招商银行

CHINA MERCHANTS BANK

CHINA MERCHANTS BANK CO., LTD.

(a joint stock company incorporated in the People's Republic of China with limited liability)

Stock Code：3968

SERVICES INITIATIVES STABILITY

07 Annual Report 2007

On April 8, 2007, China Merchants Bank celebrated its 20th anniversary. 13 **charity concerts** sent out resounding music throughout the vast land of China. **Sunflower Children Growth Fund** and **My 2008 Special Charity Fund** were established and inaugurated. The collection of the **20th anniversary commemorative All-in-one Cards** were issued. We celebrate our fruitful and affluent 20 years. We will continuously pursue our mission of **"We are here just for you".**

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1. On 8 April 2007, the Lang Lang Charity Concert was held in Shenzhen celebrating the Bank's 20th anniversary.
2. On 19 April 2007, the Lang Lang Charity Concert was performed in the Great Hall of the People in Beijing celebrating the Bank's 20th anniversary.
3. Lang Lang, the image representative of the Bank, put on excellent performance.
4. The 20th anniversary celebration art show performed by the Bank's staff.

招商銀行
CHINA MERCHANTS BANK

Contents

Corporate Information

1. Registered Corporate Name in Chinese:

招商銀行股份有限公司 (Chinese abbreviation: 招商銀行, hereinafter the "Company", the "Bank" or the "Group")

Registered Corporate Name in English:

China Merchants Bank Co., Ltd.

2. Legal Representative: Qin Xiao

Authorized Representative:

Ma Weihua, Li Hao

Secretary of the Board of Directors: Lan Qi

Joint Company Secretaries:

Lan Qi, Seng Sze Ka Mee, Natalia (FCIS, FCS, FHKIOD)

Qualified Accountant:

Cheng Ting Nan (CPA, FCCA)

Securities Representative:

Wu Jianbing

3. Registered Address:

7088 Shennan Boulevard, Futian District, Shenzhen, Guangdong Province, China

4. Mailing Address:

7088 Shennan Boulevard, Futian District, Shenzhen, Guangdong Province, China
Postcode: 518040
Tel: 86755-83198888
Fax: 86755-83195109
Email: cmb@cmbchina.com
Website: www.cmbchina.com

5. Principal Place of Business in Hong Kong:

21st Floor, Bank of America Tower, 12 Harcourt Road, Hong Kong

6. Share Listing on Stock Exchange

A Share	: Shanghai Stock Exchange
Abbreviated Name of A Share	: CMB
Stock Code	: 600036
H Share	: The Stock Exchange of Hong Kong Limited ("Hong Kong Stock Exchange" or "SEHK")
Abbreviated Name of H Share	: CMB
Stock Code	: 3968
Convertible Bonds	: Shanghai Stock Exchange
Abbreviation of Convertible Bonds	: CMB Convertible Bonds
Code of Convertible Bonds	: 110036

7. Domestic Auditor:

KPMG Huazhen Certified Public Accountants
Office Address: 8th Floor, Tower 2, Oriental Plaza, 1 East Chang An Avenue, Beijing, PRC

International Auditor:

KPMG Certified Public Accountants
Office Address: 8th Floor, Prince's Building, 10 Charter Road, Central, Hong Kong

8. Legal Advisor as to the PRC Law:

Jun He Law Office

Legal Advisor as to Hong Kong Law: Herbert Smith

9. Compliance Advisors:

China International Capital (Hong Kong) Corporation Limited
UBS AG (acting via its operating arm UBS Investment Bank)

10. Trustee for A share with trading restrictions:

China Securities Depository & Clearing Corporation Limited, Shanghai Branch

11. Share Registrar and Transfer Office as to H share:

Computershare Hong Kong Investor Services Limited
Rooms 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong

12. Websites and Newspapers designated by the Company for Information Disclosure:

Mainland China: "*China Securities Journal*", "*Securities Times*", "*Shanghai Securities News*"; website of the Shanghai Stock Exchange (www.sse.com.cn); the Company's website (www.cmbchina.com)

Hong Kong: "*Hong Kong Economic Times*", "*South China Morning Post*"; website of the Stock Exchange of Hong Kong Limited (www.hkex.com.hk); the Company's website (www.cmbchina.com)

Annual Report available at: the office of the Board of Directors

13. Other information about the Company:

Initial registration date: 3 March 1987
Initial registration place: Administration for Industry and Commerce of Shenzhen, Shekou Branch
Registered No. of business licence for enterprises as a legal person: 1000001001686
Taxation Registration No.:
Guo Shui Shen Zi 44030010001686X
Shen Di Shui Deng Zi 44030410001686X

This report is prepared in Chinese and English. Any interpretation will be subject to the Chinese version if there are any discrepancies between the two versions arise. Save as otherwise specified, amounts stated in this annual report are denominated in RMB.

Founded in 1987 with its head office in Shenzhen, China, the Company mainly focuses on the China market. As at 31 December 2007, the Company had 40 branches, 534 sub-branches (including offices), 1 representative office, 1 credit card center, 677 independent self-service centers and 1,048 independent machines (ATM & CDM) across China. The efficiently operated outlets of the Company are primarily located in China's more economically developed regions such as Yangtze River Delta, Pearl River Delta and Bohai Rim, and some large cities in other regions. The Company has also set up a branch and a subsidiary in Hong Kong and a representative office in New York. The Company has established correspondent relationship with over 1,210 overseas banks in 93 countries and regions.

The growth of the Company from a regional bank into a large national commercial bank of China is primarily attributable to its own resources and efforts. The Company prepared its financial statements under the Accounting Standards for Business Enterprises issued by the Ministry of Finance (the "MOF"), the Accounting Regulations for Financial Enterprises (2001), and other relevant regulations issued by the MOF (collectively "PRC GAAP") and International Financial Reporting Standards in connection with the listing on the Shanghai Stock Exchange in 2002, and has reported its annual audited financial results using both standards since its listing.

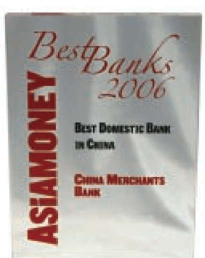
The Company was listed on SEHK in September 2006. According to the statistics of the People's Bank of China, the Company ranked No.6 among commercial banks in China in terms of total assets as at 31 December 2007.

The Company provides customers with various corporate and retail banking products and services, and conducts treasury activities for proprietary purpose and on behalf of our customers. The innovative products and services of the Company, such as "All-in-one Card" multi-function debit card, "All-in-one Net" comprehensive online banking services, dual currency credit card and the Sunflower wealth management services, become widely accepted in China.

In 2007, we have received many domestic and international honors for our business performance, management capability and corporate culture. For example:

In the Press Conference for the results on the 2007 Survey of Preferred Brand names of Chinese millionaires held by *Chinese Hurun Report*, we were the only winner among Chinese banks being recognized "The Most Favorite RMB Wealth Management Bank" and "The Most Favorite Credit Card Issuer for the rich people" respectively for three consecutive years.

▲ ***Chinese Hurun Report*** **"The Most Favorite RMB Wealth Management Bank" and "The Most Favorite Credit Card Issuer for the rich people"**



▲ ***Asia Money*** **"China's Best Domestic Cash Management Bank"**

▲ **From left: *Asian Banker* "The Best Retail Bank in China", "The Best Joint Stock Retail Bank in China", "The Bank Card and Payment Achievement Award in China" and "The Online Banking Achievement Award in China"**

Corporate Information

The Company was awarded the honor of "China's Best Domestic Cash Management Bank" by *Asia Money* and we were the only domestic commercial bank receiving the "Best Bank" award.

Asian Banker, in its Asia-Pacific region award program for Retail and Financial Service Excellence, granted us four awards, namely "The Best Retail Bank in China" (the second consecutive year to be honored), "The Best Joint Stock Retail Bank in China" (the second consecutive year to be honored), "The Online Banking Achievement Award in China" and "The Bank Card and Payment Achievement Award in China".

Euromoney, in its 2007 Excellence Award Program, named us "The Best Bank in China" in 2007.

In respect of the Chinese Commercial Bank Competitiveness Rankings organized by China's *The Banker*, we received three awards, namely "The Best Commercial Bank 2006", "Highest Core Competitiveness" and "Highest Financial Evaluation".

In the award ceremony (China region) organized by *Investor Relations*, a British Magazine, we received six awards including "The Best Investor Relations Award" and "The Best Corporate Governance Award" and all awards relating to state-owned enterprises.

Principal activities of the Company:

Taking deposits from the public; granting short, medium and long-term loans; settlement; bills discounting; issuing financial bonds and acting as agent for the issue and encashment; underwriting and trading government bonds; inter-bank lending and borrowing; letter of credit and guarantees; collection and payment; bancassurances; safety deposit box services; foreign currency deposits and loans, remittance; foreign exchange; international settlement; foreign currency placement; foreign currencies bills acceptance and discounting; trading and agency trading of foreign currency securities except stock; issuing and agency issuing of foreign currency securities except stock; proprietary FX trading and trading on behalf of customers; credit investigation, advisory and attestation services; offshore banking business; credit card business; securities investment fund custody and Qualified Foreign Institutional Investor (QFII) custodian services; corporate annuity fund custody and account management services; Social Security Fund custody; underwriting commercial paper; derivative products trading and other businesses approved by China Banking Regulatory Commission.

▲ ***Euromoney* "The Best Bank in China"**

▲ ***The Banker* "The Best Commercial Bank 2006", "Highest Core Competitiveness", "Highest Financial Evaluation"**

▲ **Six awards received from *Investor Relations* including "The Best Investor Relations Award", "The Best Corporate Governance Award"**

▲ President Ma Weihua visited Federal Reserve of the United States with a delegation and introduced CMB's history, business concepts, internal control and operating status in detail.

Important issues for the year

The application of New York branch was approved by the Federal Reserve of the United States

On 8 November 2007, the Company's application to the Federal Reserve of the U.S. for the establishment of New York branch was approved. It is an important advancement in the development of the Company as well as the development of Chinese banking industry in the U.S., which is the largest financial market in the world. It was the first time that a Chinese bank was approved to establish its branch in the U.S. since the implementation of the US Foreign Bank Supervision Enhancement Act of 1991.

The New York branch of the Company will be positioned as a bank focusing on international settlement and trade finance for the promotion of Sino-US economic and trade cooperation. It also carries out treasury activities, clearing and follow-up services. It will stress its position as the window of the Company. The Company will appoint a well-renowned U.S. consultancy firm in designing the long-term and effective system, following the international management framework, for the operation and management of the New York branch taking into account its business position and staff employment.

Substantive progress on diversification

In 2007, the Company was approved to establish a wholly-owned finance leasing company and to acquire 33.4% equity interest in China Merchants Fund Management Co., Ltd. so as to become its largest shareholder. Therefore, the Company achieved substantive progress on business diversification.

Financial Highlights

Operating Results

	2007	2006	Changes
	(in millions of RMB)		+/(–)%
Net operating income	**41,086**	24,866	65.23
Profit before tax	**21,043**	10,084	108.68
Net profit attributable to the Bank's equity holders	**15,243**	6,794	124.36

Note: Net operating income is the sum of total operating income and share of profits of an associate.

Per Share

	2007	2006	Changes
	(in RMB)		+/(–)%
Basic earnings	**1.04**	0.53	96.23
Diluted earnings	**1.04**	0.53	96.23
Year-end net assets value	**4.62**	3.75	23.20

Financial Position

	As at 31 December 2007	As at 31 December 2006	Changes
	(in millions of RMB)		+/(–)%
Total assets	**1,310,552**	934,102	40.30
of which: gross loans and advances to customers	**673,167**	565,702	19.00
Total liabilities	**1,242,568**	878,942	41.37
of which: gross deposits from customers	**943,534**	773,757	21.94
Total shareholders' equity	**67,984**	55,160	23.25

Financial Ratios

	As at 31 December 2007 (%)	As at 31 December 2006 (%)	Changes +/(–)
Profitability ratios			
Return on average assets (after tax)	**1.36**	0.81	0.55
Return on average equity (after tax)	**24.76**	16.74	8.02
Net interest spread	**2.96**	2.69	0.27
Net interest margin	**3.11**	2.72	0.39
As percentage of operating income			
– Net interest income	**82.51**	86.50	(3.99)
– Net non-interest income	**17.49**	13.50	3.99
Cost-to-income ratio (excluding business tax)	**34.94**	38.28	(3.34)
Capital adequacy ratios			
Core capital adequacy ratio	**9.02**	9.58	(0.56)
Capital adequacy ratio	**10.67**	11.39	(0.72)
Total equity to total assets	**5.19**	5.91	(0.72)
Asset quality ratios			
Non-performing loan ratio	**1.54**	2.12	(0.58)
Allowances for impairment losses to non-performing loans	**180.39**	135.61	44.78
Allowances for impairment losses to total loans and advances to customers	**2.79**	2.88	(0.09)

Five-year Financial Summary

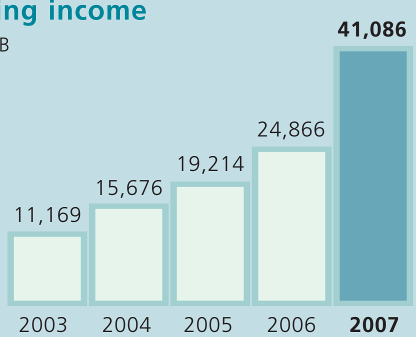
	2007	2006	2005	2004	2003
Results for the year			(in millions of RMB)		
Net operating income	**41,086**	24,866	19,214	15,676	11,169
Operating expenses	**16,738**	11,091	9,115	7,432	5,516
Provision for impairment losses	**3,305**	3,691	3,637	3,066	2,236
Profit before tax	**21,043**	10,084	6,462	5,178	3,417
Net profit attributable to the Bank's equity holders	**15,243**	6,794	3,749	3,276	2,211
Per share			(RMB)		
Dividend	**0.28**	0.12	0.08	0.11	0.09
Basic earnings	**1.04**	0.53	0.34	0.29	0.20
Diluted earnings	**1.04**	0.53	0.33	0.29	0.20
Year-end net assets value	**4.62**	3.75	2.51	3.21	3.22
Year end			(in millions of RMB)		
Share capital	**14,705**	14,703	10,374	6,848	5,707
Total shareholders' equity	**67,984**	55,160	25,998	21,958	18,354
Total liabilities	**1,242,568**	878,942	708,615	564,757	475,663
Deposits from customers	**943,534**	773,757	634,404	512,586	406,886
Total assets	**1,310,552**	934,102	734,613	586,715	494,017
Loans and advances to customers(1)	**654,417**	549,420	458,675	363,097	298,960
Key financial ratio			(%)		
Return on average assets (after tax)	**1.36**	0.81	0.57	0.61	0.51
Return on average equity (after tax)	**24.76**	16.74	15.64	16.25	12.57
Cost-to-income ratio	**34.94**	38.28	41.10	41.18	43.62
Non-performing loan ratio	**1.54**	2.12	2.58	2.88	3.15
Core capital adequacy ratio(2)	**9.02**	9.58	5.57	5.41	6.17
Capital adequacy ratio(2)	**10.67**	11.39	9.01	9.47	9.49

Notes: (1) Loans and advances to customers represent gross loans and advances to customers less allowances for loan impairment loss.

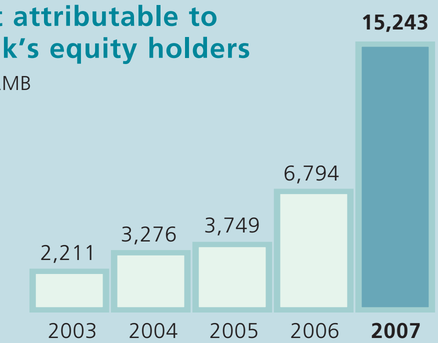
(2) The capital adequacy ratio as at 31 December 2003 was calculated based on the financial information prepared in accordance with the PRC GAAP and related guidelines of the People's Bank of China ("PBOC"). The capital adequacy ratios of year 2004 and the years afterwards were calculated based on the related guidelines of China Banking Regulatory Commission ("CBRC").

Five-year Financial Summary

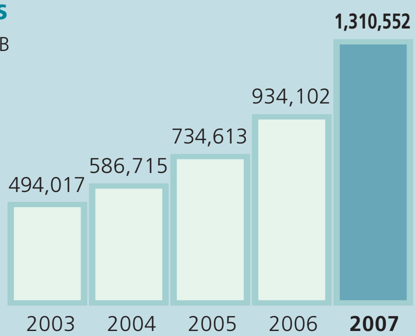
Net operating income
in millions of RMB



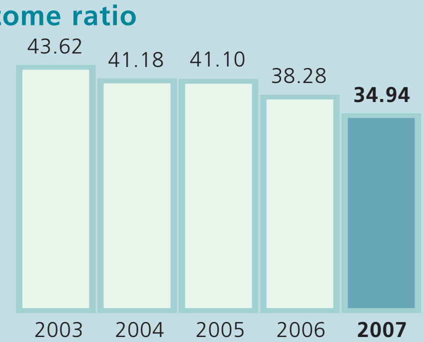
Net profit attributable to the Bank's equity holders
in millions of RMB



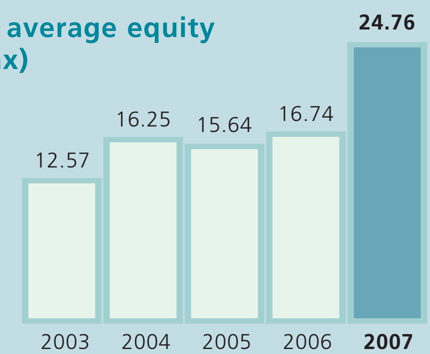
Total assets
in millions of RMB



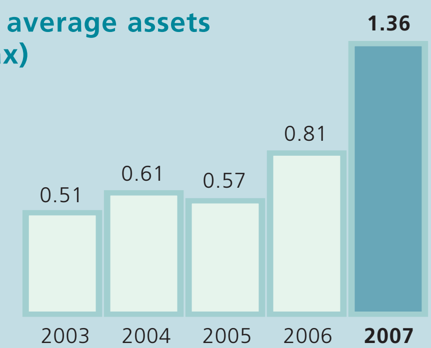
Cost-to-income ratio
%



Return on average equity (after tax)
%



Return on average assets (after tax)
%




QIN XIAO
Chairman

During this year, the Bank also changed along with the prevailing situation of macro economic control and new development trend in banking industry. It proactively adapted to market changes and responded to requests from shareholders, so that tasks were undertaken to improve operating business structure, enhance risk management, strengthen corporate governance and reforms, and carry out actively our social responsibilities and duties. As a result, the Bank maintained a strong level of profitability and achieved a brilliant record for the year.

Chairman's Statement

▲ **Chairman Qin Xiao gave a speech at the 2007 Interim Results Press Conference.**

2007 was characterized by the impressive changes as witnessed in the global financial industry. It was also a year of rapid growth for banks in the PRC. The government continued to carry out flexible economic and financial adjustment policies to cope with the international settlement imbalance and the issue of excessive liquidity. 2007 also marked the first year of full opening-up of the PRC banking industry to foreign capital. In response to the development trend and the changes in landscape of the banking industry, an increasing number of domestic financial institutions including banks and insurance companies sought to operate their businesses in a comprehensive approach. 2007 has also been a year of fluctuation for both the domestic and international financial markets. Material impacts arose from the sub-prime crisis in the U.S.. As a result, the domestic financial market was also affected when interactions with the international financial market become more frequent. This led to higher expectations on the improvement of risk management for banks. It can be said that the prevailing environment in which domestic banks operate is filled with uncertainties and conflicts as well as all sorts of un-precedented challenges.

This year, against the backdrop of macro economic control, the banking industry in China benefited from sustainable economic growth and achieved satisfactory results. A wide array of financial ratios improved markedly and the profitability also made a great leap. During this year, the Bank also changed along with the prevailing situation of macro economic control and new development trend in banking industry. It proactively adapted to market changes and responded to requests from shareholders, so that tasks were undertaken to improve operating business structure, enhance risk management, strengthen corporate governance and reforms, and carry out actively our social responsibilities and duties. As a result, the Bank maintained a strong level of profitability and achieved a brilliant record for the year.

Enhanced operating structure: the Bank accelerates the strategic transformation by increasing efforts on adjusting income and client structures, substantially develops retail banking and fee based business, credit card and small and medium sized enterprises businesses, and also continues to increase the proportion of non-interest income. In 2007, the Bank, aided by the successful transformation, achieved a profit growth of more than 120%, being the best operating results since its incorporation.

Risk management: The Bank keeps focusing on risk management and the building of internal control system with a view to ensure the sustainability and a healthy growth. In 2007, the Bank strengthened its risk management by imposing a series of improvement measures ranging from decision making procedures, operation flow, internal control to incentive system. With regard to the sub-prime crisis in the U.S., the Bank participated in certain sub-prime investments but gained profits by fully closing positions in mid 2006. The Bank effectively averted the impacts of the sub-prime crisis and achieved higher investment income by accurately predicting the market change.

Corporate governance: The board of directors and the management of the Bank have been devoted to building a prominent structure of corporate governance through the promotion of professionalism, diversification and independence of the composition of the board. The Bank highly values the communications with the capital market and endeavors to let the market have an accurate assessment and appreciation of the investment value of the Company, thereby creating the highest return for its investors. Due to the efforts contributed by its staff, the Bank has been generally regarded as one of the best banks in the PRC. The Bank received six awards granted by *Investor Relations*, including "The Best Corporate Governance Award", "The Best Investor Relations Award", "The Best Investor Relations CEO Award" and "The Best Annual Report Award".

▲ **Chairman Qin Xiao attended the Bank's 20th anniversary celebration.**

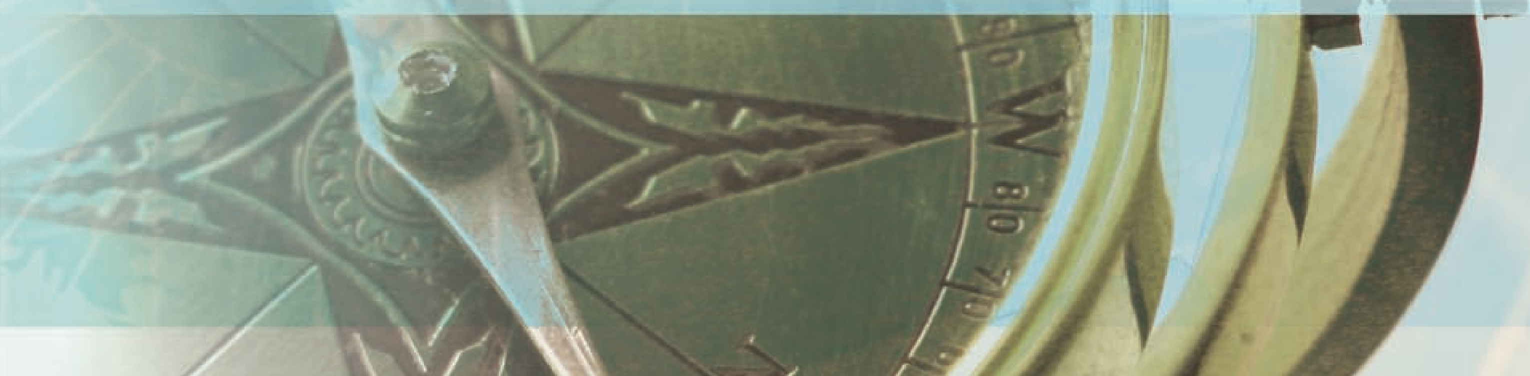
Social responsibilities: As a responsible corporate citizen, the Bank places high regard to contributing to the community and actively fulfills its social responsibilities and duties. Since its incorporation, the Bank has put tremendous efforts in fighting poverty, making donations to schools, anti-flood relief and environmental protection. The donations so far exceeded RMB60 million, which underlined the efforts made by the Bank for the establishment of a harmonious society.

Looking forward to 2008, we expect a more complicated and unpredictable environment for both the economy and financial market. We also expect that the macro economic control policies will still be in place and the competition within the industry will be more severe. In the long run, the strengthening and enhancement of macro economic controls can foster favorable conditions for the shift of modes of economic development and building a more comprehensive economic system, which will benefit the healthy growth of commercial banks. However, the stepped-up macro economic controls measures may also pose higher operating risks for banks. The Bank is confident of taking every challenges and competitions by adopting flexible operating strategies ahead of time. On the basis of strengthened risk management and prudent operation of business approach, we will continue to enhance our business structure and composition of clients, place emphasis to develop fee based businesses, put enhanced efforts on innovations so as to strengthen the profitability and maintain our leading position in the highly competitive market, and generate better return for our shareholders.

MA WEIHUA

President & CEO

In 2007, China Merchants Bank celebrated its 20th anniversary and achieved the best operation results since its establishment. During the year, in light of the full opening-up of the financial market, the persisting macro economic control policies and profound changes in market situations, the Bank earnestly abided by the guiding principles of "Confronting crisis proactively, preventing risks, overcoming bottlenecks and accelerating the 10 reforms" in accordance with the strategies set by the Board. The Bank has made its efforts in the adjustment of business strategies and implementation of international management standards and satisfactorily accomplished all targets set by management at the beginning of the year.



President's Statement

▲ **President Ma Weihua gave address at the Bank's 20th anniversary celebration.**

In 2007, China Merchants Bank celebrated its 20th anniversary and achieved the best operation results since its establishment. During the year, in light of the full opening-up of the financial market, the persisting macro economic control policies and profound changes in market situations, the Bank earnestly abided by the guiding principles of "Confronting crisis proactively, preventing risks, overcoming bottlenecks and accelerating the 10 reforms" in accordance with the strategies set by the Board. The Bank has made its efforts in the adjustment of business strategies and implementation of international management standards and satisfactorily accomplished all targets set by management at the beginning of the year.

As at the end of 2007, the total assets of the Bank reached RMB1,310.552 billion, up 40.30% from the beginning of the year, while the total deposits reached RMB943.534 billion, increasing by 21.94%; the total customer loans amounted to RMB673.167 billion, increasing by19.00%; the non-performing loans ratio was 1.54%, dropping by 0.58 percentage point from the beginning of the year; provision coverage ratio was 180.39%, increasing by 44.78 percentage points from the beginning of the year; and we recorded a net profit of RMB15.243 billion with an increase of 124.36%.

