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TRANSACTIONS INVOLVING NON-PERFORMING LOANS ("NPL") IN CHINA



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THE NPL MARKET IN CHINA

I. ORIGINS

1. NPL transferred from the four stated-owned banks to the asset management companies ("AMCs").

There have been three state level conveyances of NPL from the 4 biggest state-owned banks to the AMCs.

1.1 The first conveyance in 2000

1.1.1 Based on a government decree, the total face value of RMB 1400 billion of NPL was transferred by the state-owned banks to the AMCs as set forth below:

- NPL of China Construction Bank (CCB) to Cinda AMC.
- NPL of Bank of China (BOC) to Oriental AMC.
- NPL of Industrial & Commercial Bank of China (ICBC) to Huarong AMC.
- NPL of Agriculture Bank of China (ABC) to Greatwall AMC

1.1.2 According to official government statistics, at the end of 2005, RMB 839.75 billion of NPL was sold/disposed of and RMB 176.6 billion was collected, representing a cash recovery rate of 21.03%.

1.1.3 According to official government policy, all remaining NPL should have been sold/disposed of by the end of 2006.

1.2 The second conveyance in 2004

1.2.1 On 22nd May 2004, CCB sold RMB 56.9 billion of loans classified as Loss Loans to Cinda AMC and BOC sold RMB 140 billion of loans classified as Loss Loans to Oriental AMC.

1.2.2 On June 21, 2004, CCB and BOC sold RMB 278.7 billion of loans classified as Doubtful Loans to Cinda AMC. The purchase price was 30.98% of the total face value of the loans. Cinda AMC subsequently sold approximately 80% of the Doubtful Loans from CCB to Oriental AMC.

1.3 The third conveyance in 2005

1.3.1 In early 2005, ICBC sold RMB 246 billion of loans classified as Loss Loans to Huarong AMC.

1.3.2 In mid 2005, ICBC sold RMB 459 billion of loans classified as Doubtful Loans in 35 packages to the four AMCs:

1.3.2.1 Greatwall AMC obtained 17 packages of NPL with a total face value of RMB 256.99 billion in the following areas:

- Neimenggu Province: RMB 4.67 billion
- Liaoning Province: RMB 67.153 billion
- Heilongjiang Province: RMB 30.881 billion
- Fujian Province: RMB 4.17 billion
- Jiangxi Province: RMB 10.604 billion
- Shandong Province: RMB 24.483 billion
- Henan Province: RMB 24.351 billion
- Hunan Province: RMB 15.605 billion
- Guangxi Province: RMB 10.53 billion
- Chongqing Municipality: RMB .631 billion
- Sichuan Province: RMB 16.165 billion
- Guizhou Province: RMB 3.807 billion
- Shanxi Province: RMB 18.591 billion
- Gansu Province: RMB 4.944 billion

- Ningxia Province: RMB 3.352 billion
- Xinjiang Province: RMB 5.396 billion
- Tsingtao Municipality: RMB 7.659 billion

1.3.2.2 Oriental AMC received 10 packages of NPL with a total face value of RMB 121.2 billion in the following areas:

- Tianjin Municipality: RMB 6.271 billion
- Shanxi Province: RMB 9.817 billion
- Jilin Province: RMB 25.85 billion
- Jiangsu Province: RMB 21.475 billion
- Anhui Province: RMB 7.236 billion
- Hubei Province: RMB 22.398 billion
- Yunnan Province: RMB 5.166 billion
- Dalian Province: RMB 5.417 billion
- Shenzhen Province: RMB 6.119 billion
- Guangzhou Municipality: RMB 7.832 billion

1.3.2.3 Cinda AMC received 5 packages of NPL with a total face value of RMB 58.1 billion in the following areas:

- Beijing: RMB 12.27 billion
- Guangdong Province: RMB 34.066 billion
- Hainan Province: RMB 1.572 billion
- Sanxia District: RMB 2.387 billion
- Headquarters of ICBC: RMB 7.832 billion

