total shares in issue (%)
China Merchants Group Ltd.	A	Long	Interest of controlled corporations	2,599,932,810	1	21.58	17.68
China Merchants Steam Navigation Co. Ltd.	A	Long	Beneficial owner	1,785,120,730	1	14.82	12.14
China Merchants Finance Investment Holdings Co. Ltd.	A	Long	Interest of controlled corporations	814,812,080	1	6.76	5.54
Shenzhen Yan Qing Investment Development Co. Ltd.	A	Long	Beneficial owner	434,878,336	1		
		Long	Interest of controlled corporations	379,933,744	1		
				814,812,080		6.76	5.54
China Ocean Shipping (Group) Company	A	Long	Beneficial owner	950,595,801		7.89	6.46
China Shipping (Group) Company	A	Long	Beneficial owner	176,515,978			
		Long	Interest of controlled corporations	618,366,092	2		
				794,882,070		6.60	5.40
JPMorgan Chase & Co.	H	Long	Beneficial owner	73,224,947			
		Long	Investment manager	291,909,500			
		Long	Custodian	95,890,765			
			corporation/approved lending agent	461,025,212	3	17.32	3.13
		Short	Beneficial owner	42,440,324	3	1.59	0.29
UBS AG	H	Long	Beneficial owner	158,036,940			
		Long	Person having a security interest in shares	750,569			
		Long	Interest of controlled corporations	41,004,537	4		
				199,792,046	4	7.51	1.36
		Short	Beneficial owner	77,267,538			
	Short	Person having a security interest in shares	1,045,931				
				78,313,469	4	2.94	0.53
Mirae Asset Global Investments (Hong Kong) Limited	H	Long	Investment manager	135,847,000		5.10	0.92

*Notes:*

1. China Merchants Group Limited held interest in a total of 2,599,932,810 A shares in the Company by virtue of its control over the following corporations, which held direct interests in the Company:
  - 1.1. China Merchants Steam Navigation Co. Ltd. held 1,785,120,730 A shares in the Company. China Merchants Steam Navigation Co. Ltd. was a wholly-owned subsidiary of China Merchants Group Limited.
  - 1.2. Shenzhen Yan Qing Investment Development Co. Ltd. held 434,878,336 A shares in the Company. Shenzhen Yan Qing Investment Development Co. Ltd. was owned as to 51% and 49% by China Merchants Finance Investment Holdings Co. Ltd. and China Merchants Group Limited respectively. China Merchants Finance Investment Holdings Co. Ltd. was owned as to 90% and 10% by China Merchants Group Limited and China Merchants Steam Navigation Co. Ltd., referred to in (1.1) above, respectively.
  - 1.3. Shenzhen Chu Yuan Investment Development Co. Ltd. held 379,933,744 A shares in the Company. Shenzhen Chu Yuan Investment Development Co. Ltd. was owned as to 50% by each of Shenzhen Yan Qing Investment Development Co. Ltd., referred to in (1.2) above, and China Merchants Finance Investment Holdings Co. Ltd., referred to in (1.2) above, respectively.
2. The interest of China Shipping (Group) Company in 618,366,092 A shares in the Company was held through Guangzhou Maritime Transport (Group) Company Limited (held 567,177,677 A shares of the Company) and Shanghai Shipping (Group) Company (held 51,188,415 A shares of the Company), which were the wholly-owned subsidiaries of China Shipping (Group) Company.
3. JPMorgan Chase & Co. held interest in a total of 461,025,212 H shares (Long position) and 42,440,324 H shares (Short position) of the Company by virtue of its control over the following corporations, which held direct interests in the Company:
  - 3.1 JPMorgan Chase Bank, N.A. held 100,860,765 H shares (Long position) in the Company. JPMorgan Chase Bank, N.A. was a wholly-owned subsidiary of JPMorgan Chase & Co.
  - 3.2 J.P. Morgan Whitefriars Inc. held 55,730,547 H shares (Long position) and 20,436,917 H shares (Short position) in the Company. J.P. Morgan Whitefriars Inc. was a wholly-owned subsidiary of J.P. Morgan Overseas Capital Corporation, which in turn was a wholly-owned subsidiary of J.P. Morgan International Finance Limited. J.P. Morgan International Finance Limited was wholly-owned by Bank One International Holdings Corporation, which in turn was a wholly-owned subsidiary of J.P. Morgan International Inc. JPMorgan Chase Bank, N.A., referred to in (3.1) above, owned 100% interest in J.P. Morgan International Inc.
  - 3.3 J.P. Morgan Securities Ltd. held 1,102,000 H shares (Long position) and 818,000 H shares (Short position) in the Company. J.P. Morgan Securities Ltd. was owned as to 98.95% by J.P. Morgan Chase International Holdings Limited, which in turn was a wholly-owned subsidiary of J.P. Morgan Chase (UK) Holdings Limited. J.P. Morgan Chase (UK) Holdings Limited was wholly-owned by J.P. Morgan Capital Holdings Limited, which in turn was wholly-owned by J.P. Morgan International Finance Limited, referred to in (3.2) above.
  - 3.4 J.P. Morgan Structured Products B.V. held 8,431,000 H shares (Short position) in the Company. J.P. Morgan Structured Products B.V. was a wholly-owned subsidiary of J.P. Morgan International Finance Limited, referred to in (3.2) above.
  - 3.5 JF Asset Management (Taiwan) Limited held 5,619,500 H shares (Long position) in the Company. JF Asset Management (Taiwan) Limited was wholly-owned by JF Funds Limited. JF Funds Limited was a wholly-owned subsidiary of JF Asset Management Limited, which in turn was a wholly-owned subsidiary of JPMorgan Asset Management (Asia) Inc., which was a wholly-owned subsidiary of JPMorgan Asset Management Holdings Inc. JPMorgan Asset Management Holdings Inc. was wholly-owned by JPMorgan Chase & Co.