Our business development in 2007 featured the following significant characteristics. Firstly, we further enhanced our profitability. Our return on average assets ("ROAA") reached 1.36% at the end of the year, 0.55 percentage point higher than that of the previous year; our return on average equity ("ROAE") was 24.76%, an increase of 8.02 percentage points compared to the previous year. Secondly, our retail banking business grew rapidly. Our total retail loans accounted for 26.00% of total customer loans, representing a rise of 7.97 percentage points from the beginning of the year. The number of Sunflower clients reached 290,000, of which new clients amounted to 150,000, representing an increase of 107%. Thirdly, the proportion of net fee and commission income kept rising significantly. The net fee and commission income realised in the year was RMB6.439 billion, up by 156.13%, which was accounted for 15.67% of the business operating net income, representing an increase of 5.56 percentage points over that of the previous year. Finally, the assets quality continues to improve. As at the end of 2007, the balance of the Company's non-performing loans amounted to RMB10.394 billion, a reduction of RMB1.612 billion from last year; the non-performing loans ratio was 1.54%, down 0.58 percentage point from last year.

In 2007, the Company proactively embarked on the research on the issues such as industry focuses, group clients and risks pre-warning, timely provided the adjustment proposals for loans towards real estate and high pollution, high energy consumption and high resources dependent industries, optimized the client portfolio for loan appropriation, promoted the dual-signing system, strengthened the investigation and maintenance of the data and client credit ratings system so as to enhance the quality of assets. We fully enforced internal funds transfer pricing system and online products pricing analysis system, and thereby finally improved the ability to manage market risks. We also fully reinforced the compliance and internal control management through the establishment of compliance system, the development of the system for detecting large-sum and suspicious transactions, the commencement of three compliance monitoring tasks, the implementation of the appointment system for accounting supervisors and two-grade appraisal system for the accounting operation.

In 2007, we intensified various marketing campaigns and actively commenced the promotion of cutting-edge products such as cash management and online banking services, which brought about satisfactory marketing result. The volume of online corporate banking transactions increased by 53%, representing 38% of the transactions that would otherwise be taken over-the-counter, an increase of 11 percentage points from the beginning of the year. The number of new retail customers using our professional version of online banking services increased by 90%, and the related online transactions made up 61% of total retail banking transactions, an increase of 16 percentage points from the beginning of the year. We newly issued 10.34 million credit cards during the year and the total number of credit cards issued to date exceeded 20 million. As at the year end, the customers of third-party custodian reached 2.87 million. During the year, total number of new cash management accounts reached 60,123 at the end of the year. The sales revenues of wealth management products for general customers increased by RMB48.2 billion and the aggregate value of such products reached RMB54 billion at the end of the year. The signed-up clients for corporate annuity fund management increased by 1,000 and total number of clients reached 1,087 at the end of the year, marked the leading position of the Company in terms of market share.

In 2007, we continued the expansion by applying the new core banking system across the bank, and succeeded in applying new core banking systems for the Head Office Banking Department, Off-shore Banking Department as well as 12 branches including Shenzhen branch. We concentrated our resources on the key business and management projects, strictly executed the data management and examination, and sped up the construction of data bank and management information system. We were the first bank in China whose digital certificate system passed the safety review supervised by National Password Authority. The safety of the Company's online banking has been affirmed by national authority institutions and experts.

In 2007, the Company was approved to establish its New York branch in New York, the United States, which made us the first Chinese bank to open its branch in the U.S. since the issue of the US Foreign Bank Supervision Enhancement Act of 1991. It was the first time for us to publish the corporate social responsibility report. We were also granted six awards by the British *Investor Relations*, giving a boost to the brand image of the Company.

The above achievements were attributable to the joint efforts of all our staff and the firm support from our clients, investors and general public of the society. I hereby extend sincere gratitude on behalf of the Bank to our friends who have been supporting and caring for our developments all the times.

2008 is the beginning year for the Bank to enter into a new mileage for the next 20 years. We will abide by the guiding principles of "Managing reforms, transforming the operational process, preventing risks and developing itself scientifically". We must fully leverage the opportunities and challenges brought by social and economic developments; improve the reform and promote development at all levels of the Bank with the awareness of urgency, crisis and responsibility, thereby infusing energy into management in order to further implement the business strategic adjustment. All these above efforts are for the purposes of laying a solid foundation for the development of the Bank in the next 20 years.

On 8 April 2007, state leader accompanied by Qin Xiao, Chairman and Ma Weihua, President of China Merchants Bank, open the "Gate to the Future" at the Bank's 20th Anniversary Celebration.

SHI JILIANG

Chairman of the Board of Supervisors

HIGH QUALITY

PEOPLE-ORIENTED SERVICES

Analysis of general operating status

In 2007, profit of the Company kept growing rapidly and its profitability continued to increase in line with business development, risk management and profit growth. Meanwhile, with the process of restructuring, the overall operating activities of the Company displayed a good momentum of development, which were specifically reflected in the following aspects:

Analysis of Income Statement

Financial results highlights

	2007	2006
	(In millions of RMB)	
Net interest income	**33,902**	21,509
Net fee and commission income	**6,439**	2,514
Other net income	**707**	843
Operating expenses	**16,738**	11,091
Share of profits of an associate	**38**	–
Provision for impairment losses	**3,305**	3,691
Profit before tax	**21,043**	10,084
Income tax	**5,800**	3,290
Net profit attributable to equity holders of the Bank	**15,243**	6,794

In 2007, the Company achieved continuous and strong growth in its profitability. The profit before tax was RMB21.043 billion, an increase of 108.68% compared to the previous year; net profit attributable to the Bank's equity holders was RMB15.243 billion, an increase of 124.36% compared to the previous year.

The substantial increase in profits was mainly attributable to the impact of the following factors: firstly, there was an increase in the volume of interest-earning assets, widening of interest spreads and rapid growth of net interest income; secondly, net non-interest income continued to increase rapidly; thirdly, costs and expenses were under effective control, and the cost-to-income ratio continued to improve; fourthly, assets quality continued to remain good with significant reduction in credit costs; and finally, the increase in the proportion of profits from low tax rate regions had contributed to lower effective income tax rate.

The following table sets out the changes in the profit before tax of the Company for 2007 by major account caption.

	(In millions of RMB)
Profit before tax for 2006	**10,084**
Changes in 2007	
Net interest income	12,393
Net fee and commission income	3,925
Other net income	(136)
Operating expenses	(5,647)
Share of profits of an associate	38
Provision for impairment losses	386
Profit before tax for 2007	**21,043**

Net operating income

In 2007, the net operating income of the Company was RMB41.086 billion, an increase of 65.23% from previous year. It was primarily due to rapid growth in interest income from loans and advances to customers, interest income from deposits and placements, fees and commission income. Net interest income accounted for 82.51%, a decrease of 3.99 percentage points from previous year; fee and commission income accounted for 15.67%, an increase of 5.56 percentage points from previous year.

The following table sets out the income composition of the Company in the past 5 years.

	2007	2006	2005	2004	2003
Net interest income	**82.51%**	86.50%	86.61%	91.17%	90.60%
Net fee and commission income	**15.67%**	10.11%	8.16%	5.67%	5.00%
Other net income	**1.72%**	3.39%	5.23%	3.16%	4.40%
Share of profits of an associate	**0.10%**	–	–	–	–
Net operating income	**100.00%**	100.00%	100.00%	100.00%	100.00%

Net interest income

In 2007, the net interest income of the Company was RMB33.902 billion, an increase of 57.62% from previous year. It was primarily attributable to the increase of average balance of and average return on interest-earning assets.

The following table sets out the average balances of assets and liabilities, interest income/interest expense and average yield/cost of the Company. The average balances of interest-earning assets and interest-bearing liabilities are the average of the daily balances.

	2007			2006		
	Average balance	**Interest income**	**Average yield (%)**	Average balance	Interest income	Average yield (%)
	(in millions of RMB, excluding percentages)					
Loans and advances to customers	**672,739**	**39,028**	**5.80**	526,122	26,891	5.11
Debt investments	**198,086**	**6,613**	**3.34**	124,520	3,919	3.15
Balances with central bank	**109,563**	**1,742**	**1.59**	66,431	1,044	1.57
Balances and placements with banks and other financial institutions	**109,224**	**4,202**	**3.85**	74,103	2,136	2.88
Total interest-earning assets	**1,089,612**	**51,585**	**4.73**	791,176	33,990	4.30

	2007			2006		
	Average balance	**Interest expense**	**Average cost (%)**	Average balance	Interest expense	Average cost (%)
	(in millions of RMB, excluding percentages)					
Deposits from customers	**790,466**	**13,255**	**1.68**	694,702	10,449	1.50
Amounts due to banks and other financial institutions	**196,643**	**3,983**	**2.03**	65,205	1,551	2.38
Issued debts	**14,218**	**445**	**3.13**	15,528	481	3.10
Total interest-bearing liabilities	**1,001,327**	**17,683**	**1.77**	775,435	12,481	1.61
Net interest income	**–**	**33,902**	**–**	–	21,509	–
Net interest spread(1)	**–**	**–**	**2.96**	–	–	2.69
Net interest margin(2)	**–**	**–**	**3.11**	–	–	2.72

Notes:

(1) Net interest spread is the difference between the average yield of total interest-earning assets and the average cost of total interest-bearing liabilities.

(2) Net interest margin is net interest income divided by the average balance of total interest-earning assets.

The following table sets out the allocation of changes in interest income and interest expenses due to changes in volume and rate. Changes in volume are measured by changes in average balances (daily average balance) while changes in rate are measured by changes in the average rates.

	2007 vs. 2006		
	Increase/ (decrease) due to		Net increase/ (decrease)
	Volume	Interest rate	
	(in millions of RMB)		
Assets			
Loans and advances to customers	**7,494**	**4,643**	**12,137**
Debts investments	**2,315**	**379**	**2,694**
Balances with central bank	**678**	**20**	**698**
Balances and placements with banks and other financial institutions	**1,012**	**1,054**	**2,066**
Changes in interest income	**11,499**	**6,096**	**17,595**
Liabilities			
Deposits from customers	**1,440**	**1,366**	**2,806**
Amounts due to banks and other financial institutions	**3,126**	**(694)**	**2,432**
Issued debts	**(41)**	**5**	**(36)**
Changes in interest expense	**4,525**	**677**	**5,202**
Changes in net interest income	**6,974**	**5,419**	**12,393**

Interest income

In 2007, the interest income of the Company increased by 51.77% compared to the previous year, which was primarily attributable to the increase in average balance and average yield of loans and advances to customers, debt investments, and placements with banks and other financial institutions. Interest income from loans and advances to customers still accounted for the majority of the interest income of the Company.

Interest income from loans and advances to customers

The following table sets out the average balances, interest income and average yield of respective types of loans and advances to customers of the Company.

	2007			2006		
	Average balance	**Interest income**	**Average yield (%)**	Average balance	Interest income	Average yield (%)
	(in millions of RMB, excluding percentages)					
Corporate loans	**408,848**	**25,231**	**6.17**	336,814	18,853	5.60
Retail loans	**140,402**	**8,482**	**6.04**	84,320	4,967	5.89
Discounted bills	**123,489**	**5,315**	**4.30**	104,988	3,071	2.93
Loans and advances to customers	**672,739**	**39,028**	**5.80**	526,122	26,891	5.11

Note: The above average balances were averages of daily balances.

In 2007, the interest income from loans and advances to customers of the Company increased by 45.13% compared to the previous year. The increase of interest income is primarily caused by the following factors: (1) the business of corporate loans and retail loans developed rapidly. As a result, the average balance of corporate loans increased by 21.39%, the average balance of retail loans increased by 66.51%, and the impact of the increasing average balance of loans and advances to customers accounted for 61.75% of the total increase in interest income; (2) six times of interest rate increases for loans as announced by the People's Bank of China ("PBOC") and the high interest rates in US dollar, resulting in a rise in average yield of both corporate loans and retail loans. Owing to the significant increase of interest rate in the bills market in 2007, the average yield of bills discounted was up by 137 basis points compared to the previous year.

Interest income from debts investments

In 2007, the interest income from debt investments increased by 68.74% compared to the previous year. It was primarily attributable to the rapid increase in the average balances of the investments of RMB198.086 billion, an increase of 59.08% compared to the previous year. This factor accounted for 85.93% of the return on investments. On the other hand, with the rise in market interest rate, there was increase in the yield of investments to 3.34% in 2007 from 3.15% in 2006, up by 19 basis points. The contribution from the yield accounted for 14.07% of the return on investments.

Interest income from balances and placements with banks and other financial institutions

In 2007, the interest income from balances and placements with banks and other financial institutions of the Company increased by 96.72% compared to the previous year, and its percentage attributable to the interest income increased from 6.28% in 2006 to 8.15% in 2007. It was primarily attributable to the increase in the average balance for deposits and placements with banks and other financial institutions to RMB109.224 billion, representing an increase of 47.39% compared to the previous year. Furthermore, in 2007, the average yield of the deposits and placements with banks and other financial institutions increased by 97 basis points compared to the previous year.

Interest expense

In 2007, the interest expense of the Company increased by 41.68% compared to the previous year. It was primarily attributable to the increase in average balance of deposits and average cost.

Interest expenses on deposits from customers

Deposits from customers are the major funding source of the Company. In 2007, the Company's interest expense on deposits from customers increased by 26.85% compared to the previous year. The influence of increase in average balance and the change in average cost accounted for 51.32% and 48.68% respectively. With the interest rate of deposits raised by the PBOC for six times in 2007, the overall funding cost increased to some degree, thus resulting in the average cost of deposits from customers increased by 18 basis points compared to the previous year.

The following table sets forth the average balance, interest expense and average cost for corporate and retail deposits of the Company.

	2007			2006		
	Average balance	**Interest expense**	**Average cost (%)**	Average balance	Interest expense	Average cost (%)
	(in millions of RMB, excluding percentages)					
Deposits from corporate customers						
Demand	**284,176**	**2,867**	**1.01**	235,488	2,136	0.91
Time	**220,448**	**5,958**	**2.70**	176,897	4,158	2.35
Subtotal	**504,624**	**8,825**	**1.75**	412,385	6,294	1.53
Deposits from retail customers						
Demand	**158,777**	**1,266**	**0.80**	128,226	951	0.74
Time	**127,065**	**3,164**	**2.49**	154,091	3,204	2.08
Subtotal	**285,842**	**4,430**	**1.55**	282,317	4,155	1.47
Total deposits from customers	**790,466**	**13,255**	**1.68**	694,702	10,449	1.50

Note: The above average balances were averages of daily balances.

Interest expenses on amounts due to banks and other financial institutions

In 2007, interest expenses on amounts due to banks and other financial institutions increased by 156.80% compared to the previous year. It was primarily attributable to the increase in borrowings from banks and other financial institutions under active capital markets in 2007.

Interest expenses on issued debts

In 2007, the interest expenses on issued debts decreased by 7.48% compared to the previous year, primarily due to the three-year deposit certificates issued by the Company on 21 June 2004, and expired on 20 June 2007.

Net interest spread and net interest margin

In 2007, the net interest spread of the Company was 2.96%, up by 27 basis points compared to the previous year. It was primarily because the average interest margin of the interest-earning assets of the Company increased from 4.30% in 2006 to 4.73% in 2007, up by 43 basis points, and the average cost of the interest-bearing liabilities increased from 1.61% in 2006 to 1.77% in 2007, up by 16 basis points.

In 2007, the net interest margin of the Company was 3.11%, up by 39 basis points compared to the previous year. Such an increase was primarily due to the increase in interest rate six times for loans and advances by PBOC in 2007 while there was no remarkable change in interest rate for savings deposits, and increased the activities in the capital market resulted in an increase in the proportion of corporate savings deposits; meanwhile, the Company strived to improve its pricing strategy, thus resulting in higher net interest margin. Net interest income increased by 57.62%, which was higher than the 37.72% increase of the average balance of total interest-earning assets.

Net fee and commission income

In 2007, the contribution of net fees and commission income to the net operating income of the Company increased to 15.67% from 10.11% in 2006. The following table sets forth the principal components of net fee and commission income of the Company.

	2007	2006
	(In millions of RMB)	
Fee and commission income	**7,258**	2,988
Bank cards fees	**1,896**	1,003
Remittance and settlement fees	**774**	607
Agency services fees	**2,978**	778
Commissions from credit commitment and loan business	**424**	267
Trust services fees	**696**	52
Others	**490**	281
Fee and commission expenses	**(819)**	(474)
Net fee and commission income	**6,439**	2,514

In 2007, net fee and commission income of the Company increased by 156.13% compared to the previous year. Such an increase was primarily attributable to increases in all categories of fees and commissions, particularly the bank cards fees, agency services fee and trust services fees.

In 2007, bank cards fee income increased by 89.03% compared to the previous year. It was primarily due to increased issuance and transactions volume of bank cards, of which credit cards fees accounted for over 70%, an increase of 107.1% compared to the previous year.

In 2007, the income from agency services increased by 282.78% compared to the previous year. The increase was primarily attributable to booming stock market in China during 2007, so that the Company stepped up marketing of its fund distribution, securities agency, insurance agency and underwriting short-term commercial papers business. Of which, income from fund distribution and securities agency amounted to RMB2.44 billion, a 466.3% growth compared to the previous year.

Trust services fees increased by 1,238.46% compared to the previous year, which was primarily attributable to significant increase in business of wealth management, assets custody, third-party custodian services.

In 2007, fee and commission expenses increased by 72.78% compared to the previous year. The increase was primarily attributable to rapid growth of credit cards issuance. On the other hand, there was an increase in expenses on credit card service. Commissions on ATM cross-bank withdrawals also recorded an increase to some degree.

Other net income

In 2007, other net income of the Company decreased by 16.13% compared to the previous year. It was primarily due to decreased net income from foreign exchange transactions as well as decreased income from fund investments. Other net income accounted for 1.72% of the net operating income.

The following table sets forth the principal components of other net income of the Company.

	2007	2006
	(In millions of RMB)	
Trading profits arising from:		
– Foreign exchange	**226**	337
– Securities, derivatives and other trading activities	**267**	265
Net gain on financial instruments designated at fair value through profit or loss	**29**	49
Net loss on disposal of available-for-sale financial assets	**(4)**	(22)
Distributions from investment in funds	**53**	117
Net gain on disposal of fixed assets	**19**	1
Rental income	**64**	64
Others	**53**	32
Total other net income	**707**	843

Operating expenses

In 2007, the operating expenses were RMB16.738 billion, representing an increase of 50.92% compared to the previous year. The increase in operating expenses was 14.31 percentage points lower than the increase in net operating income, reflecting that there was an increase in efficiency. In 2007, the cost-to-income ratio was 34.94%, decreased by 3.34 percentage points compared to the previous year, which was primarily attributable to robust growth of the net operating income of the Company.

The following table sets forth the principal components of the operating expenses of the Company.

	2007	2006
	(In millions of RMB)	
Staff costs	**8,092**	5,053
Business tax and surcharges	**2,384**	1,573
Depreciation and rental expenses	**2,098**	1,741
Other general and administrative expenses	**4,164**	2,724
Total operating expenses	**16,738**	11,091

Staff costs constituted the majority of the operating expenses of the Company. In 2007, staff costs increased by 60.14% compared to the previous year, which was primarily due to increased headcounts and performance based bonuses along with our business expansion. In 2007, the Company recruited an addition of 5,769 employees, mainly for retail banking including credit card business. Depreciation and rental expenses increased by 20.51%, which were primarily due to increased capital expenditure on fixed assets including electronic equipments, in new branches and offices. Other general and administrative expenses increased by 52.86% and the business tax and surcharges increased by 51.56%, which were in line with the overall growth of business development and the operation of the Company.

Provision for impairment losses

In 2007, provision for impairment losses was RMB3.305 billion, a decrease of 10.46% compared to the previous year. The following table sets forth, for the periods indicated, the principal components of provision for impairment losses of the Company.

	2007	2006
	(In millions of RMB)	
Impairment losses charged/(released) on:		
– Loans and advances	**3,006**	3,537
– Deposits and placements with banks and other financial institutions	**152**	(91)
– Other assets	**147**	245
Total provision for impairment losses	**3,305**	3,691

Provision for impairment losses on loans and advances constituted the largest component of the provision for impairment losses. In 2007, provision for impairment losses on loans and advances was RMB3.006 billion, representing a decrease of 15.01% compared to the previous year. For the details of the provision for impairment losses on loans and advances, please refer to the section headed "Loan Quality Analysis" of this section.

In 2007, the provision for impairment losses on deposits and placements with banks and other financial institutions was RMB152 million, primarily due to an increase of 155.94% the deposits and placements with banks and other financial institutions.

Provision for impairment losses on other assets consisted primarily of provision for impairment losses on repossessed assets, which represented the difference between the estimated realizable value and the carrying value of our repossessed assets. In 2007, the provision for impairment losses on other assets of the Company was RMB147 million.

Income tax

In 2007, the Company's effective income tax rate was 27.56%, a decrease of 5.07 percentage points compared to 2006. As the amount of taxable income for Shenzhen area accounted for 34.20% of the gross amount of taxable income of the Company in 2007, while in 2006, the amount of taxable income for Shenzhen area accounted for 12.46%. As the proportion of profit contribution from Shenzhen area increasing, the lower tax rate in Shenzhen has resulted in a reduction of the Company's overall effective income tax rate.

Analysis of balance sheet

Assets

As at 31 December 2007, the total assets of the Company were RMB1,310.552 billion, representing an increase of 40.30% compared to the previous year end. The increase in total assets was primarily due to the increase in loans and advances to customers, investments, and placements with banks and other financial institutions, which were the three major components of the Company's asset portfolio. The increase in these three types of assets accounted for approximately 81.75% of the increase in total assets. Meanwhile, due to the increase in deposit reserve rate by the PBOC, the Company's deposits with the central bank increased significantly. In addition, the Company's diversified operations achieved substantial progress. In 2007, we acquired 33.4% equity interest in China Merchants Fund Management Co., Ltd. and the balance of interest in an associate was RMB225 million.

In 2007, due to the Company's implementation of the macro economic control policies of the state and the stringent loan control requirements stipulated by PBOC and China Banking Regulatory Commission ("CBRC"), the Company continued its efforts in strict control of loan growth and further diversified its assets. Meanwhile, to enhance the efficiency in fund use, the Company increased placements with other reputable banks and financial institutions, significantly increasing its placements with banks and other financial institutions.

The following table sets forth the components of the total assets of the Company.

	As at 31 December 2007		As at 31 December 2006	
	Amount	**Percentage of the total (%)**	Amount	Percentage of the total (%)
	(in millions of RMB, excluding percentages)			
Gross loans and advances to customers	**673,167**	**51.36**	565,702	60.56
Provision for impairment losses on loans and advances	**(18,750)**	**(1.43)**	(16,282)	(1.74)
Loans and advances to customers	**654,417**	**49.93**	549,420	58.82
Investments	**244,123**	**18.63**	178,885	19.15
Interest in an associate	**225**	**0.02**	–	–
Balances with the central bank	**146,266**	**11.16**	82,372	8.82
Cash and balances with banks and other financial institutions	**20,276**	**1.55**	20,861	2.23
Placement with banks and other financial institutions	**225,669**	**17.22**	88,171	9.44
Other assets	**19,576**	**1.49**	14,393	1.54
Total assets	**1,310,552**	**100.00**	934,102	100.00

Loans and advances to Customers

As at 31 December 2007, total loans and advances to customers amounted to RMB673.167 billion, representing an increase of 19.00% compared to the previous year end; the percentage of total loans and advances to customers to the total assets was 51.36%, representing a decrease of 9.20 percentage points compared to the previous year.

Distribution of loans by product type

The following table sets forth the loans and advances to customers by product type.

	As at 31 December 2007		As at 31 December 2006	
	Amount	**As a percentage to total loans and advances to customer (%)**	Amount	As a percentage to total loans and advances to customer (%)
	(in millions of RMB, excluding percentages)			
Corporate loans	**445,865**	**66.23**	359,883	63.62
Discounted bills	**52,276**	**7.77**	103,836	18.35
Retail loans	**175,026**	**26.00**	101,983	18.03
Total loans and advances to customers	**673,167**	**100.00**	565,702	100.00

In recent years, the Company continued to increase its efforts to expand the business in retail loans, and the proportion of its retail loans in the loan portfolio. As at 31 December 2007, retail loans accounted for 26.00% of the total loan and advances to customers, representing an increase of 7.97 percentage points compared to the previous year end.

Corporate loans

As at 31 December 2007, corporate loans amounted to RMB445.865 billion, increasing by 23.89% from the beginning of the year and accounted for 66.23% of total customer loans. The increase was the result of higher corporate demand for loans due to the rapid expansion of the PRC economy. For the year ended 31 December 2007, corporate loans granted by the Company were mainly used by the manufacturing and processing industries, transport, storage and postal industry as well as the wholesale and retail sectors. The above three major industries absorbed RMB266.920 billion of corporate loans, or 59.87% of total corporate loans. In 2007, in order to further optimize the loan structure, apart from the above key industries, the Company also appropriately stepped up our financing support for small and medium sized enterprises and in the form of trade financing loans.

Discounted bills

As at 31 December 2007, our discounted bills amounted to RMB52.276 billion, a decrease of 49.66% compared to the beginning of the year. Over the years, as the default rate of discounted bills was relatively low, and the capital consumption was relatively small, the Company has continued to focus on the expansion of this business. However, owing to further tightening of the lending business and increased fluctuations of market interest rates in 2007, the Company appropriately adjusted its operational strategies: on one hand by speeding up the turnover of bills to acquire earnings from the difference and on the other hand by controlling the loan size through the sale of bills, so as to implement the loan size control policies of the State.

Retail loans

As at 31 December 2007, our retail loans amounted to RMB175.026 billion, increased by 71.62% compared to the previous year end. The increase was primarily due to continued growth of residential mortgage loans and rapid development of the credit card business. The following table sets forth, as at the dates indicated, the retail loans by product type.

	As at 31 December 2007		As at 31 December 2006	
	Amount	**As a percentage to total loans and advances to customer (%)**	Amount	As a percentage to total loans and advances to customer (%)
	(in millions of RMB, excluding percentages)			
Residential mortgage loans	**131,138**	**74.93**	81,383	79.80
Credit card balances	**21,324**	**12.18**	10,146	9.95
Others(1)	**22,564**	**12.89**	10,454	10.25
Total retail loans	**175,026**	**100.00**	101,983	100.00

Notes:

(1) Consists primarily of retail loans secured by monetary assets, automobile loans, home improvement loans, education loans and general consumption loans.