1.3.2.4 Huarong AMC received 3 packages of NPL with a total face value of RMB 22.71 billion in the following areas:

- Hebei Province: RMB 16.973 billion
- Qinghai Province: RMB 4.016 billion

2. NPL transferred from other commercial banks to AMCs

- 2.1 In 2004, Cinda AMC purchased RMB 64.1 billion of loans classified as Doubtful Loans and Loss Loans from the China Communication Bank, which is now a listed, publically traded company on the Hong Kong stock exchange.
- 2.2 In 2006 Guangdong Development Bank (GDB) sold all of its NPL portfolios with a face value of RMB 50 billion to a state owned company for 30% of the total face value.
- 2.3 It is very clear that AMCs are the point of sale for NPL in China.

II. THE TREND

1. The trend for disposing of NPL held by AMCs

- 1.1 In the past, grouping NPL in packages/portfolios and then selling the NPL portfolios was the most efficient way for disposing of NPL in terms of time, volume and cash recovery. However, since the fourth quarter of 2006, after the disposition of NPL comprising the first conveyance in 2000, there have been some changes in the policies at the AMCs for the disposition of NPL.
- 1.2 AMCs are facing a new problem. If they sell all the NPL on their books, they will become obsolete, the government will shut them down and the managers will lose their jobs. As a result, some senior officials at the AMCs decided to slow the pace of selling NPL in order to maintain their existence. Some AMCs are now planning to dispose of NPL in other

ways such as securitization of the NPL portfolios by issuing derivatives rather than simply selling the NPL.

1.3 AMCs are now considering transforming themselves into comprehensive financial asset management companies, which will eventually function as investment banks focused on asset management. Some of these transformation projects have been approved by the China Banking Regulatory Commission and the Ministry of Finance.

1.4 While Huarong, Cinda and Oriental are ready to and capable of operating as financial asset management companies, Great Wall is currently facing a capital liquidity deficiency and is attempting to raise RMB 2.3 billion in operating capital.

2. **Deals closed from 2005 to 2006**

2.1 We understand the following NPL transactions took place between September 2005 and October 2006:

Part of China NPL Transactions				
Seller	Buyer	Location	OPB (RMB billion)	Date
Cinda	Avenue	Tianjin	5	Sep-05
	Cargill	Changsha	2	Jan-06
	Cargill	Wuhan	1.1	Jun-06
	Avenue	Huangshi	0.47	Jun-06
	One JV	Shanghai	0.6	Jul-06
	Avenue	Shijiazhuang	0.329	Jul-06
		Zhuhai	0.407	Aug-06
	A China Investor	Shanghai,Hunan,C hongqing,etc.	7.5	
Orient	Cargill	Harbin	3.5	Nov-05

	ADM	Tianjin	0.6	Dec-05
	DAC	Dalian	4.7	Dec-05
	DAC	Changsha	1.2	Dec-05
	PPF	Shandong	6.4	Jan-06
	Mellon	Shanxi	4.2	Jan-06
	Avenue	Yunnan	1.3	Jun-06
	白沙公司	Changchun	2.7	Jul-06
	BOCGI,Orix	Qingdao	0.93	Aug-06
	UBS	Jinan	0.9	Aug-06
	UBS	Chongqing		Aug-06
	BoA	Suzhou	0.34	Oct-06
Huarong	Citigroup/ SilverGrant	Various	36.4	Nov-05
	Deutsche/ AIG	Various	16	Nov-05
	Mellon	Wenzhou	1	Jan-06
	BoA	Xiamen	0.9	Jan-06
	Cargill	Xiamen	0.8	Jan-06
	A China Investor	Beijing	2	
Great Wall	Corstone	Jiangxi	4.4	Feb-06
	Citigroup	Tianjin	4.5	Feb-06
	Internal capital			
CCB SA	DAC and Calyon	Guangdong	1	Apr-06
Total			111.176	

2.1.1 All four AMCs are busy selling the rest of the NPL of the first conveyance in 2000. Many small portfolios have been and are being purchased by local investors. Some larger portfolios are under contract with some foreign investors and are expected to close soon.