- 3.6 JF Asset Management Limited and JF Asset Management (Singapore) Limited held 158,604,500 H shares (Long position) and 28,780,000 H shares (Long position) in the Company respectively. Both of them were wholly-owned subsidiaries of JPMorgan Asset Management (Asia) Inc., referred to in (3.5) above.
- 3.7 J.P. Morgan Investment Management Inc. held 23,983,500 H shares (Long position) in the Company. J.P. Morgan Investment Management Inc. was a wholly-owned subsidiary of JPMorgan Asset Management Holdings Inc., referred to in (3.5) above.
- 3.8 China International Fund Management Ltd held 20,979,500 shares (Long position) in the Company. China International Fund Management Ltd was owned as at 49% by JPMorgan Asset Management (UK) Limited, which held 48,972,500 H shares (Long position) directly in the Company. JPMorgan Asset Management (UK) Limited was a wholly-owned subsidiary of JPMorgan Asset Management Holdings (UK) Limited, which in turn was wholly-owned by JPMorgan Asset Management International Limited, which was a wholly-owned subsidiary of JPMorgan Asset Management Holdings Inc., referred to in (3.5) above.
- 3.9 Bear, Stearns International Limited held 16,392,400 H shares (Long position) and 12,754,407 H shares (Short position) in the Company. Bear, Stearns International Limited was wholly-owned subsidiary of Bear Stearns Holdings Limited, which in turn was a wholly-owned subsidiary of Bear Stearns UK Holdings Limited. Bear Stearns UK Holdings Limited was wholly-owned by The Bear Stearns Companies Inc., which in turn was owned as at 49.78% by JPMorgan Chase & Co.

The entire interest of JPMorgan Chase & Co. in the Company included a lending pool of 95,890,765 H shares (Long position). Besides, 18,300,898 H shares (Long position) and 28,867,917 H shares (Short position) were held through derivatives as follows:

8,431,000 H shares (Short position)	–	through cash settled derivatives (on exchange)
18,300,898 H shares (Long position) and 20,436,917 H shares (Short position)	–	through physically settled derivatives (off exchange)

4. UBS AG held interest in a total of 41,004,537 H shares (Long position) in the Company by virtue of its 100% control over the following corporations, which held direct interests in the Company:

Name of controlled Corporation	No. of shares Long position
UBS Fund Management (Switzerland) AG	3,008,200
UBS Global Asset Management (Americas) Inc.	3,217,000
UBS Global Asset Management (Hong Kong) Ltd	8,170,400
UBS Global Asset Management (Singapore) Ltd	13,706,100
UBS Global Asset Management (UK) Limited	9,305,939
UBS Global Asset Management (Japan) Ltd	2,748,000
UBS Global Asset Management (Australia) Inc.	113,898
UBS Global Asset Management (Canada) Inc.	735,000

Among the entire interest of UBS AG in the Company, 41,623,470 H shares (Long position) and 41,864,000 H shares (Short position) were held through derivatives as follows:

1,496,000 H shares (Long position)	–	through physically settled derivatives (on exchange)
22,213,000 H shares (Short position)	–	through cash settled derivatives (on exchange)
27,076,470 H shares (Long position)	–	through physically settled derivatives (off exchange)
13,051,000 H shares (Long position) and 19,651,000 H shares (Short position)	–	through cash settled derivatives (off exchange)

Save as disclosed above, the Company is not aware of any other person (other than the directors, supervisors and senior executives of the Company) having any interests or short positions in the shares and underlying shares of the Company as at 5 May 2008 as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

### 3. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors are not aware of any material adverse change in the financial or trading position of the Company and its subsidiaries since 31 December 2007, being the date to which the latest published audited accounts of the Company and its subsidiaries were made up to.