As at 31 December 2007, our residential mortgage loans increased by 61.14% compared to the previous year end, primarily due to the continued efforts made by the Company to expand the business of residential mortgage loans.

Our credit card balances increased by 110.17% compared to the previous year end which were driven by the rapid growth of the credit card business of the Company.

Investments

Investments in subprime related collateralised debt obligations

As at the end of 2007, the Company held nil balance of the securities backed by subprime mortgage and its ancillary derivatives ("subprime products"). The Company made investment in the securities backed by subprime mortgages in early 2004 which were subsequently disposed of and a profit was recorded in mid 2006, and the Company has never made any investments in subprime products since then, so the Company has not incurred direct loss from the related products of the subprime mortgage.

As a result of the subprime mortgage crisis, the international fixed income markets polarized with increasing credit spreads. Meanwhile, U.S treasury bonds and a few other bonds with high credit ratings were favoured by the market, and on the other hand, the market price of bonds issued by financial institutions affected by the subprime mortgage crisis fell at different degree. The US Federal Reserve started to cut interest rates to avoid economic recession. Under the combined influence of the aforementioned factors, the fair value of bonds denominated in foreign currencies fluctuated significantly. As at the end of 2007, the balance of bonds denominated in foreign currencies held by the Company amounted to approximately US$4 billion; among which bonds issued by sovereign, governments and institutions in Asia accounted for 32.96%; those issued by Group of Seven (G7) governments,institutions and international financial organizations accounted for 31.47%, foreign financial institutions 27.45%, domestic corporate debentures accounted for 3.29%, others accounted for 4.83%. As a whole, the bonds held by the Company are of higher credit ratings and are less affected by the subprime mortgage crisis.

Investments

Investments held by the Company comprises listed and non-listed securities denominated in Renminbi and foreign currencies, including financial assets at fair value through profit or loss, available-for-sale investments, held-to-maturity debt securities and receivables.

The following table sets forth the components of the investment portfolio of the Company:

	As at 31 December 2007		As at 31 December 2006	
	Amount	**Percentage of total (%)**	Amount	Percentage of total (%)
	(in millions of RMB, excluding percentages)			
Financial assets at fair value through profit or loss	**10,838**	**4.44**	7,960	4.45
Available-for-sale investments	**142,116**	**58.22**	109,476	61.20
Held-to-maturity debt securities	**74,632**	**30.57**	54,065	30.22
Receivables	**16,537**	**6.77**	7,384	4.13
Total investments	**244,123**	**100.00**	178,885	100.00

Financial assets at fair value through profit or loss

The securities dealing activities of the Company was primarily in response to the increase in volumes of trading with our customers. As at 31 December 2007, the financial assets at fair value through profit or loss increased by RMB2.878 billion compared to the previous year end. Among which, PRC government bonds, listed bonds issued by policy banks, PBOC bills and other investments, decreased by RMB1.867 billion, increased by RMB194 million, decreased by 1.007 billion, and increased by RMB5.558 billion respectively compared to the previous year end. The decrease in government bonds and PBOC bills was offset by the increase in other high-yield institutional bonds such as short-term financial notes which supplies are sufficient in the market.

The following table sets forth the components of the portfolio of financial asset at fair value through profit or loss of the Company:

	As at 31 December 2007	As at 31 December 2006
	(In millions of RMB)	
Financial assets at fair value through profit or loss		
PRC government bonds	**585**	2,452
PBOC bills	**986**	1,993
Bonds issued by policy banks	**2,146**	1,952
Others[1]	**7,121**	1,563
Total financial assets at fair value through profit or loss	**10,838**	7,960

(1) Consists of other bonds, equity investments and financial derivatives, etc.

Available-for-sale investments

As at 31 December 2007, the available-for-sale investments of the Company increased by RMB32.640 billion or 29.81%, representing 58.22% of the investments of the Company, which was the largest investment category of the Company. The increase was mainly due to the support of adequate liquidity from the increased deposits. Amongst all, (1) PBOC bills enjoyed the sovereign bond status. In recent years, PBOC issued bills to control the currency supply, in which such bonds have maturities meeting the Company's needs. The sound yield and liquidity of such bonds are consistent with the investment strategy of the Company, thus leading to the significant increase in these investments. (2) There was an increase in the investment in bonds issued by policy banks, as such bonds issued since 2007 were in line with the Company's current investment preference for mid-to-short term bonds; (3) There was an increase in investments in short term credit bonds such as short term financial bonds due to the stringent control over credit lending in 2007 and the rapid growth in short term credit bonds in the market. The changes in other bond investments was in line with the Company's investment directions and diversification, so as to meet the needs of effective risk control, and also enhance the return of such portfolio. In general, the bonds held in the available-for-sale investments portfolio mainly carried mid-to-short term duration with relatively short average remaining maturity and sound liquidity representing a properly managed exposures to credit risk and market risk.

The following table sets forth the components of the available-for-sale investment portfolio of the Company.

	As at 31 December 2007	As at 31 December 2006
	(In millions of RMB)	
Available-for-sale investments		
PRC government bonds	**6,858**	7,387
PBOC bills	**53,338**	43,699
Bonds issued by policy banks	**45,763**	26,411
Other bonds	**35,976**	25,017
Other investments	**–**	6,914
Equity investments	**181**	48
Total available-for-sale investments	**142,116**	109,476

Held-to-maturity debt securities

As at 31 December 2007, the held-to-maturity debt securities of the Company increased by RMB20.567 billion or 38.04% compared to the previous year end. The increase was primarily due to the support of a steady growth of core funding business of the Company. Amongst all, PRC government bonds, PBOC bills, bonds issued by policy banks and other debt securities investment recorded respective increases compared to the amounts of the same period last year, representing a balanced growth.

Such held-to-maturity portfolio has high credit rating, it consisted of most of the floating-rate bonds held by the Company. The coupon rates of these bonds would be adjusted according to the statutory benchmark rates. With the gradual increase in the PBOC's benchmark interest rate, this portfolio would have good investment return, with average remaining maturity of not more than 5 years and controllable risk in general.

The following table sets forth the components of held-to-maturity debt securities of the Company.

	As at 31 December 2007	As at 31 December 2006
	(In millions of RMB)	
Held-to-maturity debt securities		
PRC government bonds	**16,444**	13,773
PBOC bills	**10,810**	2,270
Bonds issued by policy banks	**34,582**	28,626
Other bonds	**12,796**	9,396
Total held-to-maturity debt securities	**74,632**	54,065

Receivables

Receivables are bearer's government bonds held by the Company which were historically carrying forward by underwriting. As at 31 December 2007, the balance of receivables was RMB16.537 billion, representing an increase of RMB9.153 billion over the previous year end. The increase mainly resulted from increased issuance of certificated government bonds, reduced subscription sentiments of customers under active capital market conditions and higher market yield due to the increase of interest rate, and the increased early redemption of government bonds before maturity.

Carrying value and fair value

All financial assets classified as at fair value through profit or loss and bonds investment held in the available-for-sale investments were stated at market value or at fair value. Due to the lack of a mature market for the receivables in the Company's investment portfolio and full recoverability is anticipated at maturity, the Company is unable to disclose its market value or fair value.

The following table sets forth, as at the dates indicated, the carrying value and the market value of the held-to-maturity debt securities in our investment portfolio:

	As at 31 December 2007		As at 31 December 2006	
	(in millions of RMB)			
	Carrying value	**Market/ fair value**	Carrying value	Market/ fair value
Held-to-maturity debt securities	**74,632**	**74,037**	54,065	54,335

Investment concentration

The following table sets forth, as at 31 December 2007, our investments with carrying value exceeded 10% of our shareholders' equity.

	As at 31 December 2007 (in millions of RMB, except percentages)			
	Carrying value	**Percentage of the total investments (%)**	**Percentage of total shareholders' equity (%)**	**Market/ fair value**
The PBOC	**73,134**	**30.0**	**107.6**	**73,832**
The Ministry of Finance ("MOF")	**31,849**	**13.0**	**46.8**	**31,846**
China Development Bank	**51,762**	**21.2**	**76.1**	**51,817**
The Export-Import Bank of China	**10,022**	**4.1**	**14.7**	**10,004**
Agriculture Development Bank of China	**20,707**	**8.5**	**30.5**	**20,830**
Total	**187,474**	**76.8**	**275.7**	**188,329**

Liabilities

As at 31 December 2007, the total liabilities of the Company amounted to RMB1,242.568 billion, an increase of 41.37% compared to the previous year end. Total deposits from customers was RMB943.534 billion, an increase of 21.94% compared to the previous year end, representing 75.93% of the total liabilities of the Company. The increase of liabilities was primarily due to a rapid growth of deposits from customers and inter-bank borrowings.

The following table sets forth, as at the dates indicated, the components of the total liabilities of the Company.

	As at 31 December 2007		As at 31 December 2006	
	Amount	**Percentage of the total (%)**	Amount	Percentage of the total (%)
	(in millions of RMB, excluding percentages)			
Deposits from customers	**943,534**	**75.93**	773,757	88.03
Deposits from banks and other financial institutions	**218,520**	**17.59**	68,854	7.83
Placements from banks and other financial institutions	**46,603**	**3.75**	7,749	0.89
Certificates of deposit issued	**1,095**	**0.09**	1,170	0.13
Convertible bonds issued	**13**	**0.00**	22	0.00
Subordinated notes issued	**3,500**	**0.28**	3,500	0.40
Other debts issued	**9,992**	**0.80**	9,987	1.14
Other liabilities	**19,311**	**1.56**	13,903	1.58
Total liabilities	**1,242,568**	**100.00**	878,942	100.00

Deposits from customers

The Company provides demand and time deposit products to corporate and retail customers. The following table sets forth the deposits from customers by product type and customer type.

	As at 31 December 2007		As at 31 December 2006	
	Amount	**Percentage of the total (%)**	Amount	Percentage of the total (%)
	(in millions of RMB, excluding percentages)			
Corporate customers				
Demand	**350,951**	**37.19**	257,235	33.24
Time	**266,050**	**28.20**	204,563	26.44
Subtotal	**617,001**	**65.39**	461,798	59.68
Retail deposits				
Demand	**190,697**	**20.21**	152,449	19.70
Time	**135,836**	**14.40**	159,510	20.62
Subtotal	**326,533**	**34.61**	311,959	40.32
Total deposits from customers	**943,534**	**100.00**	773,757	100.00

The Company continues to focus on developing deposit business. Deposits from customers of the Company maintained robust growth as a result of rapid economic growth in the PRC, increased disposable income of the public and increased PBOC's deposit interest rate. As at 31 December 2007, deposits from customers of the Company amounted to RMB943.534 billion, an increase of 21.94% compared to the previous year.

China's booming stock market in 2007 brought diffluent effect to retail customer deposits of commercial banks in China and the Company's retail customer deposits were also affected to a certain extent. As at the end of 2007, the percentage of retail deposits to total deposits from customers of the Company was 34.61%, a decrease of 5.71 percentage points compared to the beginning of the year. However, it still maintains a relatively high level among the banks in China.

Although interest spread between time deposit and demand deposit widened after PBOC adjusted the deposit interest rate, the booming stock market had more obvious impact on the changes of time deposit tenor of the Company, resulting in a drop in the percentage of time deposit to total deposits from customers. As at the end of 2007, the percentage of retail deposits to total deposits from customers of the Company was 42.59%, a decrease of 4.46 percentage points compared to the previous year. Among the figures, the proportion of corporate fixed-term deposits accounted for 43.12% of the corporate deposits, a decrease of 1.18 percentage points compared to the previous year, and the proportion of retail time deposits accounted for 41.60% of the retail deposits, representing a decrease of 9.53 percentage points compared to the previous year.

Market share of major products or services

According to the statistics published by the PBOC, as at the end of 2007, the market share and ranking of the Bank among the 13 banks incorporated as joint stock companies in terms of loans and deposits as at the end of 2007 are as follows:

Items	Market share	Ranking
Total deposits	12.68%	2
Total saving deposits	20.62%	2
Total loans	13.33%	2
Total individual consumption loans	19.38%	1

Note: The 13 joint stock banks include: Bank of Communications, China Merchants Bank, China Citic Bank, Pudong Development Bank , China Minsheng Bank, China Everbright Bank, Industrial Bank, Huaxia Bank, Guangdong Development Bank, Shenzhen Development Bank, Evergrowing Bank, Zhejiang Commercial Bank, and Bohai Bank.

Loan quality analysis

In 2007, the Company strictly carried out the macro economic control policies put forth by the State, envisaged the risks arising from continuously rapid economic growth, and persisted in the scientific outlook on development that characterized as "balanced development on profit, quality and scale". Through improving its credit risk management system, the Company further deepened the reform in its specialized loan approval and authorization system, strengthened the research of industry focus, intensified the construction of fundamental system of risk management, expedited the development and application of risk quantitative technology, facilitated the establishment of its credit information management system, strengthened the management of the "three checks" on credit and the collection of non-performing assets, promoted all works related to risk early warning and the construction of risk management system for corporate customers, continued to optimize the credit structure and quality. Due to the foregoing efforts, the development of its credit business was in a sound situation that demonstrated "appropriate growth of scale, continuous improvement in quality, remarkable effect on collection, adequate allowances for impairment, credit costs thus gradually declining".

Distribution of loan portfolios by loan classification

Under the 5-tier loan classification, the non-performing loans of the Company are classified into substandard, doubtful and loss. The term "non-performing loans" is of the same definition as the "impaired loans" used in this financial statements report.

	As at 31 December 2007		As at 31 December 2006	
	Amount	**Percentage of the total (%)**	Amount	Percentage of the total (%)
	(in millions of RMB, excluding percentages)			
Normal	**648,431**	**96.33**	542,238	95.85
Special Mention	**14,342**	**2.13**	11,458	2.03
Substandard	**1,910**	**0.28**	3,342	0.59
Doubtful	**4,512**	**0.67**	5,092	0.90
Loss	**3,972**	**0.59**	3,572	0.63
Total loans and advances to customers	**673,167**	**100.00**	565,702	100.00
Total non-performing loans	**10,394**	**1.54**	12,006	2.12

In 2007, the Company succeeded in reducing both the non-performing loans and non-performing loan ratio. The year-end non-performing loan balances were RMB10.394 billion, decreased by 1.612 billion, or 13.4%, compared to the previous year. As at the end of 2007, non-performing loan ratio was 1.54%, a decrease of 0.58 percentage point compared to the previous year. In 2007, the Company captured the opportunity when both the capital market and real estate price rose, and proactively strengthened non-performing loan recovery. For the year of 2007, an aggregate of RMB2.436 billion were recovered for loans of the last three categories, which was RMB860 million more as compared to the previous year, making it the best year for loan recovery.

Benefited by the decrease of the generation rate of non-performing loans of the Company as well as the reinforced recovery of sizeable non-performing assets and write-offs, as at the end of 2007, the proportion of Substandard, Doubtful and Loss loans all decreased as compared to the previous year. With the improvement of awareness and measures of early risk identification and positive risk management, the Company implemented an even tougher measures on the categorization standards of special mention loans, pushing up the proportion of special mention loans by 0.1% as compared to the end of previous year.

Loan structure and loan quality by product type

The following table sets forth, as at the dates indicated, the loans and advances to customers and non-performing loans by product type.

	As at 31 December 2007			As at 31 December 2006		
	Total loan balance	**Total non-performing loans**	**Non-performing loan ratio[1] (%)**	Total loan balance	Total non-performing loans	Non-performing loan ratio[1] (%)
	(in millions of RMB, excluding percentages)					
Corporate loans	**445,865**	**9,585**	**2.15**	359,883	11,452	3.18
Working capital loans	**339,991**	**8,198**	**2.41**	282,089	9,903	3.51
Fixed asset loans	**74,045**	**438**	**0.59**	60,427	796	1.32
Trade finance	**19,767**	**414**	**2.09**	12,204	240	1.97
Others[2]	**12,062**	**535**	**4.44**	5,163	513	9.94
Discounted bills[3]	**52,276**	**–**	**–**	103,836	–	–
Retail loans	**175,026**	**809**	**0.46**	101,983	554	0.54
Residential mortgage loans	**131,138**	**335**	**0.26**	81,383	322	0.40
Credit card balances	**21,324**	**409**	**1.92**	10,146	155	1.53
Automobile loans	**1,940**	**40**	**2.06**	895	54	6.03
Others[4]	**20,624**	**25**	**0.12**	9,559	23	0.24
Total loans and advances to customers	**673,167**	**10,394**	**1.54**	565,702	12,006	2.12

Notes:

(1) Percentage of non-performing loan to the total loan of the said category.

(2) Loans of this category were mainly corporate mortgage loans, including non-performing discounted commercial bills.

(3) Excluding non-performing discounted commercial bills described in Note (2). Once discounted commercial bills are classified as non-performing, the Company will classify them as non-performing corporate loans.

(4) Including retail loans secured by monetary assets, home improvement loans, education loans and general consumption loans.

In 2007, the Company paid much attention to the development trends of the macro economy and implemented a dynamic adjustment mechanism for its credit policy so as to effectively mitigate the impact that might result from changes in external operating environment while facilitating a steady business growth. Thereby, a balanced and optimized development trend in corporate loans and retail loans was fostered.

As at 31 December 2007, non-performing corporate loans decreased by RMB1.867 billion, and non-performing loan ratio decreased by 1.03 percentage points to 2.15%, among which the non-performing ratios and non-performing amounts of working capital loans and fixed asset loans significantly decreased, while the non-performing ratio of trade finance loans slightly increased.

In 2007, retail loan business of the Company achieved a rapid growth with quality level steadily improved. While recording a year-on-year growth of 71.62% in retail loans, the asset quality of this business was under effective control. As such, the non-performing ratio of retail loans decreased from 0.54% at the beginning of the year to 0.46% at the end of the year. Among them, the non-performing ratio of residential mortgage loan basically maintained the similar level as at the beginning of the year, decreasing by 0.14 percentage point to 0.26%; the non-performing ratio of credit card balances increased by 0.39 percentage point from the level at the beginning of the year due to the restrictions imposed by the policies for write-off of bad debts.

Loan structure and loan quality by industry sectors

The following table sets forth the distribution of loans and non-performing loans by industry.

	As at 31 December 2007			As at 31 December 2006		
	Total loan balance	**Percentage of the total (%)**	**Non-performing loan ratio(1) (%)**	Total loan balance	Percentage of the total (%)	Non-performing loan ratio(1) (%)
	(in millions of RMB, excluding percentages)					
Corporate loans	**445,865**	**66.23**	**2.15**	359,883	63.62	3.18
Manufacturing	**132,652**	**19.71**	**2.43**	103,870	18.36	2.96
Transportation, storage and postal services	**75,827**	**11.26**	**0.84**	77,181	13.64	0.50
Wholesale and retail	**58,441**	**8.68**	**3.13**	31,003	5.48	8.06
Property development	**43,181**	**6.41**	**3.78**	26,686	4.72	8.89
Production and supply of electric power, gas and water	**40,901**	**6.08**	**0.86**	38,260	6.76	1.56
Leasing and commercial services	**29,789**	**4.43**	**2.43**	27,646	4.89	4.22
Construction	**17,145**	**2.55**	**0.52**	12,668	2.24	0.84
Mining	**10,310**	**1.53**	**0.00**	9,594	1.70	0.00
Telecommunications, computer services and software	**7,145**	**1.06**	**3.99**	7,182	1.27	4.64
Financial services	**6,952**	**1.03**	**1.94**	4,115	0.73	3.38
Others(2)	**23,522**	**3.49**	**2.84**	21,678	3.83	3.59
Discounted bills	**52,276**	**7.77**	**0.00**	103,836	18.35	0.00
Retail loans	**175,026**	**26.00**	**0.46**	101,983	18.03	0.54
Residential mortgage loans	**131,138**	**19.48**	**0.26**	81,383	14.39	0.40
Credit card balances	**21,324**	**3.17**	**1.92**	10,146	1.79	1.53
Other retail loans(3)	**22,564**	**3.35**	**0.29**	10,454	1.85	0.73
Total	**673,167**	**100.00**	**1.54**	565,702	100.00	2.12

Notes:

(1) Represents the percentage of a certain category of non-performing loan to the total loans of the said category.

(2) Consists primarily of education, public utility management, culture, sports, and social welfare, etc.

(3) Consists primarily of retail loans secured by monetary assets, automobile loans, home improvement loans, education loans and general consumption loans.

In 2007, the Company implemented its industry credit policy that focused on industry research, management of loan limits set for industries and combined scientific theories with actual conditions. By placing loans to portfolio management, optimizing industry structure and improving asset quality, fruitful results were achieved. As at the end of 2007, among the corporate loans of the Company, the non-performing ratio of corporate loans (other than the non-performing ratio of loans to transportation, storage and postal service industries which slightly increased as compared to the beginning of the year) recorded decreases at different levels, reflecting that loan structure by industry sectors was reasonable and credit quality was well-balanced and optimal.

Percentage analysis by region

	As at 31 December 2007		As at 31 December 2006	
	Amount	**Percentage of the total (%)**	Amount	Percentage of the total (%)
	(in millions of RMB, excluding percentages)			
Eastern China	**275,956**	**40.99**	212,829	37.62
Southern China and Central China	**197,324**	**29.31**	177,092	31.31
Northern China	**121,474**	**18.05**	108,986	19.27
Western China	**71,898**	**10.68**	63,327	11.19
Others	**6,515**	**0.97**	3,468	0.61
Total	**673,167**	**100.00**	565,702	100.00

In 2007, the credit structure were rationally laid out and optimized by the Company based on the current condition and characteristics of development of regional economy, so as to highlight the features of regional credit businesses, and to emphasize the balanced and coordinated development between different regions. In response to the rapid economic growth and an apparent pulling effect of internal demand and individual consumption in eastern China, the Company has accordingly expanded the credit supply in that region, The percentage of credit and loan balance in that region increased from 37.62% of the previous year to 40.99% at the end of the reported period. Meanwhile, the percentages of the credit supplied to other regions in southern, central, northern and western China were appropriately and evenly reduced.

Distribution of loans by collateral

	As at 31 December 2007		As at 31 December 2006	
	Amount	**Percentage of the total (%)**	Amount	Percentage of the total (%)
	(in millions of RMB, excluding percentages)			
Loans secured by tangible assets, other than monetary assets	**212,839**	**31.62**	132,943	23.50
Loans secured by monetary assets[(1)]	**110,299**	**16.39**	145,870	25.79
Of which : discounted bills	**52,276**	**7.77**	103,836	18.35
Guaranteed loans	**185,472**	**27.55**	154,830	27.37
Unsecured loans	**164,557**	**24.44**	132,059	23.34
Gross loans and advances to customers	**673,167**	**100.00**	565,702	100.00

(1) Primarily consists of loans guaranteed by pledged deposits, financial instruments (including discounted bills) and account receivables with collection right on future cash flow.

In 2007, loans (including loans secured by monetary assets and secured by tangibles assets, other than monetary assets) collateralized by assets accounted for 48.01% of the loan portfolios of the Company, representing a decrease of 1.28 percentage points compared to the previous year. Amongst all, the percentage of loans secured by tangible assets, other than monetary assets, increased by 8.12 percentage points, for the Company had been taking collateral as an important means to mitigate credit risk; and the rapid growth of residential mortgage loans has boosted the percentage of loans secured by monetary assets; the percentage of loans secured by tangibles assets, other than monetary assets, decreased by 9.4 percentage points, which was primarily attributable to the decreased balance of discounted bills (which was classified as loans secured by tangibles assets, other than monetary assets) in the loan. The percentage of unsecured loans increased by 1.1 percentage points compared to the previous year, primarily due to the increase in loans granted through credit cards and unsecured loans granted by the Company to quality customers in more promising industries.

Distribution of loans by legal form of borrowers

	As at 31 December 2007		As at 31 December 2006	
	Amount	**Percentage of the total (%)**	Amount	Percentage of the total (%)
	(in millions of RMB, excluding percentages)			
State-owned enterprises	**179,192**	**26.62**	142,804	25.24
Joint-stock enterprises	**56,619**	**8.41**	42,642	7.54
Other limited liability enterprises	**77,186**	**11.47**	72,608	12.84
Others domestic enterprises	**56,831**	**8.44**	44,783	7.92
Subtotal of domestic enterprises	**369,828**	**54.94**	302,837	53.54
Foreign-invested enterprises	**69,522**	**10.33**	52,391	9.26
Subtotal of enterprises operating in the Mainland	**439,350**	**65.27**	355,228	62.80
Enterprises operating outside the Mainland	**6,515**	**0.96**	4,655	0.82
Subtotal of corporate loans	**445,865**	**66.23**	359,883	63.62
Discounted bills	**52,276**	**7.77**	103,836	18.35
Retail loans	**175,026**	**26.00**	101,983	18.03
Gross loans and advances to customers	**673,167**	**100.00**	565,702	100.00

In 2007, the percentage structure of the Company's loans by legal form of borrowers remained stable in general, with the corporate loans to the Chinese enterprises and foreign-invested enterprises operating in the Mainland as the main drive of growth. Among them, loans to the domestic enterprises and foreign-invested enterprises have increased by 1.4 percentage points and 1.07 percentage points respectively.

Loans to the top ten customers

(in millions of RMB, excluding percentages)

Top ten borrowers	Industry sector	Corporate nature	Loan balance as at 31 December 2007	% of total loans
CITIC Group	Other financial business	State-owned enterprise	4,600	0.68
Liaoning Provincial Communication Department	Communication & transportation	State-owned enterprise	3,673	0.55
Shandong Provincial Communication Department	Communication & transportation	State-owned enterprise	3,300	0.49
Jilin Provincial Communication Department	Communication & transportation	State-owned enterprise	2,100	0.31
Yunnan Provincial Road Development & Investment Co., Ltd. (雲南省公路開發投資有限責任公司)	Highways Development & Investment	State-owned enterprise	1,900	0.28
Handerson Finance Co., Ltd. (恒基財務有限公司)	Real estate	foreign-invested enterprise	1,872	0.28
Shannxi Provincial Communication Department	Communication & transportation	State-owned enterprise	1,800	0.27
Heilongjiang Provincial Communication Department	Communication & transportation	State-owned enterprise	1,770	0.26
China Guodian Corporation	Coal-fired power	State-owned enterprise	1,700	0.25
Shanxi Provincial Communication Department	Communication & transportation	State-owned enterprise	1,610	0.24
Total loans			**24,325**	**3.61**

As at 31 December 2007, the largest individual borrower of the Company was CITIC Group, whose loan balances, amounting to RMB4.6 billion at the end of the period, accounted for 6% of the Company's net capital, which is in line with the regulatory requirement stipulated by relevant regulatory authorities that the loan balances to an individual borrower shall not exceed 10% of the bank's net capital.