2.1.2 Some NPL portfolios held by AMCs are undergoing due-diligence and will be placed in an asset securitization project.

- 2.2 As mandated by the central government, the four AMCs still must sell all their NPL from the first conveyance in 2000 i.e. all the bad debts/loans accrued before 1999.
- 2.3 As such, the four AMCs are restructuring their business models to comply with the mandate of the central government. In 2006 all AMCs offered mega size NPL portfolios for sale which are expected to close in 2007, resulting in investors having a more active role in the industry.

3. Forecast on NPL Market

- 3.1 We believe the following NPL portfolios will be the focal point of China's NPL market in 2007:
- 3.1.1 Oriental AMC: Portfolios originated from the Doubtful Debts of Construction Bank of China and the Doubtful Debts and Total-loss Debts of Industrial & Commercial Bank of China;
- 3.1.2 Cinda AMC: Portfolios originated from the Doubtful Debts and Total-loss Debts of Bank of China and China Bank of Communication;
- 3.1.3 Greatwall AMC: Portfolios originated from the Doubtful Debts of Industrial & Commercial Bank; and
- 3.1.4 Huarong AMC: Portfolios originated from the Doubtful Debts and Total-loss Debts of Industrial & Commercial Bank.

4. Active players in the NPL market

- 4.1 The major foreign investors such as Citigroup, Deutsche Bank, JP Morgan, CSFB and Goldman Sachs are still looking for investment opportunities in

the NPL market. Some are active and optimistic while others are passive and conservative. In 2006, Cargill bought an NPL portfolio of RMB 3.5 billion from Orient AMC and Citigroup bought a NPL portfolio of RMB 4.5 billion in Tianjin from Great Wall AMC. Many other foreign investors, such as Goldman Sachs, Deutsche Bank and JP Morgan, have shifted their focus to real estate and equity investments.

4.2 Foreign funds have become very active in and optimistic about the NPL market, especially those funds that have raised a lot of capital but have been unable to close any transactions. Their flexibility, higher risk bearing capabilities and significant “blind pool” capital give them an edge over the other investors in this market. They usually work closely with local contacts/investors, often co-investing with them in the acquisition of an NPL portfolio. In 2005, some foreign funds such as Cargill, ADM, PPF and DAC also bought mega-sized NPL portfolios from Orient AMC and Cinda AMC.

4.3 Local investors have always been the most active players in the NPL market. The main problem they face is capital. As a result they usually acquire small NPL portfolios. Some local investors are not actually “investors.” They are acting as agents for either the debtors or foreign investors. Our local investor clients have established long-term relationships with some of our foreign investor clients. Our relationships with the AMCs and local governments and our intimate understanding of the culture and operations of the debtors have resulted in our clients receiving significant returns on their investments in NPL.

OUR NPL SERVICES

I. EXPERIENCE

1. As the legal consultants for both buyers and sellers of NPL, Alpha & Leader plays a pivotal role in the identification, validation, acquisitions and management of NPL portfolios. Here are some of the principal NPL portfolios we have worked on :