### 4. LITIGATION

None of the Company and its subsidiaries was at present engaged in any litigation or arbitration of material importance and there was no litigation or claim of material importance known to the Directors to be pending or threatened by or against the Company and its subsidiaries as at the Latest Practicable Date.

### 5. PROFESSIONAL QUALIFICATION AND CONSENT

The following expert has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter or statements and references to its name in the form and context in which they appear:

<b>Name</b>	<b>Qualification</b>
BOCOM International (Asia) Limited	Licensed corporation under the SFO to engage in Type 1 (dealing in securities) and 6 (advising on corporate finance) regulated activities

As at the Latest Practicable Date, the above expert was not beneficially interested in the share capital of the Company and its subsidiaries nor did it have any right, whether legally enforceable or not, to subscribe for or to nominate persons to subscribe for securities in the Company and its subsidiaries.

As at the Latest Practicable Date, the above expert did not have any direct or indirect interest in any assets which have been since 31 December 2007 (being the date to which the latest published audited accounts of the Company were made up) acquired or disposed of by or leased to the Company and its subsidiaries, or were proposed to be acquired or disposed of by or leased to the Company and its subsidiaries.

**6. SERVICE CONTRACTS**

As at the Latest Practicable Date, none of the Directors had entered into, or proposed to enter into, a service contract with the Company or its subsidiaries which does not expire or is not terminable by the Company and its subsidiaries within one year without payment of compensation, other than statutory compensation.

**7. DIRECTORS' INTERESTS IN THE COMPANY AND ITS SUBSIDIARIES' ASSETS OR CONTRACTS**

As at the Latest Practicable Date, none of the Directors, Supervisors, proposed Directors or proposed Supervisors of the Company had any interest in any assets which have been since 31 December 2007 (being the date to which the latest published audited accounts of the Company were made up) acquired or disposed of by or leased to the Company and its subsidiaries, or were proposed to be acquired or disposed of by or leased to the Company and its subsidiaries.

As at the Latest Practicable Date, none of the Directors or Supervisors was materially interested in any contract or arrangement subsisting at the Latest Practicable Date which was significant in relation to the business of the Company.

**8. DIRECTORS' INTERESTS IN COMPETING BUSINESS**

As at the Latest Practicable Date, none of the Directors or their respective associates has interests in the businesses, other than being a Director, which compete or are likely to compete, either directly or indirectly, with the businesses of the Company (as would be required to be disclosed under Rule 8.10 of the Listing Rules if each of them were a controlling shareholder).

**9. PROCEDURE FOR DEMANDING A POLL BY SHAREHOLDERS**

According to the Articles of Association of the Company, the resolutions will be determined on a show of hands unless a poll is demanded before or after any vote on a show of hands. A poll may be demanded by (i) the chairman of the meeting; or (ii) at least two shareholders entitled to vote, present in person or by proxy; or (iii) one or more shareholders present in person or by proxy representing more than 10% of all shares carrying the voting rights at the Meeting.

**10. MISCELLANEOUS**

- (a) The registered office of the Company is situated at China Merchants Bank Tower, No. 7088 Shennan Boulevard, Shenzhen 518040, PRC.
- (b) The Company's H Share registrar is Computershare Hong Kong Investor Services Limited at Rooms 1712-16, 17/F., Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.
- (c) The Joint Company Secretaries of the Company are Lan Qi and Seng Sze Ka Mee, Natalia.
- (d) The Qualified Accountant of the Company is Cheng Ting Nam.
- (e) In the case of any discrepancy, the English text of this circular and proxy form shall prevail over the Chinese text.

**11. DOCUMENTS FOR INSPECTION**

Copies of the following documents will be available for inspection at the office of Herbert Smith at 23/F., Gloucester Tower, 15 Queen's Road Central, Hong Kong during normal business hours on any weekday (except public holidays) from the date of this circular up to and including 27 June 2008:

- (a) the Articles of Association of the Company;
- (b) the letter from the Independent Board Committee, as set out in this circular;
- (c) the letter from BOCOM International, the independent financial adviser, as set out in this circular;
- (d) the written consent of BOCOM International referred to in this appendix; and
- (e) the Share Transfer Agreement.