Overdue loans

The following table sets forth, as at the dates indicated, the distribution of our loan portfolios by overdue periods.

	As at 31 December 2007		As at 31 December 2006	
	Amount	**Percentage to the total (%)**	Amount	Percentage to the total (%)
	(in millions of RMB, excluding percentages)			
Overdue within 3 months	**4,573**	**0.68**	2,683	0.47
Overdue more than 3 months but within 1 year	**1,435**	**0.21**	1,751	0.31
Overdue more than 1 year but within 3 years	**3,026**	**0.45**	3,708	0.66
Overdue more than 3 years	**4,637**	**0.69**	4,796	0.85
Total overdue loans	**13,671**	**2.03**	12,938	2.29
Total loans	**673,167**	**100.00**	565,702	100.00

As the Company's capability of managing credit risks enhanced gradually, the overdue loans of the Company saw improvement in 2007, with its percentage to the total loans decreasing by 0.26 percentage point from 2.29% of the previous year to 2.03% at the end of this year. Particularly, the balances of overdue loans in each level that have an overdue period longer than 3 months have all decreased when compared with the previous year. The combination of the accountability mechanism for non-performing assets and the incentive mechanism for overdue loans recovery effectively prevents the overdue loans from substantial and continuous deterioration.

Rescheduled loans

The following table sets forth, as at the dates indicated, the information of our rescheduled loans.

	As at 31 December 2007		As at 31 December 2006	
	Amount	**Percentage to the total (%)**	Amount	Percentage to the total (%)
	(in millions of RMB, excluding percentages)			
Rescheduled loans	**1,790**	**0.27**	2,486	0.44
Of which: loans overdue more than 90 days	**1,332**	**0.20**	1,581	0.28

Note: Substandard and doubtful loans after rescheduling.

Discounted interest loan and its major components

During the reported period, the Company didn't have discounted interest loan.

Repossessed assets and its allowances for impairment losses

For the year ended 31 December 2007, the total repossessed assets of the Company amounted to RMB1.247 billion, and after deduction of allowances for impairment losses of RMB1.136 billion, the net repossessed assets amounted to RMB111 million.

Movements of allowances for impairment losses on loans to customers

The Company uses two methods of assessing impairment losses on loans and advances at the balance sheet date: those assessed individually and those assessed on a collective basis. Loans and advances which are considered individually significant are assessed individually for impairment. If there is any objective evidence indicating that a loan is impaired, the impairment losses amount will be measured as the difference between the carrying amount of the loan and its discounted value of estimated future cash flows recoverable through profit or loss of the current period. Loans and advances which are considered individually insignificant and have not yet been identified for loans subject to individual assessment for impairment are grouped in a pool of loans with similar credit risk characteristics for the purpose of impairment testing. And based on the result of testing, the Company will determine allowances for impairment losses on loans and advances assessed on a collective basis.

The following table sets forth the movements of allowances for impairment losses on loans to customers of the Company.

	2007	2006
	(In millions of RMB)	
As at 1 January	**16,282**	13,510
Charge for the year	**4,212**	4,152
Releases for the year	**(1,206)**	(615)
Unwinding of discount[1]	**(118)**	(222)
Recoveries of loans and advances previously written off	**48**	58
Write-offs	**(528)**	(328)
Transfers in/(out)	**238**	(188)
Exchange differences	**(178)**	(85)
As at 31 December	**18,750**	16,282

Notes:

(1) Represents the interest income accrued on impaired loans as a result of subsequent increases in their present values due to the passage of time.

As at 31 December 2007, allowances for impairment losses on loans and advances to customers of the Company amounted to RMB18.750 billion, representing an increase of RMB2.468 billion. At the same time the non-performing loan allowances coverage (total allowances for impairment losses on loans and advances to customers/total non-performing loans) was 180.39%, representing an increase of 44.78 percentage points as compared with that at the beginning of the year. The increase of balance of loan loss allowances was primarily due to the augment of loan scale, and on the other hand, the non-performing loan allowances coverage improved as well as the non-performing loans amount dropped significantly.

Analysis of capital adequacy ratio

The Company calculated and disclosed its capital adequacy ratio according to the guidelines of the Resolution on revision of the Regulation Governing Capital Adequacy of Commercial Banks (CBRC Order No. 2007 (11)) issued by the CBRC on 7 July 2007. For the year ended 31 December 2007, the capital adequacy ratio of the Company was 10.67%, representing a decrease of 0.72 percentage point as compared to last year, while the core capital adequacy ratio was 9.02%, representing a decrease of 0.56 percentage point as compared with that at the beginning of the year.

The following table sets forth the capital adequacy ratio and its related components.

	As at 31 December 2007	As at 31 December 2006 (restated)
	(In millions of RMB)	
Core capital		
Paid-up ordinary share capital	**14,705**	14,703
Reserves	**49,009**	38,422
Total core capital	**63,714**	53,125
Supplementary capital		
General provisions for doubtful debts	**10,434**	8,005
Term subordinated bonds	**1,400**	2,100
Convertible bonds	**13**	22
Investment revaluation reserve	**147**	98
Total supplementary capital	**11,994**	10,225
Total capital base before deductions	**75,708**	63,350
Deductions:		
– Investments in unconsolidated subsidiary and other long-term investments	**619**	125
– Investments in commercial real estate	**363**	406
Total capital base after deductions	**74,726**	62,819
Risk-weighted assets	**700,588**	551,503
Core capital adequacy ratio (%)	**9.02**	9.58
Capital adequacy ratio (%)	**10.67**	11.39

Segment operating results

The following segment operating results are presented by business segment and geographical segment. Business segment information is more relevant to the business operations of the Company, and so the Company chooses business segment information as the primary reporting format of segment information.

The Company evaluates the results of business segment through the internal funds transfer pricing mechanism ("FTP"), and the business segments effectuate capital loan at the internal interest rate based on market interest rate, and the inter-segment interest incomes and expenses confirmed by the FTP and pricing system are offset when consolidating the operating results of the Company. Net interest incomes of the respective segments, including interest income from loans to other segments and interest expense for borrowings from other segments, reflect the profit or loss of capital allocation to the business segment through the FTP. Cost distribution is based on the direct cost of related business segments and management fee distribution.

The main businesses of the Company include corporate banking, retail banking and treasury business. For more information about the products and services of the respective main businesses, refer to "Business Operations". The following table sets forth the operating results of the business segments of the Company.

	2007					2006				
	Corporate Banking	**Retail Banking**	**Treasury Business**	**Others and Unallocated**	**Total**	Corporate Banking	Retail Banking	Treasury Business	Others and Unallocated	Total
	(in millions of RMB)									
External net interest income(note 1)	**18,737**	**4,051**	**11,114**	**–**	**33,902**	14,348	812	6,349	–	21,509
Internal net interest (expense)/income(note 2)	**(390)**	**4,294**	**(3,904)**	**–**	**–**	(814)	4,086	(3,272)	–	–
Net interest income	**18,347**	**8,345**	**7,210**	**–**	**33,902**	13,534	4,898	3,077	–	21,509
Net fee and commission income	**1,621**	**4,666**	**–**	**152**	**6,439**	854	1,531	14	115	2,514
Other net income/(expense)	**666**	**272**	**(494)**	**263**	**707**	501	158	357	(173)	843
Total operating income/(expense)	**20,634**	**13,283**	**6,716**	**415**	**41,048**	14,889	6,587	3,448	(58)	24,866
Operating expenses	**(7,727)**	**(8,193)**	**(818)**	**–**	**(16,738)**	(5,882)	(4,507)	(697)	(5)	(11,091)
Provision for impairment losses	**(2,654)**	**(351)**	**(152)**	**(148)**	**(3,305)**	(3,241)	(533)	83	–	(3,691)
Share of profits of an associate	**–**	**–**	**–**	**38**	**38**	–	–	–	–	–
Profit/(loss) before tax	**10,253**	**4,739**	**5,746**	**305**	**21,043**	5,766	1,547	2,834	(63)	10,084

Notes: (1) Represents net interest income earned from each segment's external customers or activities.

(2) Represents net interest income/(expenses) attributable to each business segment's transactions with other segments, reflecting the profit or loss of funding allocation to each business segment under the FTP mechanism.

In 2007, the contributions made by each business segment to the profit before tax of the bank were: 48.72% from corporate banking, 22.52% from retail banking, and 27.31% from treasury business. Contribution from retail banking grew more quickly and its percentage increased accordingly.

The major outlets of the Company are located in relatively affluent regions and some large cities in other regions in China. The following table sets forth the segment results of the Company by geographical segments in 2007 and 2006.

	Eastern China		Southern and Central China		Western China		Northern China		Others		Total	
2007	**Amount**	**%**	**Amount**	**%**	**Amount**	**%**	**Amount**	**%**	**Amount**	**%**	**Amount**	**%**
						(in millions of RMB)						
Net operating income	**14,110**	**34**	**17,295**	**42**	**3,529**	**9**	**5,830**	**14**	**322**	**1**	**41,086**	**100**
Capital expenditure	**793**	**27**	**1,678**	**57**	**210**	**7**	**288**	**9**	**6**	**–**	**2,975**	**100**
Total assets	**326,857**	**25**	**717,382**	**55**	**90,644**	**7**	**156,281**	**12**	**19,388**	**1**	**1,310,552**	**100**
Including total loans and advances to customers	**275,956**	**41**	**197,324**	**29**	**71,898**	**11**	**121,474**	**18**	**6,515**	**1**	**673,167**	**100**
2006	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
						(in millions of RMB)						
Net operating income	9,098	36	8,414	34	2,487	10	4,722	19	145	1	24,866	100
Capital expenditure	509	29	898	51	123	7	233	13	5	–	1,768	100
Total assets	234,884	25	481,722	52	68,741	7	122,700	13	26,055	3	934,102	100
Including total loans and advances to customers	212,829	38	177,092	31	63,327	11	108,986	19	3,468	1	565,702	100

Notes: The definition of geographical segment, please refer to Note 36 (b) to the financial statements.

Business operations

Retail Banking Segment

The Company provides retail customers with diversified retail banking products and services, including retail loans, deposits, debit card, credit card, wealth management services, investment services, agency sale of insurance products and fund products, forex trading, and foreign exchange service, of which "All-in-one Card" , "credit card", "Borrow & Repay Anytime", "Sunflower" and personal online banking have won wide spread recognition. The Company provides the above services and products via diversified channels, including branches and sub-branches, self-service centers, ATM, CDM, online banking and telephone banking service system.

Retail loans

The Company provides retail customers with various loan products. In 2007, in view of the fierce competition in retail loans (mainly the residential mortgage loans) and intensified macro control on real estate, the Company made greater efforts to innovate and promote new retail loan products. The Company introduced the new products like "Self-Serviced Monthly Installment", commenced the promotion activities such as "Hundred Billion Campaign in individual Loans" and "Revolving Loan by Loan" and aggressively developed credit card consumption business, thereby further enhancing the overall competitiveness of retail loans. As at 31 December 2007, the total retail loans amounted to RMB175.026 billion, increasing by 71.62% when compared with that of the previous year, of which the total residential mortgage loan increased by 61.14% as compared to the previous year while the total receivables of credit cards increased by 110.17% as compared to the previous year. The total retail loans accounted for 26.00% of total loans, increasing by 7.97 percentage points from that of the previous year.

Retail customer deposits

The retail deposit products of the Company mainly consist of demand deposits, time deposits and call deposits. Retail customer deposits are the most important source of low-cost funding of the Company. During the year, due to the sustained rise of the stock market price and index with new record high, the numerous new share issues and listings and the continuous selling of funds by both new and existing fund products, the interests for wealth management of the general public rose to an unprecedented level. Funds in Renminbi saving deposits were channeled to the stock market through "third party custodian", transfer to bank securities accounts, investment funds and wealth management products, resulting in the slow growth of savings deposits in financial institutions. As at end of 2007, total retail customer deposits amounted to RMB326.533 billion, increasing by RMB14.574 billion or 4.67% from the previous year. Retail customer deposits accounted for 34.61% of total deposits, decreasing by 5.71 percentage points from that of the previous year.

Retail non-interest income business

The Company keeps developing non-interest income business in recent years, which is now on the right development track. In 2007, the non-interest income from retail banking was RMB5.645 billion, increasing by RMB3.162 billion or 127.36% as compared to the previous year. Income from credit card non-interest business was RMB1.515 billion, an increase of 104.9% compared to the previous year. Amongst all, POS service charge was RMB655 million, an increase of 80% compared to the previous year; the annual credit card fee income was RMB103 million, up by 71.4%; cash advance service charge was RMB140 million, an increase of 111% compared to the previous year; overdue charge income was RMB188 million, an increase of 120% compared to the previous year; fee income from installment loan was RMB255 million, an increase of 212.5% compared to the previous year; other fee income from value-added services was RMB174 million, an increase of 195% over the previous year.

Bank cards business

As at 31 December 2007, the Company had cumulatively issued 43.63 million All-in-one cards, including 4.78 million cards newly issued during the year. All-in-one Card deposit balance was RMB259.8 billion, accounting for 79.56% of the total retail deposits, representing RMB5,955 average balance per card. As at 31 December 2007, the Company had issued 20.68 million credit cards, including 10.34 million cards newly issued during the year. The total number of cards in circulation was 14.41 million, the cumulative number of card holders was 7.95 million, the cumulative transaction volume via credit cards was RMB131.3 billion, the average transaction volume per month of each card in circulation was RMB1,047, and the revolving credit card balance was RMB7.8 billion.

Customers

As at 31 December 2007, the total number of retail deposit accounts of the Company was 33.75 million, and the deposit balance was RMB326.533 billion, of which, the total number of Sunflower customers (high end customers, with more than RMB500,000 deposit or assets in the Company) was 291,000. Their deposit balance was RMB119.3 billion, accounting for 36.54% of the retail deposit balance of the Company.

Marketing

With the sustained efforts of the Company in brand building for its products and services, the brands such as All-in-one Card, All-in-one Net and credit cards have gained relatively high recognition. In 2007, while continuously building up the above brands, the Company actively promoted the brands of "Sunflower" wealth management and "Lifetime Partner" financial planning. Major marketing campaigns such as "Wealth Management Education Charity Trip" and "Retail Banking Elite Roadshow Report" were launched. The Company believes that brand building will further develop the customer base and enhance customer loyalty.

At present, the Company sells retail banking products primarily via its branches and sub-branches. In the meantime, to meet the market changes, the Company established a multi-level marketing system in its branches. As at 31 December 2007, the Company had built 168 wealth management centers, 352 Sunflower VIP rooms and 424 VIP counters.

Corporate Banking

The Company provides corporate customers, government agencies and financial institutions with diversified quality banking products and services. As at 31 December 2007, the corporate loan balances of the Company were RMB445.865 billion, accounting for 66.23% of the total customer loans; the balances of total discounted bills were RMB52.276 billion, accounting for 7.77% of the total customer loans; total corporate customer deposit were RMB617.001 billion, accounting for 65.39% of total customer deposits.

Corporate loans

Corporate loan products of the Company include working capital loans, fixed asset loans and other loans mainly include trade finance and factoring. In 2007, the Company continued to implement the strategy of industry focuses customer segmentation and professionalized operations. The Company provided more support for quality industries such as transportation, energy and electricity, urban infrastructure and high-tech industries, while controlling loan growth to industries under macro control such as those "High pollution, High energy consumption and High Resources dependent" industries. These all resulted in further optimization in the industry structure of corporate loans.

In 2007, the Company focused on developing small and medium sized enterprise customers which is in line with the adjusted business strategies. To promote the development of small and medium sized enterprises loan business, the Company conducted pilot operations at branches in Hangzhou, Nanjing, Shenzhen, Suzhou, Ningbo, Foshan, Dongguan, Fuzhou and Xiamen, We specially launched "3 Kinds of Secured Loans" financing services (comprised of "loans secured by property rights", "loans secured by inventories" and "loans secured by trade receivables"), the "Go Fortune Growth Program" financial product portfolios including the Go Fortune Growth online banking theme for small and medium sized enterprises. Besides, our business procedures are simplified to provide efficient and convenient credit services for small and medium sized enterprises. Through the participation in the Fourth Session of the Small and Medium sized Enterprises Expo and the subsequent press releases, the Company successfully promoted its brand recognition. The Company also founded a newsletter named "Small and Medium Sized Enterprises News", by which timely information is released on the Company's banking business for small and medium sized enterprises and industry updates, thus assisting the exploitation of the market share of small and medium sized enterprises businesses.

The above-mentioned measures of the Company substantially increased business volume with the small and medium sized enterprise customers. The number of small and medium sized enterprise borrowers reached 8,162, an increase of 43% compared to the previous year. The total loans and advances to SME were RMB189.5 billion, an increase of 35% over the previous year.

In 2007, the growth of our small and medium sized enterprises loan business was affected by credit crunch resulting from the macro economic control policies. The room for obtaining external financing of small and medium sized enterprises was reduced and the operation of small and medium sized enterprises, the level of risk resistance of which was lower, was affected by tightening financing chain. However, given the strong support from national policies, the overall operating condition for small and medium sized enterprises kept improving.

Under the pressure from macro economic control policies, the Company insisted positively on implementing its re-adjusted strategy of focusing on small and medium sized enterprises. Through providing with favorable policies, strengthening on product creation, creating niche feature image with special characteristics, and establishing a professional team, the Company promoted the healthy rapid growth of the business of small and medium sized enterprises, and continued to accelerate the restructuring of small and medium sized enterprises. In the meantime, the Company fortified the risk management on small and medium sized enterprises business. By amending and modifying the assessment and crediting system and debt assessment system, and enhancing the management standard of risk quantifying, the Company employed debt specific inspection for several times. We also provided small and medium sized enterprises of special attention with advices and further standardization. In 2007, both of the non-performing loan ratio and non-performing loan amount decreased. The Company has successfully overcame the adverse effect to our small and medium sized enterprises business resulting from the implementation of macro economic control policies, by applying the following measures: furthering the structural reform of small and medium sized enterprises business; establishing a financial department for small and medium sized enterprises; specializing the readjustment of small and medium sized enterprises business strategy and promoting the growth of business. Small and medium sized enterprise business thereby grew rapidly, healthily and stably.

Discounted bills

In consideration of total loan amount, liquidity, yield and risk factors, the Company tightened the operations of discounted bills in the year. As at 31 December 2007, the balance of discounted bills loans was RMB52.276 billion. Due to improved product offer and stepped up marketing efforts, the Bill-Express business remained in an upward trend, with the annual cumulative transaction volume increased from RMB21.3 billion in 2006 to RMB30.9 billion in 2007.

Corporate client deposits

The Company has high regard to enhancing the effective deployment of corporate client deposits and strives to increase the percentage of low cost demand deposits in total corporate client deposits. With the expansion of innovative services such as online banking and cash management, higher quality marketing efforts has been made and the co-operation between the Bank and corporate clients was strengthened. As a result, large amount of low cost demand deposits were obtained.

As at 31 December 2007, total corporate client deposits amounted to RMB617.001 billion, an increase of 33.61% compared to the end of previous year. Specifically, demand deposits accounted for 56.88%, which was 13.76 percentage points higher than time deposits, the difference widened during the year. The high proportion of demand deposits helped reducing interest expenses on deposits.

Non-interest-based corporate banking business

Under the guiding principles of restructuring the operating structure, the Company stepped up its efforts to maximize fee-based income besides ensuring the growth of interest income. In 2007, the Company made effort to promote the development of relatively new businesses including cash management, agency underwriting of short-term commercial paper, assets custody, corporate annuity and financial consultancy, thereby increasing the percentage of fees and commissions income to total income from corporate banking business. Meanwhile, we continued to maintain the growth of income from traditional businesses including domestic and international settlement, acceptance, guarantee commitments in order to ensure the diversification of non-interest income sources and the continuous growth of total income. In 2007, net fee-based income of the Company was RMB2.287 billion, an increase of 68.78% compared to that of previous year.

The Company continued to take the advantage of online corporate banking and cash management business and focused on innovating and promoting our patent products named Cross-bank Solution for Cash Management ("CBS") in order to accomplish comprehensive development of the cash management business. We introduced electronic commercial acceptance bills on the basis of electronic bank acceptance bills which improved our online bills business. We completed the development of online agency sale of insurance and wealth management services and offered electronic supply chain financial service solutions. We also established the trading identification system and cash pool dynamic publishing model and utilized these into internationally renowned enterprises including Siemens and Ericsson. We continued to improve cash management services including nominal fund management, corporate payment, corporate negotiated transfer, RMB cash pool, foreign currency cash pool and fund balance management.

In order to accomplish the strong growth of various cash management businesses, the Company took a series of diversified and comprehensive promotion activities, including advertisement for the "GoFortune" service in the year to raise the publicity for cash management business, the formal press release for the Company's cash management service under the "C+" logo in September in Beijing, the second session of annual conference of cash and finance management held in December, joint promotion and marketing efforts by headquarters and our branches to reinforce business training and teamwork construction and to serve high net worth clients. All these activities demonstrated our expertise and market position in the field of cash management.

The Company was awarded the honor of "China's Best Domestic Cash Management Bank" by *Asia Money* in 2007, the third year to be honored, which proved that our brand value had been affirmed once again in the banking industry. As at the end of 31 December 2007, the newly opened accounts of our cash management services reached 60,123, with total daily average of RMB206.8 billion in deposits and RMB229.0 billion in loans, Therefore, the cash management business offered an important client base for low-cost deposits and cross-selling opportunities.

In respect of corporate wealth management, the Company, in 2007, launched more than ten new products including investment in short-term commercial papers, online subscription, off-line subscription, trust loans, Fund of fund, railway bonds and Go Fortune Cash Pool. Our wealth management service offered two currencies, namely RMB and USD, for maturities ranging from one month, three months, six months, nine months, and one year. This business segment serves as an important function for selling products to customers, attracting deposits, expansion of business coverage and enhancing non-interest income. The sales volume of corporate wealth management in the year was US$54 billion, an increase of 48.2 billion, or 825% as compared to the previous year.

As for international settlement, the Company completed US$98.3 billion in 2007, an increase of 8.02% as compared to the previous year, and the foreign exchange settlement was US$64.7 billion, an increase of 29.14% as compared to the same period of previous year. The accumulated fee-based income of international business was RMB1.1 billion.

With regard to offshore business, the Company completed settlement volume of US$28.65 billion in 2007, an increase of 74.1% as compared to the previous year. The total offshore settlement accounted for 39.9% of the total offshore settlement amount of all Chinese banks.

As for third party custody business, the Company has had 2.87 million clients of third party custody, including new clients of 1.06 million and the number of new institutional customers reached 6,139. Funds under third-party custody amounted to RMB129.7 billion and realized custody fee amounted to RMB52.31 million.

With regard to the underwriting of short-term commercial papers, the Company successfully completed 31 issues of short-term commercial papers for 23 clients in 2007, representing an increase of 43.8% in terms of number of issuers as compared to the previous year and an increase of 55% in terms of number of tranches as compared to the previous year. The total amount of raised funds by way of short-term commercial papers was RMB39.8 billion, an increase of 85.98% as compared to the previous year. The lead underwriting volume was RMB29.6 billion (joint lead underwriting volume accounted for 50%), an increase of 85% as compared to the previous year.

With regard to the assets custody business, the average daily custody deposit was RMB19.4 billion in 2007, an increase of 505% as compared to the previous year. The custody assets were RMB151.7 billion, an increase of 270.9% as compared to the previous year. There were 8 QDII custody clients in total and the number of clients contracted for corporate annuity funds custody were nearly 1,100 while the corporate annuity funds contracted for management reached RMB12 billion.

As for the corporate annuity management business, in 2007 the number of contracted corporate annuity customers was 1,000. The total number of personal accounts of contracted customers was 1 million. Income from account management fee was RMB6 million. In terms of business growth and size, the Company was in a leading position among the peers in China.

Customer base

Over the past 20 years of development, the Company has developed 228 thousand corporate depositors and nearly 10,300 corporate borrowers, including domestic leading enterprises and enterprise groups, government agencies, financial institutions, and Fortune Top 500 multinational enterprises. Meanwhile, the Company managed to develop small and medium sized enterprises to form a balanced customer structure. In addition, the Company's products and services have been widely recognized by our clients. According to 2007 Clients Satisfaction Survey conducted by ACNielsen, the level of satisfaction of customers to our business maintained a relatively high level. The level of satisfaction in respect of several indicators, such as customer service, bank credit worthiness, professional standard, financing business and settlement business was at the upper end among all the major players in domestic banking industry.

Treasury

Operating environment

In 2007, the imbalance of the global economic structure aggravated. The continuous redundant capital liquidity, getting greater pressure of inflation and exacerbating of subprime mortgage issue led the financial market becoming fluctuated and unstable. In the second half year, after the interest rate reduction of US dollars, it was followed by halts of increasing interest rate in many major economic bodies, leading to greater pressure on stagflation of the global economies. Due to the overheat of the PRC economy, excessive monetary loans granted and redundant liquidity, the PBOC took several tightening measures to get money returned from the public and raised the statutory deposit reserve ratio and the deposit/loan interest rates for 10 times and 6 times respectively. At the same time, the volatile capital market also had a greater impact on the asset-liability businesses operated by commercial banks and the interest rates on the market. Under such circumstances, the interest rate of the domestic bond market kept rising rapidly, and the interest rate of the capital market fluctuated significantly.

Operating strategy

As for the Renminbi business, facing the environment of increasing credit control and increasing capital amount, the Company enhanced fund utilization and effectively managed bond investment portfolio. The measures taken mainly include: exploring fund utilization channels; purchasing the financial asset with resale agreement and developing the credit financing business, with an increase of RMB143.7 billion in the resale financial assets, among which the bills and securities assets increased by RMB73.4 billion and RMB54.2 billion respectively. The Company closely reviewed the market fluctuation trend and the policy trend, and gained a favorable capital return, which efficiently offset the adverse effect of credit control on the income. The Company also increased RMB bond investment of RMB49.3 billion. New investment is mainly composed of floating rate bonds, short- and mid-term fixed rate bonds with a duration of less than 3 years, and high quality short-term commercial bonds. The Company strictly managed the duration of its portfolio, so as to mitigate the risk of rising interest rate. In the second half year, with the increasing absolute interest rate, the Company increased its investment in medium to long-term fixed rate bonds.