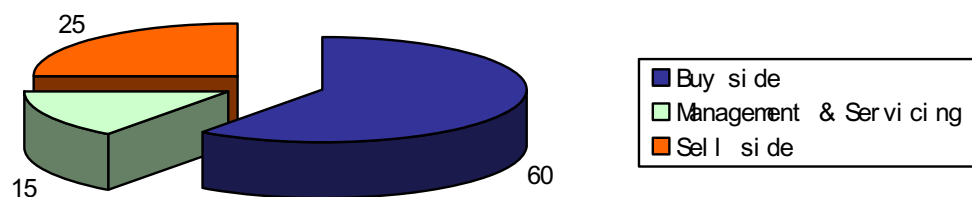
Transaction(s)	Amount	Client(s)	Our Role	Time
Sell NPL Dongguan	1 bln	COAMC	Legal Consultant	2002
Sell NPL in Zhongshan, Huizhou, Shaoguan	5.7bln	COAMC	Legal Consultant	2003
Sell NPL in Huizhou and Shanwei	3 bln	CGWAMC	Legal Consultant	2003
Loan Assets Acquisition	2.5 bln	A International Investment Bank	Due Diligence Consultant	2003
Collection of COAMC's Loans (Yanjiang)	1.8 bln	PwC	Asset Management Service	2003
NPL Acquisition in Guangdong	4 bln	PwC	Legal Consultant	2003
NPL Collection in Guangzhou and Panyu	0.8bln	A Local Private Investor	Collection/Legal Consultant	2003
Secondary Transfer of Yanjiang Portfolio	0.8bln	A Local Private Investor	Transaction Consultant & Asset Management Service	2003
Parts of NPL through Comprehensive Disposal	8 bln	Operation Dept, ICBC Guangdong Branch	Due Diligence Consultant	2004
Collateral Acquisition from GDB	3 bln	Deutsche Bank AG & Deloitte	Legal Consultant	2004
Secondary Transfer of NPL in Foshan	1 bln	A Private CJV and a Foreign Fund	Due Diligence, Transaction Consultant & Asset Management Service	2004
Disposal of NPL in Huizhou and Shanwei	3 bln	An International Investment Bank	Asset Management Service	2004
Sell NPL Foshan	3 bln	CGWAMC	Legal Consultant	2004
Acquire NPL in North-east China	4 bln	CSFB	Legal Consultant	2004
Collateral Acquisitions	1.5 bln	GS Group	Legal Consultant	2004

Cinda NPL in Qingdao	4.3bln	A Foreign Fund	Due Diligence Consultant	2005
Acquisition of NPL in Haerbin	2 bln	Cargill	Legal Consultant	2005
Sale of NPL in Guangdong	5 bln	CGWAMC	Legal Consultant	2005
Bad Debts and NPL in Dalian	5 bln	A Private CJV and a Foreign Fund	Due Diligence, Transaction Consultant & Asset Management Service	2005
Bad Debts and NPL in Shenyang	1.9 bln	An International Investment Bank	Due Diligence, Transaction Consultant & Asset Management Service	2005
Cinda NPL in Guangdong	1.8 bln	An International Investment Bank	Due Diligence & Pricing Consultant	2005
Strategic detachment NPL from Huarong	10 bln	An International Investment Bank	Due Diligence Consultant	2005
Cinda NPL Portfolio in Tianjin	4.5 bln	A Local Private Investor	Due Diligence Consultant	2005
Huarong NPL Portfolio in Shenyang	6 bln	An International Investment Bank	Due Diligence & Transaction Consultant	2005
Acquire NPL China	3.1 bln	An International Agency Company	Legal Consultant	2005
Sell NPL Yunnan	1.37 bln	Deloitte	Due Diligence Consultant	2006
Acquire NPL from COAMC in Changsha	1.46 bln	An International Asset Management Company	Due Diligence Consultant	2006
Acquire NPL from CCAMC in Beijing	2.13 bln	An International Investment Fund	Due Diligence & Transaction Consultant	2006
Acquire NPL from CCAMC in Wuhan	1.62 bln	An International Investment Fund	Due Diligence Consultant	2006
Acquire NPL from COAMC in China	12.4 bln	An International Investment Bank	Due Diligence Consultant	2006
Acquire NPL from COAMC	2 bln	An International Investment Bank	Due Diligence, Transaction Consultant & Asset Management Service	2006
Acquire NPL from COAMC in Dalian	1.7 bln	A Korean AMC	Due Diligence Consultant	2007
Acquire NPL from Greatwall in Qingdao	2.4 bln	A Korean AMC	Due Diligence Consultant	2007
Cinda NPL in Yunnan	0.4 bln	Cinda	Due Diligence Consultant	2007
Acquire NPL from Huarong in Zhanjiang	0.2 bln	A Local Private Investor	Collection and Management Service	2007