As for foreign currency business, based on cycling changes of the US dollars interest rate and changes of the yield curve, we controlled the portfolio risk efficiently with flexible adjustment to the composition and focus of investment. In the meantime, we gained advantage from market fluctuation caused by the expected lowering of interest rates in USD, adopted pro-active investment strategy, and succeeded in implementing stages operation as well as achieving good returns.

Operating results

In 2007, the annual yield of the Company's foreign currency/RMB-denominated securities portfolio reached 3.34%, up by 0.19 percentage point as compared with the same period of last year. The major reasons are: the large amount of floating rate bonds held by the Company, with PBOC raising the benchmark interest rates several times, were re-priced accordingly and made contribution to the income of bond portfolio. Being affected by austerity measures, the yield curve of bonds moved upwards and the yield of both reinvestment of due capital and new investment increased obviously. The increase in premium of un-secured bonds and the commencement of derivatives trading on interest rate contracts also contributed to the yield of the investment portfolio. The strict control of duration on bond portfolio affected the growth of income while mitigating risks. As interest rate adjustment is expected to slow down, the Company increased the amount of medium to long-term fixed rate bonds and kept enhancing the level of investment return.

In 2007, the Company's annual yield on financial asset under resale agreement and placement to banks and other financial institutions was 3.85%, up by 0.97 percentage point as compared with last year. This was mainly affected by the credit control implemented in the second half of 2007 and the high interest rate of bills, leading to the increase in the interest rate of financial assets under resale agreement, inter-bank loans and balances with banks. Intensive large scale IPO put great pressure on the market rate. Short term finance business like financial assets under resale agreement and balances with banks etc. was thereby much benefited.

Business development

With the rapid development of direct financing and the accelerated reform on interest rate, the profitability model of the financial business of the commercial banks in China is currently undergoing a fundamental change. The Company makes self-adjustments according to situation. One is to strengthen the foundation of the traditional businesses and maintain market influence. In 2007, the Company underwrote various RMB bonds amounting to RMB89 billion, the trading volume of inter-bank market was over RMB6.49 trillion, the bonds settlement agency business was still in good momentum and the trading volume was RMB107.2 billion, ranking the first among the domestic banks. The company also put great effort on its fee based business, which focused on wealth management, and optimized the business structure and profitability model. In 2007, the Company progressively built up a wealth management model of unity of domestic and foreign currency, and the integration of products research and development and market expansion. With these aspects combined, a positive reaction from market was noted. With the leading product design and strong sale channels, the Company recorded the sale of 251 RMB finance management products amounting to RMB113.1 billion; and 86 foreign currency financial management products amounting to US$2.59 billion. The Company also achieved new strides in savings of government bonds, over counter transaction of registered government bonds and foreign exchange trading business.

Product Pricing

Loans

The interest rates of RMB-denominated loans of the Company are regulated by the PBOC. The interest rate of RMB-denominated corporate loans and retail loans is not permitted to be lower than 90% of the relevant PBOC benchmark rate. The interest rate of residential mortgage loans is not allowed to be lower 85% of the benchmark rate. Interest rates for foreign currency-denominated loans are generally not subject to PRC regulatory restrictions.

We price our products based on various criteria, such as the borrower's financial condition, value of collateral, the intended use and term of the loan, cost of providing the loan, credit and other risks, expected rates of return, our market position and the prices of our competitors. We have started using the FTP method to calculate the cost of our funds in connection with the extension of loans. We are in the process of developing loan pricing models that assist us to determine the minimum interest rates at which our loan products may be priced. The branches are allowed to set prices at their discretion within the established ranges of these internal benchmark prices and give them greater flexibility to compete effectively.

Deposits

Under current PRC laws and regulations, interest rates for our RMB-denominated demand and general time deposits cannot be higher than the relevant PBOC benchmark rate. The PBOC has liberalized interest rates charged for lending and deposits between financial institutions. As such, we are permitted to provide negotiated time deposits to insurance companies, the National Council for Social Security Fund and China Post Saving Bank. In addition, we are permitted to negotiate the interest rates on foreign currency deposits other than those denominated in U.S. dollars, Euros, Japanese Yen and HK dollars in an amount less than US$3 million. Interest rates on inter-bank foreign currency deposits and foreign currency deposits by non-PRC residents are generally not subject to PRC regulatory restrictions.

Non-interest-based Products and Services Pricing

With respect to non-interest-based businesses, certain services are subject to government guideline prices, including basic Renminbi settlement business such as bank demand draft, bank acceptance, cashier order, cheque foreign exchange, agency receipt and the other services specified by the CBRC and the National Development and Reform Commission. The basis of charges of other products and services is based on market conditions.

Distribution channels

The Company provides products and services via different distribution channels. Besides expanding physical distribution channels, the Company also made efforts to develop and improve e-banking channels such as online banking and telephone banking. The highly acclaimed online retail banking of the Company has effectively relieved the pressure on the business outlets of the Company. In 2007, the number of customers using our professional version of online banking amounted to 3.9 million, in which there were 1.52 million new customers while the number of transactions made was 34.24 million, up by 70.6% compared to the correspondent period of last year, and the number of online payments was 54.13 million, up by 120.0% year on year. The substitution rate achieved by online banking was 61%, 16 percentage points higher than that of the previous year.

Overseas businesses

The Company provides overseas banking business, including corporate and retail banking, via its Hong Kong Branch established in 2002. The total assets of Hong Kong Branch were HK$18.7 billion at the end of 2007.

Corporate banking services provided by Hong Kong Branch includes loans and deposits, remittance, international trade facility and settlement, organizing or participating in syndicated loan, and participating in inter-bank transaction of funds and bonds. Retail banking includes providing services for individual customers between Hong Kong and the Mainland, and the featured product is the "Mainland-Hong Kong All-in-one Card". This card combines the strengths of Hong Kong debit card and Mainland debit card. The cardholder can withdraw cash from ATM and spend money via POS in both Hong Kong and the Mainland, and enjoy real-time online remittance service between the two places.

The Company has also established a wholly-owned subsidiary, CMB International Capital Corporation Limited in Hong Kong, which mainly provides investment banking services such as advisory work on corporate finance, IPO underwriting, and securities brokerage, etc.

The Company has set up a representative office in New York. On 8 November 2007, our application of establishing New York branch was approved by the Federal Reserve of U.S. and the branch in New York is currently under preparatory procedures.

Information technology

In 2007, the Company's information technology system operated in a stable manner. The protection level of secure operation technology was further enhanced through strengthening the capability of the host machine, storage and network systems. Based on the computer system rating management principles, the operation and management system of the Company was further rationalized; system emergency management solution was improved, resulting in higher level of management. The online projects for core businesses was pressed forward efficiently as 90% of the branches were switched to the new core business system. In respect of product research and development, the Company kept on upgrading its systems and proceeding with product innovations. As a result, a series of financial products were launched, new functions of management information system were developed and the monitoring system was improved, which greatly facilitated corporate management and the wide application of various compliance systems.

Risk Management

Credit risk management

Credit risk refers to risk arising from failure of the borrower or the counterparty of the Bank to fulfill its obligations under the negotiated terms and conditions. The Company put great effort in formulating an independent risk management system for credit risk management and implementing bank wide policies and procedures, including credit risk identification, measurement, monitoring and management, to control the credit risk of the Company.

Risk Control Committee of Head Office is the highest authority of the Company in credit risk management. Under the framework of the risk management strategy, policies and authorizations approved by the Board, the Committee is responsible for reviewing and deciding the most significant bankwide risk management policies, and reviewing the complicated credit items. The Company separately reviewed the credit risk according to business risk and approval system. The decision-making authorization include: Risk Control Committee of Head Office, Professional Reviewing of Loan Assessment Committee of Head Office, Risk Control Committee of Branch. The Company formulated a comprehensive credit approval and authorization system according to credit management level, the lenders' credit ratings and credit guarantee conditions. The Company also implemented a practicable authorization system, authorization method and authorization adjustment requirement. The Company is strictly in compliance with the principle of separating the authorization of reviewing and granting loans. The procedure of triple review is strictly applied before, during and after loan granting. The system of cross-checking among different positions and responsibilities are designed according to various risk control procedures of credit business. The Company establishes a well-defined accountability system to ensure the procedure of risk control management is working efficiently.

In 2007, the Company implemented its policies in accordance with the State's macro economic control policies, with its focus on system, authority, procedure, technology, team building, enforcing the reform of credit risk management. Through formulating its reform approach in risk control, the Company employed its authorization system reform for loans granting, and employed its employment system for loans granting officers, and reviewed the risk management system, and promoted the establishment of credit risk management. Focusing on "business chain, industrial chain, value chain", the Company introduced industrial special researches, created credit policy system and production system, optimized scientifically the credit structure, and mitigated progressively credit risk arising from hot industries. Through publishing its *Credit Policy Manual*, and formulating and amending a series of basic credit system such as, *Accountability System for NPL, Regulations on Guarantee of Credit Business (2nd edition), Regulations on Employing Real Estates Valuers, Regulations on Entrusted Loans, and Regulations on Corporate Customers Credit Risk (2nd edition)*, the Company enhanced its management approach on credit management. In 2007, the Company has completed its debt assessing system, developed an off-site monitoring system and on-line operation, further enhanced the customer credit assessing system, implemented the reform of group customers management system, stably enforcing the reform of credit risk management system, and quantified the application of technical instruments. In the meantime, by activating its credit alarming system, the Company established a high-efficiency, wide-coverage credit review system and enhanced the recovery system for non-performing loans, to consolidate the credit management basis and enhance the quality of assets.

Liquidity risk management

Liquidity risk refers to the risk that the Company can not satisfy the customers by providing them with deposits due, new loans, and reasonable financing, or the risk that the Company can not satisfy these requirements at normal cost. The overall liquidity of the Company was managed by the Assets and Liabilities Management Committee. The committee is responsible for monitoring the liquidity of whole bank according to regulatory requirements and by the principle of prudent management. The Finance Planning Department of the headquarter and branches exercise daily supervision of cash flows in accordance with their liquidity management policies and maintained an appropriate level of highly liquid assets.

To cope with the features and trends of the macro economic and financial situation, the Company implements centralised management on bank-wide liquidity via our internal FTP for determining proper prices for internal fund transfers, so as to ensure a coordinated development of various operations. On the other hand, the Company carried out effective management and operating strategies to tackle the impacts from government policy changes and market fluctuations. Consequently, overall return on funds were improved on the premises of maintaining a safe level of liquidity.

At the end of 2007, the Company had short position for immediate repayment of RMB775.89 billion, primarily because there were deposits of immediate repayment (including deposits held at call), accounting for approximately 65% of customer deposits. Taking the depositional characteristics of demand deposits into account, the liquidity risk of immediate repayment of the Company was relatively small. In addition, the Company had realizable bonds and bills of nearly RMB300.0 billion, which was adequate for meeting any liquidity needs.

Interest rate risk management

Interest rate risk refers to the risk of unfavourable impact of fluctuating interest rates on the financial positions of banks. The primary and secondary interest rate risks faced by the Company are basis risk and repricing risk respectively.

From 2007 onward, the Company determined its FTP based on the duration matching approach with a view to taking over the management of market risks from branches and establishing centralized and professional management of market risks. At the same time, the Company actively dealt with the State's macroeconomic control policy, especially the frequent changes in interest rate policy. Accordingly, the Company further strengthened the interest rate risk identification and management. Through timely adjusting policies on FTP, the Company continued to press ahead the building of product pricing mechanism. The Company also enhanced the restructuring of the Company's assets and liabilities to reduce or offset the impact of changes in interest rate policies. Interest rate swaps were used to try to hedge off-balance sheet exposures.

The Company has initially established a comparatively sound system for monitoring interest rate risks, and established a system of reporting interest rate risks regularly. It reports interest rate risk positions and provides relevant suggestions to the Assets and Liabilities Management Committee on a monthly basis. The analysis tools of the Company include, without limitation, gap analysis, duration gap, the sensitivity analysis, simulation scenario, the stress test and Earning at Risk ("EAR"). The Company also tries to hedge foreign currency interest rate risks by utilizing derivative products such as interest swap. However, as the interest rate hedging tools in the RMB market are still underdeveloped, the interest rate risks in our RMB business are mitigated mainly through active restructuring of businesses in the balance sheet.

The financial assets and liabilities of the Company are mainly denominated in RMB. The benchmark RMB deposit and loan interest rates are set by the PBOC. Based on the principle of matching risk and return, the Company determines the interest rate for its deposit and loan products within the RMB interest rate range set by the PBOC.

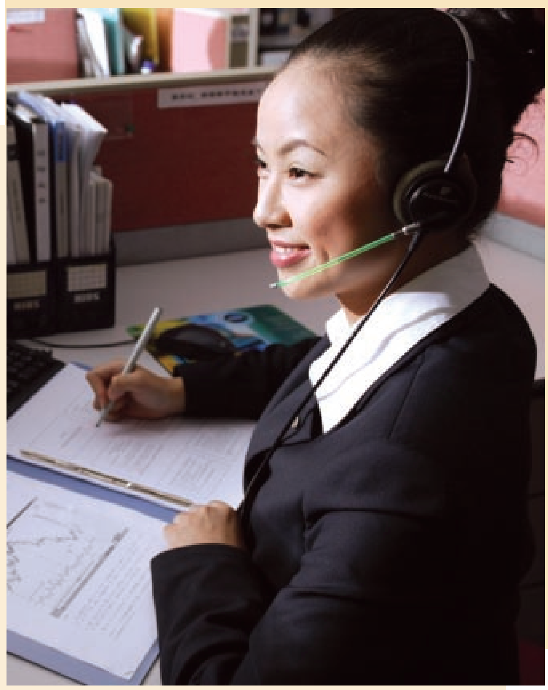
The 3 month re-pricing gap of the Company was RMB162.6 billion. However, the significant short-term gap was mainly caused by current deposits, the interest rate of which changed insignificantly in terms of frequency and percentage points. As a matter of fact, the RMB business of the Company is asset sensitive most of the time. In other words, the net interest income of such business increases in line with interest rate hike and decreases with interest rate cut. In 2007, the PBOC raised the benchmark deposit and loan interest rate for six times, but the interest spread of the Company was still enlarged due to the insignificant adjustment of the interest rate of current deposits which accounted for approximately 58% of the total internal deposits of the Company.

Exchange risk management

Exchange risk refers to the negative impact on the assets and liabilities denominated in foreign currency that may arise as a result of changes in exchange rate. Exchange rate risks faced by the Company mainly come from the mismatching of assets and liabilities denominated in RMB held by the Company. The risk is divided into structural risks and transaction risk, the Company uses different management strategies to control structural risks and transaction risks.

Structural foreign exchange risk is difficult to avoid in banking operations. The exposure risk arises from mismatches between strategic foreign currency assets and liabilities. The exchange risk of the Company is measured through foreign exchange exposure analysis, sensitivity analysis, stress tests and Value at Risk ("VAR"). To circumvent structural risk, the Company matches as far as possible the amounts and durations of borrowings and lending made in each type of currency. For amounts which can not be fully matched, the risk will be reduced by hedging through the foreign exchange market.

Foreign exchange transaction risk comes mainly from the provision of foreign exchange trading services by the Company to its customers. Exposure risks exist when the Bank fails to immediately hedge all of the foreign exchange positions, such as foreign exchange exposure arising from full value trading positions and foreign exchange trading positions held through the Bank. Also when the Bank holds a foreign exchange position based on the expectation of future trend with a view to profit from exchange rate differences, such as principal dealing positions, foreign exchange exposure risk is induced. The Company contains its foreign exchange transaction risk through risk control and stop-loss limits trading of exchange rate risk.



Regarding the continuous appreciation of exchange rate between RMB and US dollar, in order to mitigate the risk arising from capital not denominated in RMB, the Company adopted an in-time settlement of exchange approach for the foreign currencies raised from the listing of H shares in 2006. In addition, in order to manage the exchange risk arising from the operating activities, the Company made efforts to match loans in various currencies, conducted timely back-to-back cut-offs to reasonably restrict the exchange rate risk exposure. Also, the Company conducted hedging on the forex markets and reduced currency risks by setting upper exposure limit and stop-loss limit to meet the requirements of business development.

At the end of 2007, the Company had short position of foreign exchange of RMB8.7 billion.

Operational risk management

Operational risk refers to the risk of loss arising from inappropriate or unsound internal procedure, personnel and system or external incidents. The Company reduces and controls the operational risk by strengthening internal control, enhancing the risk prevention awareness and the ability of staff and implementing a strict accountability system. Major measures taken in 2007 included:

(1) launched a three-month, bank-wide "fraud prevention check-up" campaign, covering the organization of accounting execution, counter operation, risk evaluation, and conducted a special audit for newly-established sub-branches, small and medium sized enterprises credit business, and personal advances business;

(2) stepped up efforts in tackling commercial bribery cases; launched the topical education on gambling prohibition and monitoring of the "five-forbidden behaviours" across the Bank; adopted and improved the rules and guidelines including the "Regulations on Integrity Reporting and Incentives" and "Regulations on Handling Misconducts of Staff". Implemented the law enforcement and supervisory measures of "rotation and paid annual leave of key personnel, exceptional behaviour management, recourse liability on bad and doubtful debts"; and stepped up recourse actions against misconducts;

(3) in-depth inspection and supervision on accounting execution, covering areas of major risks including account management, discounted bills business, cash and important blank vouchers. Regulated the operation of discounted bills, improved the risk control measures for different segments. Introduced certain accounting policies, such as "Regulations on Bank Teller Operations Management". Actively promoted the chief account officer designation system and two-tier assessment scheme for staff on accounting execution, established a quantitative control system for staff on accounting execution. Strengthened back-office business management, thus facilitating risk mitigation management and enhanced operational efficiency;

(4) enhanced credit management by publishing the "Credit Management Handbook" and "Credit Operational Manual", revised the various credit policies, and improved the credit processing flow. Carried out key investigation and direct investigation on ten different areas, including personal assets, project loans and affiliated enterprises loans, etc.; conducted special investigation on equity pledge business of certain branches;

(5) with regard to information technology, the Company launched a new online system, the number of branches operating new integrated business systems increased from 18 to 30, systematically improving the accounting, saving and fee-based business operation procedure and control procedures, and assuring project development and system security. The Company has passed the security checks of the Ministry of Public Security and the Ministry of State Security, and is also the first amongst its peers to have its digital certificate system passed the security check of the State Encryption Administration, as such, the safety of the Company's online banking is recognized by the State authorities and experts;

(6) implemented "bankwide, comprehensive, fully covered and totally monitored" internal control and enhanced internal control level according to international banking industry standard and the requirements of regulatory authorities; issued the "Basic Requirements on Internal Control of China Merchants Bank" and "Measures for Administration of Internal Control Evaluation Meeting", thus further enhancing the Company's internal control system, effectively preventing financial risk, ensuring a sound and stable business operation and management system. The Head Office and branches of the Company held internal control evaluation meetings quarterly to evaluate and to analyze internal and external improper operations, misconducts and illegal practices, and improve the risk prevention and internal control mechanisms.

Administration of compliance risks

Compliance risk refers to the risks of being subject to legal punishments, regulatory sanctions, major financial losses, and loss of reputation as a result of commercial banks' failure to abide by laws, rules and guidelines. The Company reduces and controls compliance risks by strengthening compliance management. Major measures taken in 2007 included:

(1) stepped up the establishment of a compliance system by further improving the policies for compliance management. Implemented the "Compliance Policies", which stipulates the principles, objectives and guidelines of the Bank's compliance management. Issued the "Code of Conduct for Counter Services Executives", "Code of Conduct for Customer Service Managers" and "Code of Conduct for Employees", providing further guidance of regulating employees' conduct;

(2) reinforced the management system across the Bank by amending the "Guidelines on Management System", thus developing a compliance management system in line with scientific concepts; organized a bank-wide structural rationalization exercise to rationalize the management system and increase its operational efficiency, in order to prepare for the next phase of system design and relative management of the Bank;

(3) launched a comprehensive and in-depth "Education Campaign on Compliance" across the Bank, with an aim to promote good compliance culture, raise the Bank's compliance risk management standard, rectify the behaviour deviation arising in daily operations, thus uplifting the Bank's overall compliance standard;

(4) perfecting the compliance management system. The Company is the first commercial bank among its peers in the PRC to develop a compliance officer system, thus laying out the basic principle of "compliance starting from the top level" into practice;

(5) proactively identifying and evaluating compliance risks, pinpointing at the compliance problems arising in operations, and issued risk alert timely, so as to strengthen the compliance management;

(6) the Company amended or proposed to amend the general policies such as the "Regulations on Anti-Money Laundering", "Measures for the Administration of the Reporting of Large-sum or Suspicious Transactions", and adopted the "Measures for the Administration of Client Identity Identification and Materials and Transaction Records" and "Manual on Monitoring and Reporting of Large-sum or Suspicious Transactions", etc. The Company, in accordance with the requirements of the PRC Anti-money Laundering Monitoring and Analyzing Center, has developed a bank-wide system for monitoring and reporting of large-sum or suspicious transactions.

Change of the external environment and counter measures adopted

Problems and difficulties in our operations and the solutions thereof

In 2007, the problems and difficulties in the operations of the Company were as follows: in light of the macro economic control policies, the scale of credit has been squeezed; excessive liquidity, surging asset prices and continuous appreciation pressure of RMB. In view of the full opening-up of the domestic financial market, domestic and overseas banks are facing fierce competitions in terms of products, businesses, talents, customers, techniques and even internal management and brand building.

Due to the aforesaid problems and difficulties arising from our operations, the Company focused on taking the following counter measures:

(1) Faced with the pressure from the macro economic control policies of the state, the Company earnestly adhered to the guiding principles of "confronting crisis proactively, preventing risks, overcoming bottlenecks and accelerating the ten reforms". The Company has steadily realized the adjustment of business strategies and the internationalization of management standards, fulfilled the requirements of the macro economic control policies, strengthened the control over the aggregate amount of and the restructuring of loans and consequently accomplished all targets for the whole year.

(2) In respect of risk concept transformation, the Company has shifted from the control of risks previously to the management and operation of risks. The Company proactively embarked on the research on the issues such as industry focuses, group clients and risks pre-warning. It optimized its credit structure by timely providing adjustment proposals to enterprises in the real estate industry and high pollution, high energy consumption and high resources dependent industries. The Company further increased its review and approval efficiency by initiating the unified system of credit authorization, standardizing the authorization criteria and exploring the implementation of the dual-approval system. The Company also strengthened the management of credit foundations through the revision of various credit systems and the optimization of credit business processes. It conducted direct reviews and examinations on ten items including personal assets, project loans and connected corporate loans. Special inspections were also conducted concerning the rights pledge business of some of our branches. The Company also grasped the favorable opportunities resulting from surging asset prices to strengthen our efforts on the recovery of bad assets.

Leveraging on the fully promotion of FTP, the Company rolled out the internal funds transfer pricing system bankwide and realized the centralized management of market risks. The Company also closely monitored the fluctuations of interest and exchange rates to adjust our pricing policies in due course. The Company enhanced its measurement, inspection and management capabilities in respect of market risks through formulating the guidelines for risk management, perfecting risk measurement model and submitting regular analysis reports. The Company established and perfected the liquidity management indication system to reinforce the stability of its borrowings.

(3) The Company adjusted and optimized its income structure by proactively developing fee based business. Through the diversification of products in the "Fund Supermarket" of its fee based business, the Company strengthened its product development and marketing. It has forged its own competitive edges through the continuous innovation on sales of funds and wealth management products, third party custody and credit cards. In its fee based business, the Company continued to reinforce its advantages on cash management, design of wealth management products, forward currency transactions, international factoring business, custody business, corporate annuity business and issuance of short-term commercial papers. It has concentrated on the brand building of "Sunflower Wealth Management", "Lifetime Partner" and "GoFortune Wealth Management".

Change and impact of business environment, macro economic control policies and regulations

(1) In relation to the macro economic control policies

In 2007, in response to such apparent contradictions and problems as the overly rapid growth of fixed assets investment and credit facilities as well as the widening trade surplus, the PBOC further strengthened its macro economic control measures, primarily including the raising of statutory reserve ratio for 10 times, the increase of benchmark deposit and loan interest rate for 6 times, the constant provision of window guidance and the continuous regulation concerning open market operation and loan scale control.

Faced with the strengthening of macro economic control policies, the Company reasonably controlled the extension of credit facilities to maintain a stable and balanced growth of loans; further strengthened the re-adjustment of its asset structure, adhered to the principle of "extensive and selective" appropriation of loans, focused on the optimization of its credit structure, the diversification of consumer credit product lines and the expansion of consumer credit business; explored new profit growth points by proactively expanding the fee based business. The macro economic control policies accelerated the re-adjustment of the asset structure and income structure of the Company.

(2) In relation to the adjustment of deposit and loan interest rate

In 2007, the PBOC raised the benchmark RMB deposit and loan interest rate for 6 times successively, where the benchmark one-year loan interest rate was raised from 6.12% at the beginning of the year to 7.47% at the end of the year, representing an increase of 135 basis points.

In response to the interest rate of both deposit and loan hikes, the Company made precautionary and comprehensive preparations. On the one hand, it effectively increased the revenue from its loan business by strengthening the management of assets and liabilities and optimizing the asset structure. On the other hand, it effectively prevented interest rate risks by shortening investment term in respect of the rising interest rate and the flattening yield curve. Meanwhile, thanks to the increase of the proportion of current deposits, the Company alleviated the pressure of rising cost resulted from the increase of interest rate to a certain extent. In general, the increase of the benchmark interest rate expanded the net interest spread and contributed to the improvement of the operating efficiency of the Company. In the future, the Company will continue to focus on interest rate risk tracking analysis and research, and strengthen the application of risk measurement and analysis tools such as the system of asset and liability management.

(3) In relation to the capital market

In 2007, the capital market of China recorded growth and active transactions amid turbulence and fluctuation. On the one hand, the active capital market changed the liability structure of the Company, leading to the change of internal deposits into inter-bank deposits and the increase of the proportion of current deposits in our internal deposits, and thus the Company kept a steady capital supply in general. On the other hand, the income structure of the Company was optimized and operating efficiency improved through the rapid development of the fee based business which is related to the capital market.

(4) *In relation to the statutory reserve ratio hikes*

In 2007, the PBOC raised the statutory reserve ratio for 10 times and the ratio reached a record high of 14.5%. This motivation primarily aimed at reinforcing and improving the macro economic control policies, strengthened the management of liquidity, suppressed the overly rapid growth of the aggregate credit facilities and maintained the positive development momentum of the economy.

The continuous increase of the statutory reserve ratio reduced the capital available to banks and posed new challenges to banks with regard to liquidity management. The banks were required to strengthen the management of liquidity while balancing liquidity and profitability. However, under the circumstances of the widening trade surplus and the excessive liquidity in the banking system, the increase of the reserve requirement ratio has had limited impact on the liquidity of commercial banks. In particular, as the Company has sufficient sources of borrowings and smooth financing channels, the liquidity of the Company has not been materially affected. The Company reasonably adjusted the proportion of its high-liquidity assets, including investments, financing and notes, and actively participated in the operation of notes market, money market and bond market to ensure liquidity while increase profitability.

(5) *In relation to the fluctuation of exchange rate*

In 2007, as the exchange rate of the RMB became more flexible, the basic function of supply and demand of the foreign exchange market was further realized and the exchange rate of the RMB has generally been on an upward track. During the year, the central parity rate of the RMB against the US dollar increased 6.9% compared with that of 2006, and the RMB had appreciated 13.31% against the US dollar since the reform of the exchange rate regime.

The appreciation of the RMB together with its increasing flexibility exposed the Company to greater exchange rate risks. The Company strengthened the exchange rate risk exposure management and lowered the pledge ratio of foreign currency-denominated asset-backed loans. It also conducted timely exchange settlement and reinforced the measurement and analysis of exchange rate risks. All of these mitigated the impact on the Company of the exchange rate fluctuations.

Outlook and measures

The Company will continue to implement the transformation of the operational strategies and to procure the internationalization of management in 2007. In its operations management, the Company is both blessed with development opportunities brought by sustainable economic growth and improved financial ecosystem, and confronted with challenges posed by increased uncertainties in international and domestic economies and financial markets, as well as greater pressure and risks in business operations.

From the perspective of operating environment, with the continuous and rapid development of the economy, the accelerating pace of the reform of the social security system, and the increasing income and change of consumption concept of residents, favorable conditions have been created for the steady growth of the business scale and profitability of the Company, and the strategic operational transformation and restructuring of the Company can be reassured. The accelerating market-oriented transformation of interest rate and exchange rate provided the Company with more space for its financial innovation. The rapid development of the multi-tier financial market, especially the capital market, together with the loosening of restrictions on the integrated operational environment, provided the Company with unprecedented market conditions for its new business expansions, leading to the rapid growth of the fee based income of the Company.

The development of the Company's operation is still subject to the impact of uncertainties brought about by the changes of market environment: The scale of loans is regulated under the background of macro economic control policies, which constitutes severe challenge for the profit growth and asset quality of the Company. The fluctuations in the capital market constitute certain impact on the development of the fee based business and the growth of the lending business of the Company. The contradictions between the term of deposits and loans will emerge, demanding a higher level of liquidity management. The booming capital market will lead to the change of the financing mode of certain quality customers, which will further complicate the retaining of customers' loyalty. Under the tight monetary policies, the credit risk of some enterprises may loom large in the real estate industry, high-pollution, high-energy-consumption and high resources-dependent industries and the export related industry and the amplified fluctuations of interest rate and exchange rate will bring certain pressure upon the risk management and the pricing capabilities of the Company.

In response to the opportunities and challenges ahead brought by social and economic development, the Company undertakes to develop itself into China's best commercial bank with international competitiveness by speeding up reform, implementing management reform, turning negative factors into positive factors, adhering to the general work strategy of "management reform, procedure re-engineering , risk prevention and scientific development", so as to upgrade the overall management to facilitate the adjustment of operation strategies, and to build up new core competitiveness. Based on the prevailing economic and financial environment, the Company expects that total customer deposits for 2008 will be around RMB1,000 billion and total customer loans will be around RMB750 billion. The operational measures the Company plans to implement in 2008 includes (1) to follow the macro economic control policies, strive to adjust the loan asset structure and financial management, so as to speed up the adjustment in operation strategies and alleviate the pressure from the control of loan size through restructuring; (2) to enhance professionalism, improve the competitive edges of retail banking, speed up the development of wealth management and personal banking businesses, steadily cultivate personal financing business, strongly develop the potential of electronic banking in service provision and sales; further consolidate its leading position in the credit card market and expand its competitive edge in retail banking business; (3) to accentuate the niche features of our banking services, improve the competitiveness of whole-sale banking, establish clear market positioning and sales target, emphasize the outstanding qualities of its businesses, explore the possibility of operating via an integrated business model, proactively promoting the development of businesses with small and medium sized enterprises, in order to establish the brand image of a whole-sale banking services; (4) to comprehensively strengthen the management of credit risk, market risk, liquidity risk and operational risk, enhance risk management awareness and risk management level to facilitate the stable growth of business; (5) to reinforce internal control and compliance management to ensure safe business operations; (6) to improve IT management, enhance the support and safety of the IT systems; (7) to step up human resources training, and to improve the staff incentive system to achieve a breakthrough in human resource management; and (8) to build up better corporate culture so as to create a harmonious and upturn corporate environment.

Pursuit of Excellence

Continuous Innovation

1. The change in shares of the Company during the reported period

The change in shares of the Company during the reported period is as follows: (unit: share)

		31 December 2006		Changes in the reported period	31 December 2007	
		Quantity	Percentage (%)	Conversion from Convertible Bonds	Quantity	Percentage (%)
I.	**Shares which are subject to trading moratorium**	7,331,629,579	49.87	–	**7,331,629,579**	**49.86**
	1. State-owned shares	201,557,020	1.37	–	**201,557,020**	**1.37**
	2. Shares held by state-owned legal persons	6,639,650,699	45.16	–	**6,639,650,699**	**45.15**
	3. Other domestic shareholdings	484,741,256	3.30	–	**484,741,256**	**3.30**
	Of which: shares held by domestic legal persons	484,741,256	3.30	–	**484,741,256**	**3.30**
	Shares held by domestic natural persons	–	–	–	**–**	**–**
	4. Overseas shareholdings	5,680,604	0.04	–	**5,680,604**	**0.04**
	Of which: shares held by overseas legal persons	5,680,604	0.04	–	**5,680,604**	**0.04**
	Shares held by overseas natural persons	–	–	–	**–**	**–**
II.	**Shares which are not subject to trading moratorium**	7,371,629,695	50.13	1,805,560	**7,373,435,255**	**50.14**
	1. Common shares in RMB (A Shares)	4,709,629,695	32.03	1,805,560	**4,711,435,255**	**32.04**
	2. Foreign shares listed domestically	–	–	–	**–**	**–**
	3. Foreign shares listed overseas (H Shares)	2,662,000,000	18.10	–	**2,662,000,000**	**18.10**
	4. Others	–	–	–	**–**	**–**
III.	**Total shares**	14,703,259,274	100.00	1,805,560	**14,705,064,834**	**100.00**

As at the end of the reported period, the Company had a total of 371,706 shareholders, including 47,789 holders of H Shares and 323,917 holders of A Shares (including 90 holders of A Shares whose shares were subject to trading moratorium and 323,827 holders of A Shares whose shares were not subject to trading moratorium). In addition, the Company had 633 holders of convertible bonds, all of which are holders of tradable convertible bonds. Based on the public information available to the Company and its directors, as at 31 December 2007, the Company had met the public floating requirement of the Hong Kong Listing Rules.

2. Top ten shareholders

Serial No.	Name of Shareholder	Type of Shareholder	Percentage of shares held%	Total number of shares held	Number of Shares which are subject to trading moratorium	Number of shares pledged or frozen
1	HKSCC Nominees Limited	H shares	17.88	2,629,655,989	0	0
2	China Merchants Steam Navigation Company Limited	A Shares subject to trading moratorium	12.11	1,781,370,091	1,781,370,091	0
3	China Ocean Shipping (Group) Company	A Shares subject to trading moratorium	6.44	947,548,668	947,548,668	0
4	Guangzhou Maritime Transport (Group) Company Limited	A Shares subject to trading moratorium	3.85	565,359,590	565,359,590	0
5	Shenzhen Yan Qing Investment and Development Company Limited	A Shares subject to trading moratorium	2.95	433,484,335	433,484,335	0
6	Shenzhen Chu Yuan Investment and Development Company Limited	A Shares subject to trading moratorium	2.58	378,715,868	378,715,868	0
7	China Communications Construction Group (Limited)	A Shares subject to trading moratorium	1.78	261,024,805	261,024,805	0
8	Shanghai Automotive Industry Corporation	A Shares subject to trading moratorium	1.70	250,564,996	250,564,996	0
9	CNOOC Investment Co., Ltd.	A Shares subject to trading moratorium	1.40	205,305,070	205,305,070	0
10	Guangdong Provincial Highways Administration Bureau	A Shares subject to trading moratorium	1.20	175,950,157	175,950,157	0
10	China Shipping (Group) Company	A Shares subject to trading moratorium	1.20	175,950,157	175,950,157	0
10	Qinhuangdao Port Group Company Limited	A Shares subject to trading moratorium	1.20	175,950,157	175,950,157	0
10	Shandong State-owned Assets Investment Holdings Company Limited	A Shares subject to trading moratorium	1.20	175,950,157	175,950,157	0

Notes:

(1) Shares held by HKSCC Nominees Limited are the total shares in the accounts of holders of CMB H Shares trading on the transaction platform of HKSCC Nominees Limited.

(2) Of the aforesaid top 10 shareholders, China Merchants Steam Navigation Company Limited, Shenzhen Yan Qing Investment and Development Company Limited and Shenzhen Chu Yuan Investment and Development Company Limited are subsidiaries of China Merchants Group Limited; Guangzhou Maritime Transport (Group) Company Limited is the wholly owned subsidiary of China Shipping (Group) Company. The Company is not aware of any co-relationship of other shareholders.

3. Top ten shareholders whose A shares are subject to trading moratorium

Serial No.	Name of Shareholder whose shares are subject to trading moratorium	Number of shares held which are subject to trading moratorium as at 31 December 2007	Percentage of total share capital %	Trading day	Number of new tradable shares	Undertakings
1	China Merchants Steam Navigation Company Limited	1,781,370,091	12.11	/	/	When the share price of the Company reaches RMB8.48 or above (to be weighted depending on circumstances) in the 12 months after expiry of the 36-month period starting from acquisition of right of circulation/after expiry of 48 months after acquisition of right of circulation
4	Shenzhen Yan Qing Investment and Development Company Limited	433,484,335	2.95			
5	Shenzhen Chu Yuan Investment and Development Company Limited	378,715,868	2.58			
2	China Ocean Shipping (Group) Company	947,548,668	6.44	27 February 2009	/	After expiry of 36 months after acquisition of right of circulation
3	Guangzhou Maritime Transport (Group) Company Limited	565,359,590	3.85			
6	China Communications Construction Group Limited	261,024,805	1.78			
9	China Shipping (Group) Company	175,950,157	1.20			
7	Shanghai Automotive Industry Corporation	250,564,996	1.70	27 February 2008	/	After expiry of 24 months after acquisition of right of circulation
8	CNOOC Investment Co., Ltd.	205,305,070	1.40			
9	Shandong State-owned Assets Investment Holdings Company Limited	175,950,157	1.20			
9	Qinhuangdao Port Group Company Limited	175,950,157	1.20			
9	Guangdong Provincial Highways Administration Bureau	175,950,157	1.20			
10	Huaneng Capital Services Corporation Ltd	173,881,403	1.18			

4. Top ten shareholders whose shares are not subject to trading moratorium

Serial No.	Name of Shareholder	Class of shares	Number of shares held as at end of the reported period	Percentage of total share capital%
1	HKSCC Nominees Limited[(1)]	H shares	2,629,655,989	17.88
2	Universal Balanced Growth Stock Investment Fund	A Shares not subject to trading moratorium	60,297,662	0.41
3	Jingshun Great Wall Selective Blue-Chip Stock Investment Fund	A Shares not subject to trading moratorium	54,814,698	0.37
4	Jiashi Stable Open Stock Investment Fund	A Shares not subject to trading moratorium	51,401,935	0.35
5	South Excellent Performance Growth Stock Investment Fund	A Shares not subject to trading moratorium	50,071,671	0.34
6	Huaxia BlueChip Core Mixed Stock Investment Fund (LOF)	A Shares not subject to trading moratorium	50,031,688	0.34
7	Rongtong New Blue-Chip Stock Investment Fund	A Shares not subject to trading moratorium	47,596,690	0.32
8	South Selective Stock Investment Fund	A Shares not subject to trading moratorium	46,802,064	0.32
9	Yifangda 50 Index Stock Investment Fund	A Shares not subject to trading moratorium	45,923,623	0.31
10	Boshi Mainstream Industry Stock Investment Fund	A Shares not subject to trading moratorium	43,599,702	0.30

Notes: (1) Shares held by HKSCC Nominees Limited are the total shares in the accounts of holders of CMB H Shares trading on the transaction platform of HKSCC Nominees Limited.

(2) Of the aforesaid top 10 shareholders whose shares are not subject to trading moratorium, South Excellent Performance Growth Stock Investment Fund and South Selective Stock Investment Fund are both managed by China Southern Fund Management Co., Ltd. The Company is not aware of any co-relationship of other shareholders who are not subject to trading moratorium.

5. Top ten holders of convertible bonds

Serial No.	Name of convertible bond holder	Type of securities	Amount of convertible bonds held as at end of the reported period (in RMB)	Percentage of total convertible bond in issue%
1	Industrial Convertible Bond Hybrid Securities Investment Fund	Convertible bond	12,009,000	0.1848
2	Zhao Yanqing	Convertible bond	69,000	0.0011
3	Wan Xianghong	Convertible bond	65,000	0.0010
4	Zhang Jianfeng	Convertible bond	49,000	0.0008
5	Lu Junwen	Convertible bond	40,000	0.0006
6	Cui Qiang	Convertible bond	37,000	0.0006
7	Zhang Liang	Convertible bond	35,000	0.0005
8	He Guangping	Convertible bond	32,000	0.0005
9	Huang Xiaodu	Convertible bond	30,000	0.0005
10	Liang Tingjian	Convertible bond	25,000	0.0004

Note: The Company is not aware of any co-relationship of the top ten convertible bond holders.

6. Substantial shareholders' and other persons' interests and short positions in shares and underlying shares under Hong Kong laws and regulations

As at 31 December 2007, the following persons (other than the directors, supervisors and senior executives of the Company (defines as to the Hong Kong 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 Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) ("SFO"):

Name of Substantial Shareholder	Class of shares	Long/short position	Capacity	No.of shares	*Notes*	Percentage of the relevant share held in issue (%)	Percentage of all issued share (%)
China Merchants Group Ltd.	A	Long	Interest of controlled corporations	2,599,932,810	*1*	21.59	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*	6.77	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		6.77	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	5.41
JPMorgan Chase & Co.	H	Long	Beneficial owner	42,071,777			
		Long	Investment manager	142,488,000			
		Long	Custodian	84,011,892			
				268,571,669	*3*	10.09	1.83
		Short	Beneficial owner	17,620,163	*3*	0.66	0.12
UBS AG	H	Long	Beneficial owner	186,448,615			
		Long	Person having a security interest in shares	4,412,569			
		Long	Interest of controlled corporations	52,333,787			
				243,194,971	*4*	9.14	1.65
		Short	Beneficial owner	78,292,182			
		Short	Interest of controlled corporations	2,546,500			
				80,838,682	*4*	3.04	0.55

* The above numbers of shares were recorded in the disclosure forms completed by the relevant substantial shareholders before 31 December 2007. During the period from the date on which the respective substantial shareholders submitted the said forms up to 31 December 2007, there were some updates to the aforesaid numbers of shares, but the levels of the changes did not result in a disclosure obligation in accordance with the SFO.

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 268,571,669 H shares (Long position) and 17,620,163 H shares (Short position) in 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 84,011,892 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 38,556,777 H shares (Long position) and 14,105,163 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 3,515,000 H shares (Long position) and 3,515,000 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 owned as to 97.58% by 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) JF International Management Inc. and JF Asset Management Limited held 1,450,500 H shares (Long position) and 117,060,000 H shares (Long position) in the Company respectively. Both were wholly-owned subsidiaries of JPMorgan Asset Management (Asia) Inc., which in turn was a wholly-owned subsidiary of JPMorgan Asset Management Holdings Inc. JPMorgan Asset Management Holdings Inc. was wholly-owned by JPMorgan Chase & Co.

(3.5) JPMorgan Asset Management (Japan) Limited held 5,088,500 H shares (Long position) in the Company. JPMorgan Asset Management (Japan) Limited was wholly-owned by JPMorgan Asset Management (Asia) Inc., referred to in (3.4) above.

(3.6) J.P. Morgan Investment Management Inc. held 2,036,000 H shares (Long position) in the Company. J.P. Morgan Investment Management Inc. was wholly-owned by JPMorgan Asset Management Holdings Inc., referred to in (3.4) above.

(3.7) China International Fund Management Ltd held 16,035,000 H shares (Long position) in the Company. China International Fund Management Ltd was owned as to 49% by JPMorgan Asset Management (UK) Limited and JPMorgan Asset Management (UK) Limited held directly 743,000 H shares (Long position) 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. JPMorgan Asset Management International Limited was wholly-owned by JPMorgan Asset Management Holdings Inc., referred to in (3.4) above.

(3.8) JPMorgan Asset Management (London) Ltd held 75,000 H shares (Long position) in the Company. JPMorgan Asset Management (London) Ltd was a wholly-owned subsidiary of JPMorgan Asset Management (UK) Limited, referred to in (3.7) above.

The entire interest of JPMorgan Chase & Co.in the Company included a lending pool of 84,011,892 H shares (Long position). Besides, 12,842,500 H shares (Long position) and 14,105,163 H shares (Short position) were held through derivatives as follows:

77,500 H shares (Long position) and 6,406,500 H shares (Short position)	–	through cash settled derivatives (on exchange)
11,550,000 H shares (Long position) and 7,698,663 H shares (Short position)	–	through physically settled derivatives (off exchange)
1,215,000 H shares (Long position)	–	through cash settled derivatives (off exchange)

(4) UBS AG held interest in a total of 243,194,971 H shares (Long position) and 80,838,682 H shares (Short position) in the Company by virtue of its 100% control over the following corporations, which held direct interests in the Company:

	Number of shares	
Name of controlled Corporation	**Long position**	**Short position**
UBS Fund Management (Switzerland) AG	3,634,250	–
UBS Fund Services (Luxembourg) SA	8,612,600	–
UBS Global Asset Management (Americas) Inc.	4,135,000	–
UBS Global Asset Management (Hong Kong) Ltd	8,455,500	–
UBS Global Asset Management (Singapore) Ltd	15,205,100	–
UBS Global Asset Management (UK) Limited	8,779,939	–
UBS Global Asset Management (Japan) Ltd	1,406,000	–
UBS Global Asset Management (Australia) Inc.	113,898	–
UBS Global Asset Management (Canada) Inc.	635,000	–
UBS O'Connor LLC	–	1,190,000
UBS Securities LLC	1,356,500	1,356,500

Among the entire interest of UBS AG in the Company, 41,151,500 H shares (Long position) and 69,572,182 H shares (Short position) were held through derivatives as follows:

2,751,500 H shares (Long position) and 1,870,000 H shares (Short position)	–	through physically settled derivatives (on exchange)
21,890,000 H shares (Short position)	–	through cash settled derivatives (on exchange)
27,400,000 H shares (Long position) and 28,212,182 H shares (Short position)	–	through physically settled derivatives (off exchange)
11,000,000 H shares (Long position) and 17,600,000 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 31 December 2007 as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

7. Undertakings associated with the share reform

The Company implemented the share reform (a "Conversion Scheme") on 27 February 2006. The Conversion Scheme stated the undertakings of the shareholders whose shares were subject to trading moratorium were as follows: shareholders without put obligation undertook not to trade or transfer their shares within 24 months from 27 February 2006; shareholders with put obligation undertook not to trade or transfer their shares within 36 months from 27 February 2006. In particular, China Merchants Steam Navigation Co., Ltd., Shenzhen Yan Qing Investment and Development Co., Ltd. and Shenzhen Chu Yuan Investment and Development Co., Ltd. undertook not to trade or transfer their shares before the share price of the Company first reaches RMB8.48 or above (to be weighted depending on circumstances) in the 12 months after expiry of the aforesaid 36-month lock-up period. The aforesaid shareholders have performed their undertakings (as mentioned above) in 2007.

Shareholders with put obligation undertook that, after completion of the Conversion Scheme, they would advise the board of directors to formulate a long-term incentive plan including share option incentive plan, which should be implemented by the board of directors or first submitted to the general meeting of the Company for approval and then implemented by the board of directors according to the relevant regulations.

During the reported period, the H-Share Appreciation Rights Scheme for the Senior Management of the Company was approved by the shareholders of the Company at the 2007 First Extraordinary General Meeting held on 22 October 2007 and was initially implemented on 30 October 2007. Details of the Scheme were disclosed in the notice of general meeting, H shares circular, general meeting documents and relevant announcements published on Shanghai Stock Exchange (www.sse.com), Hong Kong Stock Exchange (www.hkex.com) and the Company's website (www.cmbchina.com) on 30 August 2007, 16 October 2007, 23 October 2007 and 31 October 2007 respectively.

8. Trading date of shares which are subject to trading moratorium

Time frame	No. of new tradable shares after expiry of lock-up period	No. of balance of shares which are subject to trading moratorium	No. of balance of shares which are not subject to trading moratorium (note 1)	Remarks
Within 24 months after acquisition of right of circulation	0	7,331,629,579	/	/
After expiry of 24 months after acquisition of right of circulation	2,534,911,447	4,796,718,132	/	Original non-circulated shares held by original non-circulated shareholders without put obligation.
After expiry of 36 months after acquisition of right of circulation	2,205,355,418	2,591,362,714	/	Original non-circulated shares held by original non-circulated shareholders with put obligation other than China Merchants Steam Navigation Company Limited, Shenzhen Yan Qing Investment and Development Company Limited and Shenzhen Chu Yuan Investment and Development Company Limited.
When the share price of the Company first reaches or above RMB8.48 (to be weighted depending on circumstances) in the 12 months after expiry of the 36-month period starting from acquisition of right of circulation/ after expiry of 48 months after acquisition of right of circulation	2,591,362,714	0	/	Original non-circulated shares held by China Merchants Steam Navigation Company, Shenzhen Yan Qing Investment and Development Company Limited and Shenzhen Chu Yuan Investment and Development Company Limited.
Total	7,331,629,579	/	/	/

Notes:

1. The convertible bonds issued by the Company have not yet been fully converted, therefore it is impossible to estimate the balance of shares which are not subject to trading moratorium.

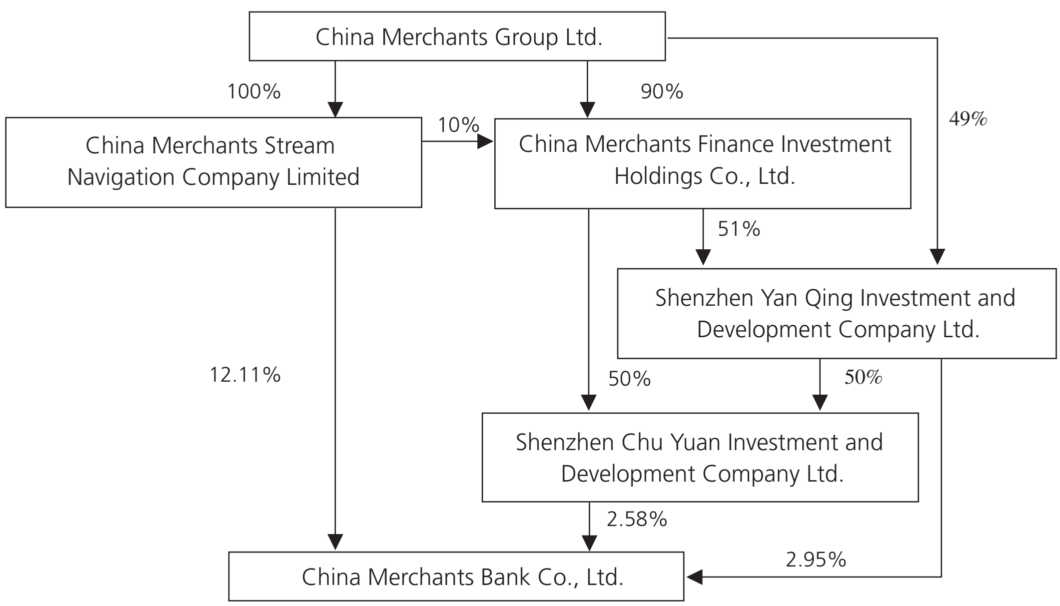
2. At 27 February 2008, the lock-up period of 2,532,396,325 of shares which are subject to trading moratorium has expired and the shares are tradable. For details of the liquidity of the shares which are subject to trading moratorium, please refer to the Company's announcement dated 22 February 2008 on the website of Shanghai Stock Exchange at www.sse.com and the announcement published on the website of Hong Kong Stock Exchange at www.hkex.com and the Company's website at www.cmbchina.com

9. Information about the Company's largest shareholder and its parent company

(1) China Merchants Steam Navigation Company Limited was founded on 11 October 1948 and its legal representative is Mr. Qin Xiao. It is a wholly owned subsidiary of China Merchants Group Limited. The Company is mainly engaged in passenger and cargo shipping business; dockyard, warehouse and vehicle transportation; sale, purchase and supply of various transportation equipment, spare parts and materials; ship and passenger/goods shipping agency, international maritime cargo; as well as finance, insurance and trust business related to transportation.

(2) China Merchants Group Limited directly holds 100% equity interest in China Merchants Steam Navigation Company Limited and is the parent company of the Company's largest shareholder. Its legal representative is Mr. Qin Xiao. China Merchants Group Limited, formerly known as China Merchants Steam Navigation Company Limited (招商局), is a state-owned backbone enterprise under direct control of State-owned Assets Supervision and Administration Commission of the State Council. It was incorporated in 1872 and was one of the enterprises which played significant roles in promoting the modernization of China's national industrial & commercial era at that time. Nowadays, it has developed into a conglomerate, specialising in transportation, infrastructure, industry zone development, port, finance, property and logistics businesses, etc.