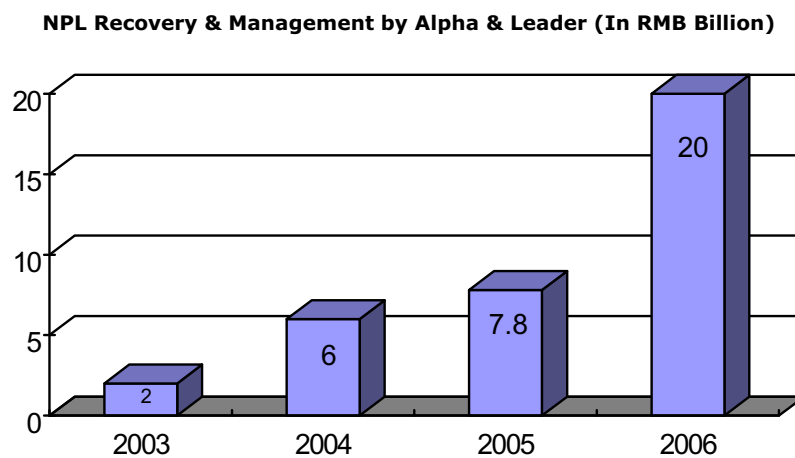
Amount referred herein refers to Outstanding Principal balance in billion Renminbi.

II. BASIC ANALYSIS OF OUR NPL TRANSACTIONS

1. Transaction Types

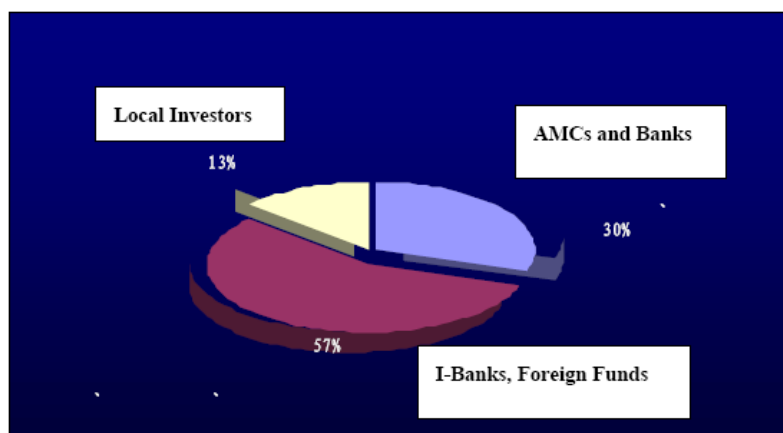


2. Management and Collection of NPL



The above figures establish our firm is a full service provider for NPL transactions in China. We are skilled and experienced in all aspects of NPL transactions from sourcing a target acquisition anywhere in China, negotiating and documenting the deal structure to assisting our clients in collecting their investment.

3. Servicing Objectives



Our client base is the result of and reflects the growing interest of international investors in the NPL market in China. Foreign investors, including some key players in the international investment markets, are now a significant percentage of our clientele.

Our clients include:

- ✓ ADM Capital
- ✓ Agriculture Bank of China (ABC)
- ✓ Bank of America
- ✓ Bank of China (BOC)
- ✓ Bank of China (HK) Limited. (BOCHK)
- ✓ Cargill
- ✓ China Cinda Assets Management Company (CCAMC)
- ✓ China Construction Bank (CCB)
- ✓ China Great Wall Assets Management Company (CGWAMC)
- ✓ China Hua Rong Assets Management Company (CHRAMC)
- ✓ China Oriental Assets Management Company (COAMC)
- ✓ CITIC Industrial Bank
- ✓ Citigroup
- ✓ Clearwater

- ✓ Credit Suisse
- ✓ DBS (HK) Limited.
- ✓ Deloitte & Touche Corporate Finance Ltd.
- ✓ Deutsche Bank AG
- ✓ GE Capital
- ✓ Guangdong Development Bank (GDB)
- ✓ Industrial and Commercial Bank of China (ICBC)
- ✓ Nanyang Commercial Bank
- ✓ ORIX
- ✓ People's Bank of China (PBC)
- ✓ PricewaterhouseCoopers (PwC)
- ✓ Goldman Sachs
- ✓ Wing Hang Bank