The Company has no controlling shareholder or actual controlling party. The equity relationship between the Company and its largest shareholder is illustrated as follows:



10. Particulars of other shareholders holding over 5% of the shares of the Company

China Ocean Shipping (Group) Company. China Ocean Shipping (Group) Company was founded on 27 April 1961 with a registered capital of RMB1.9 billion. Its legal representative is Mr. Wei Jiafu. The company is a state-owned backbone enterprise under direct control State-owned Assets Supervision and Administration Commission of the State Council and a multinational company with international shipping as its principal business. It mainly engaged in international passenger and cargo shipping business; leasing, building, sale and purchase of vessels and containers and their maintenance and support services; domestic coastal transportation of goods and shipping agency services; transportation services; ship/cargo agency in major ports in China.

11. Particulars on share issue and listing

Particulars on share issue by the Company for the past three years up to the end of the reported period

(1) A shares issue

Approved by CSRC document Zheng Jian Fa Xing Zi【2002】No. 33, the Company initially public offered 1.5 billion common shares in RMB (A Shares) at an issue price of RMB 7.30 per share on Shanghai Stock Exchange on 27 March 2002 by adopting a combination of offline placing to legal person investors and online placing to general public investors through accumulated bid-subscription process.

(2) H shares issue

Upon approval by CSRC and the SEHK, the Company issued 2.2 billion H shares on 22 September 2006 at HK$8.55 per share. Our state-owned shareholders reduced their shareholdings by transferring 220 million state-owned shares to the National Social Security Fund. The total H shares issued by the Company amounted to 2.42 billion. Dealings in H shares on SEHK commenced on 22 September 2006 (stock code: 3968).

On 27 September 2006, in response to the request of the joint bookrunners and underwriter to exercise the over-allotment option of the H Share Issue granted by us, the Company issued an additional 220 million H Shares at HK$8.55 per share. Due to the exercise of the over-allotment option, the state-owned shareholders of the Company reduced their shareholdings by transferring 22 million state-owned shares to the National Social Security Fund for conversion into H shares. Trading of the above 242,000,000 H shares commenced on SEHK on 5 October 2006. As a result of the exercise of the over-allotment, the total number of H Shares issued by the Company amounted to 2,662,000,000.

(3) Shares held by staff

No shares were held by the staff of the Company during the reported period.

12. Issuance of convertible bonds and their listing

Approved by CSRC document Zheng Jian Fa Xing Zi【2004】No. 155, the Company issued 65 million convertible bonds on 10 November 2004 at RMB100 each, totaling RMB6.5 billion. Upon approval by Shanghai Stock Exchange's document Shang Zheng Shang Zi【2004】No.165, the 65 million convertible bonds were listed and traded on 29 November 2004 under the name of "CMB Convertible Bonds" (bond code: 110036) on Shanghai Stock Exchange. The validity period for the convertible bonds that were listed was from 29 November 2004 to 10 November 2009. The prospectus and listing announcement of convertible bonds were published on *China Securities Journal, Securities Times and Shanghai Securities News* on 29 October 2004 and 23 November 2004 respectively.

The unconverted convertible bonds of the Company were less than RMB30 million as at 25 September 2006, and pursuant to relevant regulations, trading of "CMB Convertible Bonds" was suspended since 29 September 2006. The announcement of suspension of trading of "CMB Convertible Bonds" was published on *China Securities Journal, Securities Times and Shanghai Securities News* from 26 September 2006 to 28 September 2006 respectively.

Price adjustment of convertible bonds

On 20 June 2005, pursuant to the terms of issuance set out in the prospectus of "CMB convertible bonds" and the relevant rules and regulations on the issuance of convertible bonds by CSRC, the Company implemented the Profit Appropriations Scheme for 2004 in which RMB 1.1(tax included) in cash was distributed for every 10 shares held. And the capital reserve was converted into share capital in the proportion of five shares for every 10 shares held. Accordingly, the conversion price of "CMB convertible bonds" was adjusted from RMB9.34 per share to RMB6.23 per share (please refer to the "Indicative Announcement on Adjustment of Conversion Price of Convertible Corporate Bonds of China Merchants Bank Co., Ltd." published on *China Securities Journal, Shanghai Securities News* and *Securities Times* on 14 June 2005 for further details).

The Company implemented the Share Reform on 24 February 2006, under which capital reserve was converted into share capital in the proportion of 0.8589 bonus shares for every 10 shares held, and the conversion price of "CMB Convertible Bonds" was adjusted downward from RMB6.23 per share to RMB5.74 per share accordingly (please refer to the "Indicative Announcement on Adjustment of Conversion Price of Convertible Corporate Bonds of China Merchants Bank Co., Ltd." published on *China Securities Journal, Shanghai Securities News* and *Securities Times* on 22 February 2006 for further details).

Conversion of convertible bonds

As at 31 December 2007, "CMB Convertible bonds" (110036) amounted to RMB6,486,004,000 were converted into shares of "CMB" (600036). The number of convertible shares were 1,805,560 during the reported period and the accumulative number of convertible shares (including the enlarged convertible shares) were 1,041,562,553. As at 31 December 2007, the outstanding "CMB Convertible bonds" were RMB13,996,000, representing 0.22% of the total amount of "CMB Convertible bonds" in issue.

Issuance of subordinated debts

In accordance with Yin Jian Fu【2004】No. 36 Document, "Approval of Issuing Subordinated Debts by China Merchants Bank" issued by CBRC, the Company issued RMB3.5 billion subordinated debts, of which, China Pacific Insurance (Group) Co., Ltd. subscribed RMB2.5 billion subordinated debts in March 2004 at the fixed annual rate of 4.59 % for a term of 5 years and 1 month, with the interest to be payable once a year. China Ping An Life Insurance Co., Ltd. and Tai Kang Life Insurance Co., Ltd. subscribed RMB0.7 billion and RMB0.3 billion subordinated debts in June 2004 respectively at the fixed annual rate of 5.10 % for a term of 5 years and 1 month, with the interest to be payable once a year.

Directors, supervisors and senior management

Name	Gender	Date of birth (Y/M)	Title	Term of office	Shareholding at the beginning of the year	Shareholding at the end of the year	Remunerations are paid by shareholders' companies or other related companies
Qin Xiao	Male	1947.4	Chairman & Non-executive director	2007.6-2010.6	0	0	yes
Wei Jiafu	Male	1949.12	Vice chairman & Non-executive director	2007.6-2010.6	0	0	yes
Fu Yuning	Male	1957.3	Non-executive director	2007.6-2010.6	0	0	yes
Li Yinquan	Male	1955.4	Non-executive director	2007.6-2010.6	0	0	yes
Hong Xiaoyuan	Male	1963.3	Non-executive director	2007.6-2010.6	0	0	yes
Ding An hua Edward	Male	1964.4	Non-executive director	2007.6-2010.6	0	0	yes
Sun Yueying	Female	1958.6	Non-executive director	2007.6-2010.6	0	0	yes
Wang Daxiong	Male	1960.12	Non-executive director	2007.6-2010.6	0	0	yes
Fu Junyuan	Male	1961.5	Non-executive director	2007.6-2010.6	0	0	yes
Ma Weihua	Male	1948.6	Executive director, President and Chief executive officer	2007.6-2010.6	0	0	–
Zhang Guanghua	Male	1957.3	Executive director and Executive vice president	2007.6-2010.6	0	0	–
Li Hao	Male	1959.3	Executive director, Executive vice president and Chief financial officer	2007.6-2010.6			
Wu Jiesi	Male	1951.10	Independent Non-executive director	2007.6-2010.6	0	0	–
Yi Xiqun	Male	1947.8	Independent Non-executive director	2008.1-2010.6	0	0	–
Yan Lan	Female	1957.1	Independent Non-executive director	2007.6-2010.6	0	0	–
Chow Kwong Fai Edward	Male	1952.8	Independent Non-executive director	2007.6-2010.6	0	0	–
Liu Yongzhang	Male	1956.12	Independent Non-executive director	2007.6-2010.6	0	0	–
Liu Hongxia	Female	1963.9	Independent Non-executive director	2007.6-2010.6	0	0	–
Shi Jiliang	Male	1945.2	Chairman of Board of Supervisors and External supervisor	2007.6-2010.6	0	0	–
Zhu Genlin	Male	1955.9	Shareholder supervisor	2007.6-2010.6	0	0	Yes
Chen Haoming	Male	1966.3	Shareholder supervisor	2007.6-2010.6	0	0	Yes
Dong Xiande	Male	1947.2	Shareholder supervisor	2007.10-2010.6	0	0	Yes
Li Jiangning	Male	1959.4	Shareholder supervisor	2007.6-2010.6	0	0	Yes
Shao Ruiqing	Male	1957.9	External supervisor	2007.6-2010.6	0	0	–
Yin Xuwen	Male	1966.3	Employee supervisor	2007.6-2010.6	0	0	–
Yang Zongjian	Male	1957.4	Employee supervisor	2007.6-2010.6	0	0	–
Shi Shunhua	Male	1962.12	Employee supervisor	2007.6-2010.6	0	0	–
Tang Zhihong	Male	1960.3	Executive vice president	2007.6-2010.6	0	0	–
Yin Fenglan	Female	1953.7	Executive vice president	2007.6-2010.6	0	0	–
Ding Wei	Male	1957.5	Executive vice president	2006.5 to now	0	0	–
Xu Lianfeng	Male	1953.2	Chief technology officer	2001.11 to now	0	0	–
Fan Peng	Male	1953.2	Chief audit officer	2007.6-2010.6	0	0	–
Lan Qi	Male	1956.6	Secretary of Board of Directors	2007.6-2010.6	0	0	–

Note:

Song Lin resigned as an independent non-executive director on 28 September 2007. According to the relevant requirements, he should continue his duties as an independent non-executive director until the appointment of a new independent non-executive director. On 22 October 2007, Yi Xiqun was appointed as an independent non-executive director at the general meeting of shareholders. On 14 January 2008, the CBRC approved the appointment of Yi Xiqun as an independent non-executive director of the Company. Yi Xiqun formally assumed duties on 14 January 2008.

Current positions held by the Directors and Supervisors in the Company's Shareholders

Name	Name of Company	Title	Term of office
Qin Xiao	China Merchants Group Limited	Chairman	From January 2001 up to now
Wei Jiafu	China Ocean Shipping (Group) Company	President	From June 2000 up to now
Fu Yuning	China Merchants Group Limited	President	From April 2000 up to now
Li Yinquan	China Merchants Group Limited	Vice president & chief financial officer	From July 2002 up to now
Hong Xiaoyuan	China Merchants Finance Holdings Co., Ltd.	General manager	From May 2007 up to now
Ding An hua Edward	China Merchants Group Limited, Strategy and research department	General manager	From July 2004 up to now
Sun Yueying	China Ocean Shipping (Group) Company	Chief accountant	From December 2000 up to now
Wang Daxiong	China Shipping (Group) Company	Vice president & chief accountant	From March 2001 up to now
Fu Junyuan	China Communications Construction Co.,Ltd	Executive director & chief financial officer	From September 2006 up to now
Zhu Genlin	Shanghai Automotive Industry Corporation(Group)	Chief financial officer	From February 2002 up to now
Chen Haoming	Zhonghai Trust & Investment Co., Ltd.	Deputy general manager	From November 2000 up to now
Li Jiangning	Shandong State-owned Assets Investment Holdings Company Limited	Vice president	From December 2005 up to now
Dong Xiande	Qinhuangdao Port Group Company Limited	Director & chief accountant	From August 2002 up to July 2007

MAJOR WORKING EXPERIENCES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT AND DETAILS OF THEIR PART-TIME JOBS

Directors

Mr. Qin Xiao, the chairman and non-executive director of the Company. He joined the Company in April 2001. Mr. Qin obtained a doctorate degree in economics from Cambridge University in 2002 and is a senior economist. He is a member of the 11th Chinese People's Political Consultative Conference, and is a part-time professor at the School of Economics & Management, Tsinghua University and the People's Bank of China Postgraduate Division. He has been the chairman of the board of China Merchants Group Limited since January 2001, and was previously the vice chairman of the board of China International Trust and Investment Corporation from 2000 to 2001, general manager of the China International Trust and Investment Corporation from 1995 to 2000, chairman of the board of China CITIC Industrial Bank (now China CITIC Bank) from 1998 to 2001, an advisor on the Foreign Currency Policy of the State Administration of Foreign Exchange from 1999 to 2001, vice chairman of the Affiliate of International Chamber of Commerce in China from 1999 to 2001, chairman of the APEC Business Advisory Council from 2000 to 2001, the deputy of the Ninth National People's Congress and a committee member of the tenth National Political Consultative Conference.

Mr. Wei Jiafu, the vice chairman and non-executive director of the Company. He joined the Company in April 2001. He obtained a master's degree in transportation planning and management from Dalian Maritime University in 1999 and a doctorate degree from Tianjin University in 2001. He has been a member of the Chinese Communist Party Central Committee for Disciplinary Inspection since November 2002 and the president of China Ocean Shipping (Group) Company since November 1998. He is also the chairman of the China Group Companies Promotion Association, the China Shipowners' Association and the China Federation of Industrial Economics and a member of the Council of Bo'ao Forum for Asia. He has been a member of the Harvard Business School Asia-Pacific Advisory Board and an advisor of the Panama Canal Authority. He was the president of COSCO Holding (Singapore) Pte. Ltd. from 1993 to 1995, general manager of Chinese-Tanzania Joint Shipping Company from 1992 to 1993, Tianjin Ocean Shipping Company from 1995 to 1998 and COSCO Bulk Carrier Company Limited from 1997 to 1998. In 2003, he was awarded the "Famous Person in Shipping Award" from the Lloyd's Asia Shipping Magazine and the "Port Pilot Award" conferred by the Port Authority of Long Beach, the United States.

Mr. Wei has been the chairman of the board of directors and executive director of China COSCO Holdings Company Limited since February 2005, and was the chairman and executive director of COSCO Pacific Limited from June 2000 to June 2005. He has been the chairman and a non-executive director of COSCO Pacific Limited since June 2005, and the chairman and director of COSCO International Holdings Limited since June 2000. All these three companies are listed on the Hong Kong Stock Exchange. Mr. Wei has been the chairman and director of COSCO Corporation (Singapore) Limited (a company listed on the Singapore Stock Exchange) since March 2000, chairman and director of COSCO Container Lines Company Limited since July 2000, chairman of the board and director of COSCO (Hong Kong) Group Limited since June 2000 and the general manager of COSCO Bulk Carrier Company Limited since April 2000.

Mr. Fu Yuning, the non-executive director of the Company. He joined the Company in March 1999. Mr. Fu obtained a doctorate degree from Brunel University, the United Kingdom in 1987. He has been a director and president of China Merchants Group Limited since April 2000. Mr. Fu has been the chairman and managing director of China Merchants Holdings (International) Co., Ltd. (a company listed on the Hong Kong Stock Exchange) and the chairman and executive director of China Merchants China Direct Investments Limited (a company listed on the Hong Kong Stock Exchange) since January 1999. He has also been an independent non-executive director of Integrated Distribution Services Group Limited (a company listed on the Hong Kong Stock Exchange) since November 2004, an independent non-executive director of Sino Land Company Limited (a company listed on the Hong Kong Stock Exchange) since June 2005 and a director of Hong Kong Port Development Council since January 2003. He has served as the chairman of Shenzhen Chiwan Petroleum Supply Base Co., Ltd. (a company listed on the Shenzhen Stock Exchange) since April 1998 and chairman of China Nanshan Development (Group) Inc. since December 1998. He previously served as chairman of the board of Shenzhen Chiwan Wharf Holdings Limited (a company listed on the Shenzhen Stock Exchange) from 1993 to 1998 and chairman of Union Bank of Hong Kong Limited (now known as Industrial and Commercial Bank of China (Asia) Limited) (a company listed on the Hong Kong Stock Exchange) from 1999 to 2000.

Mr. Li Yinquan, the non-executive director of the Company. He joined the Company in April 2001. He obtained a master's degree in economics and finance in Graduate School of the People's Bank of China in 1986 and a master's degree in finance in FINAFRICA, Italy in 1988, respectively, and is a senior economist. He has been the vice president and chief financial officer of China Merchants Group Limited since March 2004. He previously served as deputy division chief and division chief of the General Affairs Office of the Agricultural Bank of China, an assistant general manager of the International Business Department and head of the Preparatory Group of New York Branch, deputy general manager of the Personnel and Education Department, deputy general manager (acting general manager) of Agricultural Bank of China, Hong Kong Branch, and general manager of the Planning and Finance Department of China Merchants Group Limited, deputy chief financial officer of China Merchants Group Limited and chief financial officer of China Merchants Group Limited.

Mr. Hong Xiaoyuan, the non-executive director of the Company. He joined the Company in June 2007. He obtained a master's degree in economics from Peking University and a master degree in science from Australian National University. He previously served as officer of the Comprehensive Planning Division of the State Commission for Economy System Reform from 1988 to 1990, general manager of Shenzhen Longbo Industrial Co., Ltd. from 1993 to 1999. From 1999 to 2007, he served as the assistant general manager of China Merchants Shekou Industrial Area Co., Ltd., general manager of China Merchants Properties Holdings Co., Ltd., general manager of China Merchants Technology Holdings Co., Ltd., and deputy general manager of China Merchants Shekou Industrial Area Co., Ltd.. He was the director of China Merchants Properties Holdings Co., Ltd. from January 2000 to September 2007. Since May 2007 till now, he is the General Manager and director of China Merchants Finance Holdings Company Limited, and also the director of China Merchants Energy Transportation Co., Ltd., China Merchants Securities Co., Ltd. and China Merchants China Direct Investment Limited. He is also the chairman of China Merchants Investment Management Limited, Houlder Insurance Brokers Far East Ltd., China Merchants Insurance Co., Ltd., Houlder Insurance Brokers Ltd. and China Merchants Holdings (U.K.) Co., Ltd..

Mr. Ding An Hua Edward, the non-executive director of the Company. He joined the Company in June 2007. He has obtained a master's degree in business administration in the School of Business Administration of South China University of Technology and a master's degree in the School of Business of Macquarie University, Australia. He has been the general manager of the strategy research department of China Merchants Group Ltd. He was an editor of China Communications Press from 1984 to 1986, a lecturer of the School of Business Administration of South China University of Technology from 1989 to 1992 and the head economist of the research department of China Merchants Group Ltd. from 1992 to 1995. He was a senior management staff with a US firm from 1995 to 1998. He worked for Royal Bank of Canada from 1998 to 2000 and held the position of Canadian Investment Manager. From 2001 to 2004 he successively served as the assistant general manager, the deputy general manager of the business development department and deputy general manager of the corporate planning department of China Merchants Group Ltd. He is also a director of China Merchants Energy Transportation Co., Ltd (a company listed on the Shanghai Stock Exchange) since December 2004, and also a director of China Merchants Securities Co., Ltd since July 2007.

Ms. Sun Yueying, the non-executive director of the Company. She joined the Company in April 2001. She is a university graduate and is a senior accountant. She has been the chief accountant of China Ocean Shipping (Group) Company since December 2000. She previously served as deputy manager of the Finance Department of Tianjin Ocean Shipping Company from 1982 to 1993, head of the General Affairs and Management Department of COSCO Japan Company Limited from 1993 to 1997, deputy general manager of the Accounting and Finance Department from December 1997 to November 1998, general manager of the Treasury Department of China Ocean Shipping (Group) Company from November 1998 to February 2000 and vice chief accountant of China Ocean Shipping (Group) Company from February 2000 to December 2000.

Mr. Wang Daxiong, the non-executive director of the Company. He joined the Company in March 1998. He is a university graduate and is a senior accountant. Mr. Wang has been the chief accountant and vice president of China Shipping (Group) Company since January 1998 and 2001, respectively. He has been the vice president and chief accountant of China Shipping (Group) Company from December 2004. He has also been a non-executive director of China Shipping Container Lines Company Limited (a company listed on the Hong Kong Stock Exchange) since February 2004, an executive director of China Shipping Development Co., Ltd (a company listed on the Hong Kong Stock Exchange and Shanghai Stock Exchange) since August 1997 and chairman of the board of China Shipping (Hainan) Haisheng Shipping and Enterprise Co., Ltd (a company listed on the Shanghai Stock Exchange) since July 2001. He previously served as a chief accountant and head of the Finance Department of Guangzhou Maritime Transport (Group) Co., Ltd from 1996 to 1998.

Mr. Fu Junyuan, the non-executive director of the Company. He joined the Company in March 2000. He obtained a master's degree in business administration and is a senior accountant. He has been the executive director and CFO of China Communications Construction Ltd since September 2006. He previously served as deputy head and head of the Infrastructure Auditing Division of the Audit Bureau of the Ministry of Communications from 1989 to 1993, and head of the General Affairs Office of the Audit Bureau of the Ministry of Communications from 1994 to 1996. He has been the chief accountant of China Harbour Engineering (Group) Ltd from 1996 to 2005, and the chief accountant of China Communications Construction (Group) Ltd since September 2005 to August 2006.

Mr. Ma Weihua, the executive director, the president and chief executive officer of the Company. He joined the Company in January 1999. He obtained a doctorate degree in economics in 1999 and is a senior economist. He is currently a committee member of the Eleventh National Political Consultative Conference. He has been the president and CEO of China Merchants Bank since January 1999. He has been the chairman of the boards of CMB International Capital Corporation Limited, CIGNA & CMC Life Insurance Company Ltd and China Merchants Fund Management Co., Ltd since September 1999, September 2003 and November 2007 respectively, and a director of China Merchants Group Limited since July 2002. He is also vice chairman of China Chamber of International Commerce, deputy chairman of China Enterprise Directors Association, chairman of the Association of Shenzhen Domestic Banks and the Shenzhen Association of Listed Companies, and a member of the Standing Council of China Society for Finance and Banking and of the Standing Council of the Eighth Council of Red Cross Society of China and a director of Shenzhen Soft Science Development Foundation and a part time professor at over ten higher educational institutions including the Peking University, Tsinghua University, Nankai University, Jilin University and Southwest Finance University. He previously served as deputy director of the general office of the People's Bank of China in 1990, deputy director of the Planning and Funding Department of the People's Bank of China from 1991 to 1992, governor of the People's Bank of China, Hainan Branch and head of the State Administration of Foreign Exchange, Hainan Branch from 1992 to 1998. He once was the deputy of the Tenth National People's Congress. He was named as "China Economy Person of the Year" by CCTV in 2001 and one of the "Rising Stars of Banking" by the United Kingdom's magazine *The Banker* in 2005.

Mr. Zhang Guanghua, the executive director and executive vice president of the Company. He joined the Company in April 2007. Mr. Zhang graduated from the Department of Economics of Jilin University in 1983, and obtained a master degree in economics from Jilin University in 1986. In 2000, he obtained a doctorate degree in economics from Southwest Finance University and is a senior economist. He has been executive vice president of the Company since April, 2007. He was a member of the Standing Council of China Society for Finance and Banking, the deputy chairman of both Guangdong Society for Finance and Banking and Guangdong Commerce Association respectively. He served as the deputy director-general of the Policy Research Office of State Administration of Foreign Exchange and head of the Planning Division from July 1986 to October 1992, the assistant President of People's Bank of China ("PBOC") Hainan Branch from October 1992 to June 1994. He served as vice president of PBOC Hainan Branch and deputy administrator of the State Administration of Foreign Exchange, Hainan Branch from June 1994 to November 1998 and vice governor of PBOC Guangzhou Branch from November 1998 to September 2002. From September 2002 to April 2007, he served as chief executive officer of Guangdong Development Bank. He has been the vice chairman of the board of CMB International Capital Corporation Limited since July 2007.

Mr. Li Hao, the executive director and executive vice president of the Company. He joined the Company in May 1997. Mr. Li obtained a master degree in business administration in 2000 and is a senior accountant. He has been an executive vice president of the Company since March, 2002, and concurrently the Chief Financial Officer since March 2007. He served as the deputy head and head of the Enterprise Finance Office of the Finance and Accounting Department of the Ministry of Communications from 1987 to 1994, an assistant director and deputy director of the Finance and Accounting Department of the Ministry of Communications from 1994 to 1997. He has been the executive vice president of the Company since 1997 and concurrently the general manager of the Shanghai Branch from April 2000 to March 2002.

Mr. Wu Jiesi, the independent non-executive director of the Company. He joined the Company in September 2005. He holds a doctorate degree in economics, conducted post-doctorate research work in theoretical economics in Nankai University, the PRC, and became a professor in Nankai University in 2001. He served in the Industrial and Commercial Bank of China from 1984 to 1995 and was the president of Industrial and Commercial Bank of China, Shenzhen Branch. Mr. Wu acted as the Deputy Mayor of the People's Government of Shenzhen City from 1995 to 1998, and was appointed as Assistant to the Governor of Guangdong Provincial People's Government from 1998 to 2000. He was the chairman of Guangdong Yue Gang Investment Holdings Company Limited and the chairman of Guangdong Holdings Limited from 2000 to 2005, the honorary president of Guangdong Investment Limited (a company listed on the Hong Kong Stock Exchange) from 2004 to 2005 and the honorary president of Guangdong Tannery Limited (a company listed on the Hong Kong Stock Exchange) from 2004 to 2005. He was the managing director and chief executive officer of Hopson Development Holdings Limited (a company listed on the Hong Kong Stock Exchange) from April 2005 to January 2008. Mr. Wu currently is an independent non-executive director of Beijing Enterprises Holdings Limited ("**Beijing Enterprise**", a company listed on the Hong Kong Stock Exchange), China Insurance International Holdings Company Limited (a company listed on the Hong Kong Stock Exchange) and Yingli Green Energy Holding Co. Ltd (a company listed on the New York Stock Exchange), and a non-executive director of China Water Affairs Group Limited (a company listed on the Hong Kong Stock Exchange) and Shenzhen Investment Holdings Limited (a company listed on the Hong Kong Stock Exchange).

Mr. Yi Xiqun, the independent non-executive director of the Company. He joined the Company in October 2007. He graduated from Beijing University of Chemical & Technology in 1975, and became a postgraduate after his study on economics management engineering in Tsinghua University in 1982. He chaired at the economy system reform office of the People's Government of Beijing City from 1986 to 1987, and acted as the Governor of Xicheng District of Beijing City from 1987 to 1991. Having been Assistant to the Mayor of Beijing City, concurrently the director of Beijing Municipal Foreign Economic & Trade Commission and the director of Beijing Economic & Technological Development Area since 1991, Mr. Yi has intensive expertise and extensive experience in the management of both macro and micro economics. In 1999, he was appointed as the general manager of Beijing Jing Tai Industrial Limited and a director of Beijing Enterprises Holdings Limited. He was further appointed as the president of Beijing Holdings Limited and chairman of the board of directors of Beijing Enterprises in 2003. Mr. Yi was the president of Beijing Enterprises Group Company Limited in December 2004, and was also an independent director of SOHO China Limited in May 2007.

Mr. Song Lin, the independent non-executive director of the Company. He joined the Company in June 2007. He holds a bachelor degree in mechanical engineering from Tongji University in Shanghai. He has been the general manager of China Resources (Holdings) Company Limited since December 2004 and vice president of China Resources (Holdings) Company Limited ("CRH") since November 2006. He joined CRH in 1985, and was vice chairman and the managing director of China Resources Enterprise Limited in November 2001, the chairman and the managing director of China Resources Enterprise Limited in December 2004, and the chairman of China Resources Enterprise Limited in 2005. He acted as the chairman of China Resources Power Holdings Company Limited in August 2004. He was the chairman of China Resources Land Limited in February 2006, concurrently served as an independent non-executive director of Geely Automobile Holdings Limited and the vice chairman of China Vanke Co. Ltd (a company listed on the Shenzhen Stock Exchange).Song Lin has resigned as director of the Company on 14 January 2008.

Ms. Yan Lan, the independent non-executive director of the Company. She joined the Company in June 2007. She obtained a bachelor degree in French Language and Literature from Beijing Foreign Languages Institute in 1981, a master's degree in International Law from Peking University in 1984 and a doctorate degree in International Law from Graduate Institute of International Studies in Geneva in 1993. She has served as the chief representative in the Beijing office of Gide Loyrette et Nouel since 1998. She is now an arbitrator of China International Trade Arbitration Committee and one of the legal counsel of ICC CHINA. She also serves as the chairman of the International Advisory Committee of Beijing Music Festival, the Chairman of China Heritage Protection Fund (CHS), vice chairlady of the Women's Forum for the Economy and Society in Asia, and an advisor to France on foreign trade. She joined Gide Loyrette et Nouel in 1991 and was admitted by Paris Bar Association in 1994. She became the first female foreign partner of Gide Loyrette et Nouel in 1997.

Mr. Chow Kwong Fai, Edward, the independent non-executive director of the Company. He joined the Company in May 2006. Mr. Chow obtained a degree in business from Middlesex Polytechnic (subsequently renamed Middlesex University), the United Kingdom in 1975. He is a senior member of The Institute of Chartered Accountants in England and Wales and the Hong Kong Institute of Certified Public Accountants and expert advisor of the Accounting Standards Committee of the Ministry of Finance, Peoples Republic of China. He is a member of the Chinese People's Political Consultative Conference – Zhejiang Province and the Election Committee of Hong Kong SAR. Mr. Chow has been the chairman of China Infrastructure Group Holdings PLC since May 1996 and chairman of CIG Yangtze Ports PLC (a company listed on the Hong Kong Stock Exchange) since February 2003. He has also served as an independent non-executive director of COSCO Pacific Limited (a company listed on the Hong Kong Stock Exchange) since June 2005, a deputy chairman of both the Hong Kong Institute of Directors and the Business and Professionals Federation of Hong Kong since July 1997 and June 1998 respectively, chairman of the Professional Accountants in Business Committee of the International Federation of Accountants since 2007 and a core member of the OECD/World Bank Asian Corporate Governance Roundtable since 1999.He previously served as the president of the Hong Kong Institute of Certified Public Accountants in 2005, chairman of its Corporate Governance Committee from 1995 to 2000 and from 2003 to 2004, and chairman of its Professional Accountants in Business Committee from 2001 to 2004. Mr. Chow previously worked for 11 years with Deloitte Haskins & Sells in the UK and Price Waterhouse (as they were then known) in Hong Kong.

Mr. Liu Yongzhang, the independent non-executive director of the Company. He joined the Company in May 2006. He obtained a master's degree in economics from Shanghai University of Finance and Economics in January 1997. He is currently an associate professor of the International Business Administration Faculty, a mentor to postgraduates, the deputy secretary to the party committee of the Shanghai University of Finance and Economics and has been an independent non-executive director of Shanghai Jin Jiang International Industrial Investment Company Limited (a company listed on the Shanghai Stock Exchange) since June 2004.He previously served as the deputy secretary and secretary to the league committee of the Shanghai University of Finance and Economics from 1984 to 1985, deputy division chief and division chief of the Student Management Division of the Shanghai University of Finance and Economics from 1985 to 1997, a member of the party committee and head of the party organisation committee from 1994 to 1997. From January 1995 to June 1995, he was a visiting scholar of the University of Illinois at Chicago, the United States.

Ms. Liu Hongxia, the independent non-executive director of the Company. He joined the Company in May 2006. She obtained a doctorate degree in management from the Central University of Finance and Economics in June 2004 and was a post doctoral fellow in Corporate Governance Center of the Nankai University from September 2004 to April 2007. She is currently a professor in accounting at the Central University of Finance and Economics and a mentor of doctoral students. Since November 2003, she has also been an accreditations expert of Beijing senior accountants. She has been a director at the Beijing Institute of Accounting since 2006. She has been an independent non-executive director of Henan Zhongfu Industrial Co., Ltd. (a company listed on the Shanghai Stock Exchange) since 2006.She was previously a lecturer at the Capital University of Economics and Business, the Shandong University of Finance, the Central College for Treasury Finance Administration and the Central University of Finance and Economics, School of Accounting, and practised as an auditor with Beijing Zhongzhou Accountancy Firm.

Supervisors

Mr. Shi Jiliang, the chairman of Board of Supervisors and external supervisor of the Company. He is a university graduate and a senior economist, and member of the Tenth National Committee of the Chinese People's Political Consultative Conference. He was formerly vice president of the Heilongjiang branch of the Agricultural Bank of China from 1983 to 1988, vice president of the Tianjin branch of the Agricultural Bank of China from 1988 to 1991, governor of the Tianjin branch of the People's Bank of China from 1991 to 1994, president of the Agricultural Bank of China from 1994 to 1997, vice governor of the People's Bank of China from 1997 to 2003 and vice chairman of the China Banking Regulatory Commission from 2003 to 2005.

Mr. Zhu Genlin, the shareholder representative supervisor of the Company. Mr. Zhu graduated from Shanghai University of Finance in 1983 and obtained a master's degree in economics in 1995. He is a senior economist and associate researcher. He has been the chief financial officer of Shanghai Automotive Industry Corporation (Group) and the director of Shanghai Automotive Industry Corporation (a company listed on the Shanghai Stock Exchange) since February 2002 and March 2001, respectively. He previously served as the manager of Planning Department and Fund Investment Management Department of Shanghai International Trust & Investment Co., Ltd. and concurrently general manager and legal representative of Shanghai Shangtou Investment Management Company from 1993 to 1998, general manager and chairman of Shanghai Automotive Group Finance Company, Ltd. from 1998 to 2005 and deputy chief accountant of Shanghai Automotive Industry Corporation (Group) from 2000 to 2002. He has also been the president of Shanghai Creative Industry Investment Corp. since October 2006.

Mr. Chen Haoming, the shareholder representative supervisor of the Company. Mr. Chen obtained a master's degree in economics from the Central University of Finance and Economics in 2000 and is a senior economist. He has served as a deputy manager of Zhonghai Trust and Investment Co., Ltd. since August 2005. He previously served as the head of Assets Division of Finance Department of China National Offshore Oil Corp (CNOOC) from 1997 to 2000 and general manager of CNOOC Investment Co., Ltd from 2000 to 2005.

Mr. Dong Xiande, the shareholder representative supervisor of the Company. He graduated from accounting and statistics of Shanghai Harbour School in 1966. He is a senior accountant. He is also a director of China Merchants Securities Co., Ltd. and a director of China Shipping (Hainan) Haisheng Shipping and Enterprise Co., Ltd. (a company listed on the Shanghai Stock Exchange). He was the deputy head of Treasury Department of Qinhuangdao Port Authority in August 1984, the head of Treasury Department of Qinhuangdao Port Authority in September 1985, a director of Settlement Centre of Qinhuangdao Port Authority in December 1997, the chief accountant of Qinhuangdao Port Authority in June 1998, and a director and chief accountant of Qinghuangdao Port Group Co., Ltd. from August 2002 to July 2007.

Mr. Li Jiangning, the shareholder representative supervisor of the Company. He graduated from Shandong Normal University in1982, and obtained a master degree from Shandong Normal University in 1987. He is the vice president and chief legal advisor of Shandong Provincial State-owned Asset Investment Holding Co., Ltd. He was the lecturer of Department of Chinese literature at Shandong Normal University from July 1987 to January 1989, vice section head of department of integration, section head of communication department of Committee for Economic Restructuring of Shandong from January 1989 to May 1993 and deputy supervisor of Shandong Provincial Shareholding System Development Service Center from May 1993 to February 1994. He was the deputy chief editor of Shandong Securities Journal from February 1994 to December 1997. He was the head of macro economic control department of the Committee for Economic Restructuring of Shandong from December 1997 to October 2000. He was the head of integration department of the Committee for Economic Restructuring of Shandong from October 2000 to June 2004, the head of the distribution department of State-owned Assets Supervision and Administration Commission of Shandong Provincial Government from June 2004 to November 2005. He is also a mentor of master students of Economics at Shandong University of Finance.

Mr. Shao Ruiqing, the external supervisor of the Company. Mr. Shao obtained a bachelor degree of economics from Shanghai Maritime University in July 1982, a master degree of administration from Shanghai University of Finance and Economics in June 1998, and a doctorate degree of administration from Tongji University in May 2005. He is currently deputy dean and a professor of Shanghai Lixin University of Commerce and a doctoral tutor of Shanghai Maritime University. Mr. Shao is also deputy head of the China Association of Communications Accountancy, a director of the China Institute of Accounting Instructors, deputy head of the Shanghai Association of Communications Accountancy, a director, and a member of the working committee on higher education of the Shanghai Institute of Accountancy. Mr. Shao is a deputy to the thirteenth NPC of Shanghai and the consultant for accounting decision of the Ministry of Communications. He has concurrently served as an independent non-executive director of Nanjing Water Transport Industry Co., Ltd. (a company listed on the Shanghai Stock Exchange) since February 2002, Zhonghai Shipping (Hainan) Haisheng Shipping and Enterprise Co., Ltd. (a company listed on the Shanghai Stock Exchange) since February 2003, Shenzhen Guangju Energy Co., Ltd. (a company listed on the Shenzhen Stock Exchange) since November 2004 and Wuhan Jianmin Pharmaceutical Group Co., Ltd. (a company listed on the Shanghai Stock Exchange) since June 2007. He was formerly the head of the finance and accounting department of the Shanghai Maritime University, and deputy dean of the school of management and dean of the School of Economic Administration of the Shanghai Maritime University since May 1994.

Mr. Yin Xuwen, the employee supervisor of the Company. Mr. Yin is a postgraduate and a senior economist. He joined the Company in 1994 and has served as a general manager of the Planning and Financial Department of the head office of the Company since June 2006. He successively served as the assistant general manager and deputy general manager of Chang'an Street Sub-branch of Beijing Branch of the Company, the deputy head of the Planning and Financial Department and the Accounting Department of Beijing Branch, the deputy general manager and general manager of Xuan Wu Men Sub-branch of Beijing Branch, the general manager of the Business Department of Beijing Branch, the assistant general manager and deputy general manager of Beijing Branch from October 1994 to June 2003. From July 2003 to June 2006, he served as the general manager of Changsha Branch of the Company.

Mr. Yang Zongjian, the employee supervisor of the Company. He is a postgraduate and a senior economist. He joined the Company in 1997, and has served as the general manager of the Administrative Department of the head office of the Company since March 2007. From September 1977 to April 1995, he successively served as the vice director and director of Qingdao city branch of the People's Bank of China. From May 1995 to October 1997, he successively served as the assistant general manager and the deputy general manager of the Development Department and Marketing Department of China Everbright Bank. He held various positions as the deputy general manager of the Development Department and Organization Management Department (in charge of daily management), and the deputy general manager (at general manager level) of the Human Resources Department of the head office of the Company from October 1997 to November 2004. From November 2004 to March 2007, he served as the general manager of Kunming branch of the Company.

Mr. Shi Shunhua, the employee supervisor of the Company. He obtained an MBA degree from China Europe International Business School in March 2005 and is an economist. He joined the Company in 1996 and has been the deputy general manager of Shanghai branch of the Company since September 2004. From July 1982 to March 1994, he served as a staff, division head and vice director in the Industrial and Commercial Bank of China, Dafeng city sub-branch of the People's Bank of China and Yancheng city branch of the People's Bank of China. From March 1994 to November 1996, he acted as the general manager of Shanghai Futures Department of Jiangsu Yancheng Trust and Investment Company. He successively served as the general manager of Xujiahui sub-branch of Shanghai branch of the Company from November 1996 to February 2002, the general manager of the Bund sub-branch of Shanghai branch of the Company from February 2002 to May 2003, and the assistant general manager of Shanghai branch of China Merchants Bank from May 2003 to September 2004.

Senior Management

Mr. Ma Weihua, the president and chief executive officer of the Company. Please refer to Mr. Ma's biography under the paragraph "Directors".

Mr. Zhang Guanghua, an executive vice president of the Company. Please refer to Mr. Zhang biography under the paragraph "Directors".

Mr. Li Hao, an executive vice president and Chief financial officer of the Company. Please refer to Mr. Li's biography under the paragraph "Directors".

Mr. Tang Zhihong, the executive vice president of the Company. He joined the Company in May 1995. Mr. Tang graduated from Jilin University in 1982 and is a senior economist. He served as the vice governor, governor of Jinzhou branch of the People's Bank of China from 1992 to 1995 and head of the State Administration of Foreign Exchange, Jinzhou branch from 1994 to 1995. He also served as the deputy general manager of the Shenyang branch from 1995 to 1998, and during the period from 1997 to 1998, he was seconded to the Shenzhen branch as the deputy general manager. He was the general manager of the Lanzhou branch from 1998 to 1999, the general manager of the Shanghai branch from 1999 to 2000 and the general manager of the Shenzhen branch from 2000 to 2004. He has been the executive vice president since 2004. Mr. Tang is concurrently a director of CIGNA & CMC Life Insurance Company Ltd. and China UnionPay Co., Ltd.

Ms. Yin Fenglan, the executive vice president of the Company. She joined us in May 1994. Ms. Yin obtained a master's degree in 1998 and is a senior economist. She previously worked at the Beijing City Branch of the People's Bank of China as the deputy head of the Currency Issuance Department from April 1986 to November 1986, deputy director and director of the General Office of the People's Bank of China, Beijing City Branch from 1986 to 1993, and assistant manager and manager of the Planning Capital Department of the Beijing City Branch of the People's Bank of China from 1993 to 1994. She also worked as the deputy general manager, general manager of the Beijing Branch from 1994 to 2004 and has been the executive vice president of the Company since 2004.

Mr. Ding Wei, the executive vice president of the Company. He joined the Company in December 1996. Mr. Ding is a graduate and associate analyst. He has been the deputy section chief of Education Section of Meteorological Bureau of Zhejiang Province from February 1982 to June 1986, division chief, vice director, director of education division of Industrial and Commercial Bank of China Hangzhou Financial Management Institute from June 1986 to February 1994, officer of training division of Industrial and Commercial Bank of China Hangzhou Financial Training Centre from February 1994 to December 1996, office supervisor of Hangzhou branch and general manager of sales department of the Company from December 1996 to August 1998, assistant general manager of Hangzhou branch from August 1998 to April 2000, deputy general manager of Hangzhou branch from April 2000 to December 2001, general manager of Nanchang sub-branch from December 2001 to October 2002, general manager of Nanchang branch from October 2002 to June 2003, general manager of human resources department of headquarter of the Company from June 2003 to March 2007. He serves as the executive vice president of the Company since May 2007.

Mr. Xu Lianfeng, the chief technology officer of the Company. He joined us in October 1991. He is a graduate of Tsinghua University in 1977 and an assistant professor. He previously served as officer of computer department at the head office of Bank of China from February 1981 to October 1991, manager of computer department at London branch of Bank of China from 1983 to 1989, where he was responsible for the computer-related job at branch level, general manager of computer department at the head office of the Company from October 1991 to October 1999, president of Beijing Zhongrunfeng Information Technology Co., Ltd. from October 1999 to August 2001, technology director of preparation team of China Unionpay from September 2001 to November 2001. He joined us as chief technology officer since November 2001 and concurrently serves as general manager of information technology department of the Company from December 2005 to September 2007.

Mr. Fan Peng, the chief audit officer of the Company. He joined us in February 2007. He graduated from the finance department of Liaoning College of Finance and Economics with a bachelor degree in finance and is a registered accountant. He worked in the National Audit Office, and successively served as the deputy secretary of the deputy division chief of the National Audit Office, the deputy division chief of the research and study division under the Policy Research Office, the director of on-duty room of the general office and the assistant to Ombudsman of Wuhan Resident Audit Office from August 1983 to January 2007. He served as deputy division chief of Finance Audit Office of the National Audit Office from September 1992 to January 1997, the deputy division chief of Comprehensive Office from January 1997 to April 1998; the deputy division chief of Commerce & Trade Audit Office (hosting daily work) from April 1998 to September 1998, the deputy division chief of Economy & Trade Audit Office (hosting daily work) from September 1998 to November 1999 and the division chief of Finance Audit Office from November 1999 to January 2007. He has served as the chief auditing officer of the Company since February 2007.

Mr. Lan Qi, the secretary of our Board of Directors and head of the Office of Board of Directors, and one of the joint company secretaries of the Company. He joined the Company in April 1993. Mr. Lan obtained a master's degree in economics from monetary banking major of the Graduate School of the People's Bank of China in 1987 and is a senior economist. He previously served as deputy head of the Financial Administration Division of the People's Bank of China, Jiangxi Branch and vice president of the People's Bank of China, Jiangxi Province Pingxiang City Branch from 1987 to 1993. Mr. Lan has been working in the Company since 1993. He previously served as deputy general manager of the Development and Research Department of our head office from April 1993 to August 1993, deputy general manager of the Securities Department of the head office and deputy general manager of CMB Securities Company from August 1993 to June 1995, general manager of the Research and Development Department, Human Resources Department, Merchant Banking Department of the head office and general manager of CMB International Capital Corporation Limited and chief officer of the General Affairs Office from June 1995 to February 2004.

Mrs. Seng Sze Ka Mee Natalia, one of the joint company secretaries of the Company since August 2006. Mrs. Seng is an executive director and head of Corporate Services of Tricor Group. Prior to joining Tricor, she was a director of Company Secretarial Services at Ernst & Young, Hong Kong and Tengis Limited from 1994 to early 2002. Mrs. Seng is a chartered secretary, president, council member and senior member of The Hong Kong Institute of Chartered Secretaries and a senior member of both The Institute of Chartered Secretaries and Administrators and The Hong Kong Institute of Directors. Mrs. Seng holds a master's degree in Business Administration (Executive) from City University of Hong Kong. Up till the present, apart from the Company, she has been providing professional secretarial services to many listed companies.

Evaluation and incentive system and annual remuneration for directors, supervisors and senior management

The Company offers remuneration to independent non-executive directors and external supervisors according to the "Resolution in respect of Adjustment to Remuneration of Independent Directors and External Supervisors", offers remuneration to executive directors and other senior executives according to the "Policies on Remunerations of Senior Management" of the Company; and offers remuneration to employee supervisors in accordance with the policies on remuneration of employees. Non-executive directors and supervisors acting as shareholders' representatives did not received any remuneration from the Company.

The Board of Supervisors evaluated the performance of the Board of Directors through the review of the working report of the Board. The Board of Directors evaluated the performance of the senior management through the Policies on Remunerations of Senior Management, and H Share appreciation rights plan for senior executives.

In 2007, the total number of our Directors, Supervisors and Senior executives receiving remuneration (before tax) was 26, of which, 8 were Independent Directors (2 of resigned or retired in 2007), 2 were External Supervisors, 6 were employees Supervisors (3 of which retired in 2007), 4 were both Directors and Senior Officers (one of which resigned in 2007), 6 were Senior executives but not Directors, Non-executive directors and Shareholder Supervisors did not receive any remuneration from the Company. In 2007, the Company paid a total remuneration of RMB53.19 million (before tax) to all Directors, Supervisors and Senior Management, among whom, 12 of them were paid less than RMB1 million, 8 between RMB1 million and RMB3 million, 2 between RMB3 million and RMB5 million, and 4 between RMB5 million and RMB10 million. The details of emoluments of the directors, supervisors and senior management of the Company are set out in notes 8 and 9 to the financial statements of this annual report.

H Share appreciation rights incentive plan during the reported period

To further establish and enhance our incentive system for the combined interest of shareholders, the Company and individual operators, the Company approved the H Share Appreciation Rights Incentive Plan for senior management at the 1st extraordinary general meeting for 2007 held on 22 October 2007. On 30 October 2007, the Board of the Company made the first grant under the plan (at the granting price of HK$39.30). The target and proportion for the grants are as follows:

No.	Name	Title	Number of share appreciation rights granted (in ten thousand)	Percentage of target shares in respect of granted appreciation rights to total shares	Percentage of granted appreciation rights to total appreciation rights for the period
1	Ma Weihua	President	30	0.0020%	23.26%
2	Zhang Guanghua	Executive Vice President	15	0.0010%	11.63%
3	Li Hao	Executive Vice President	15	0.0010%	11.63%
4	Tang Zhihong	Executive Vice President	15	0.0010%	11.63%
5	Yin Fenglan	Executive Vice President	15	0.0010%	11.63%
6	Ding Wei	Executive Vice President	12	0.0008%	9.30%
7	Xu Lianfeng	Chief IT Officer	9	0.0006%	6.98%
8	Fan Peng	Chief Auditing Officer	9	0.0006%	6.98%
9	Lan Qi	Secretary of Board of Directors	9	0.0006%	6.98%
	Total		129	0.0088%	100%

The share appreciation rights granted this time shall be valid for ten years effective from 30 October 2007, within which two years from 30 October 2007 is the restricted exercising period, during which no share appreciation rights can be exercised. The effective exercising period is 8 years after the expiry of the restricted exercising period. During the first 4 years of the effective exercising period, the annual effective exercisable rights is 25% of the total granted rights. The effective exercisable share appreciation rights granted are exercisable from the effective date till the end of the exercising period; the targets for the incentive scheme may exercise his/her effective exercisable share appreciation rights once and for all or by several times. The share appreciation rights shall only be exercised within the exercising period.

The closing price of the Company's H Shares was HK$31.85 as at 31 December 2007.

Resigned Personnel and Reasons for Resignation during the Reported Period

The re-election of the board of Directors and the Board of Supervisors was completed during the reported period. At the Company's 2006 Annual general meeting of the shareholders held on 15 June 2007, the "Resolutions in respect of the Seventh Session of the Board of Directors" and "Resolutions in respect of the Seventh Session of the Board of Supervisors" were duly passed. Hong Xiaoyuan, Ding An hua Edward, Zhang Guanghua and Li Hao were elected directors of the Seventh Session of the Board of Directors of the Company; Yan Lan and Song Lin were elected independent non-executive directors of the Seventh Session of the Board of Directors of the Company. Huang Dazhan and Tan Yueheng no longer served as directors of the Company; Lin Chuxue and Austin Hu Chang Tau fulfilled their current terms and no longer served as independent non-executive directors of the Company. Dong Xiande and Li Jiangning were elected supervisors of the Seventh Session of the Board of Supervisors, whereas Li Yi and Lu Yuhuan no longer served as supervisors of the Company.

During the reported period, Yin Xuwen, Yang Zongjian and Shi Shunhua were elected internally by the staff as the employee supervisors of the Seventh Session of the Board of Supervisors; whereas Lin Rongguang, Xiang Youzhi and Zhou Wenqiong no longer served as the Company's employee supervisors.

The announcements in relation to the membership of the Seventh Session of the Board of Directors and of the Seventh Session of the Board of Supervisors were published on *China Securities Journal, Securities Times, Shanghai Securities News, Hong Kong Economic Times* and *the South China Morning Post* on 18 June 2007.

Ms. Chen Wei resigned as Director, Executive Vice President, Chief financial officer and authorised representative of H Shares of the Company on 23 March 2007. The relevant announcement was published on *China Securities Journal, Securities Times, Shanghai Securities News, Hong Kong Economic Times* and *South China Morning Post* on 26 March 2007.

Upon approval at the 39th meeting of the Sixth Session of the Board of Directors of the Company, Li Hao, executive vice president, was appointed as chief financial officer. The relevant announcement was published on *China Securities Journal, Securities Times, Shanghai Securities News, Hong Kong Economic Times* and *South China Morning Post* on 26 March 2007. Upon approval at the 40th meeting of the Sixth Session of the Board of Directors of the Company, and as approved by the CBRC, Zhang Guanghua was appointed executive vice president. The relevant announcement was published on *China Securities Journal, Securities Times, Shanghai Securities News, Hong Kong Economic Times* and *South China Morning Post* on 17 April 2007.

Mr. Song Lin has tendered his resignation from the position of the independent non-executive director of the Company on 28 September 2007 due to personal reasons. In accordance with the applicable laws and regulations of the People's Republic of China, Mr. Song's resignation will take effect from the date when the Company re-appoints another independent non-executive director. At the first extraordinary general meeting of shareholders for 2007 held on 22 October 2007, the "Resolutions in respect of Election of Mr. Yi Xiqun as an Independent non-executive Director" was duly passed. The relevant announcement was published on *China Securities Journal, Securities Times, Shanghai Securities News, Hong Kong Economic Times* and *South China Morning Post* respectively on 28 September 2007, 28 September 2007 and 22 October 2007. The appointment of Mr. Yi Xiqun as the independent non-executive director of the Company was approved by the CBRC on 14 January 2008.

Information about employees

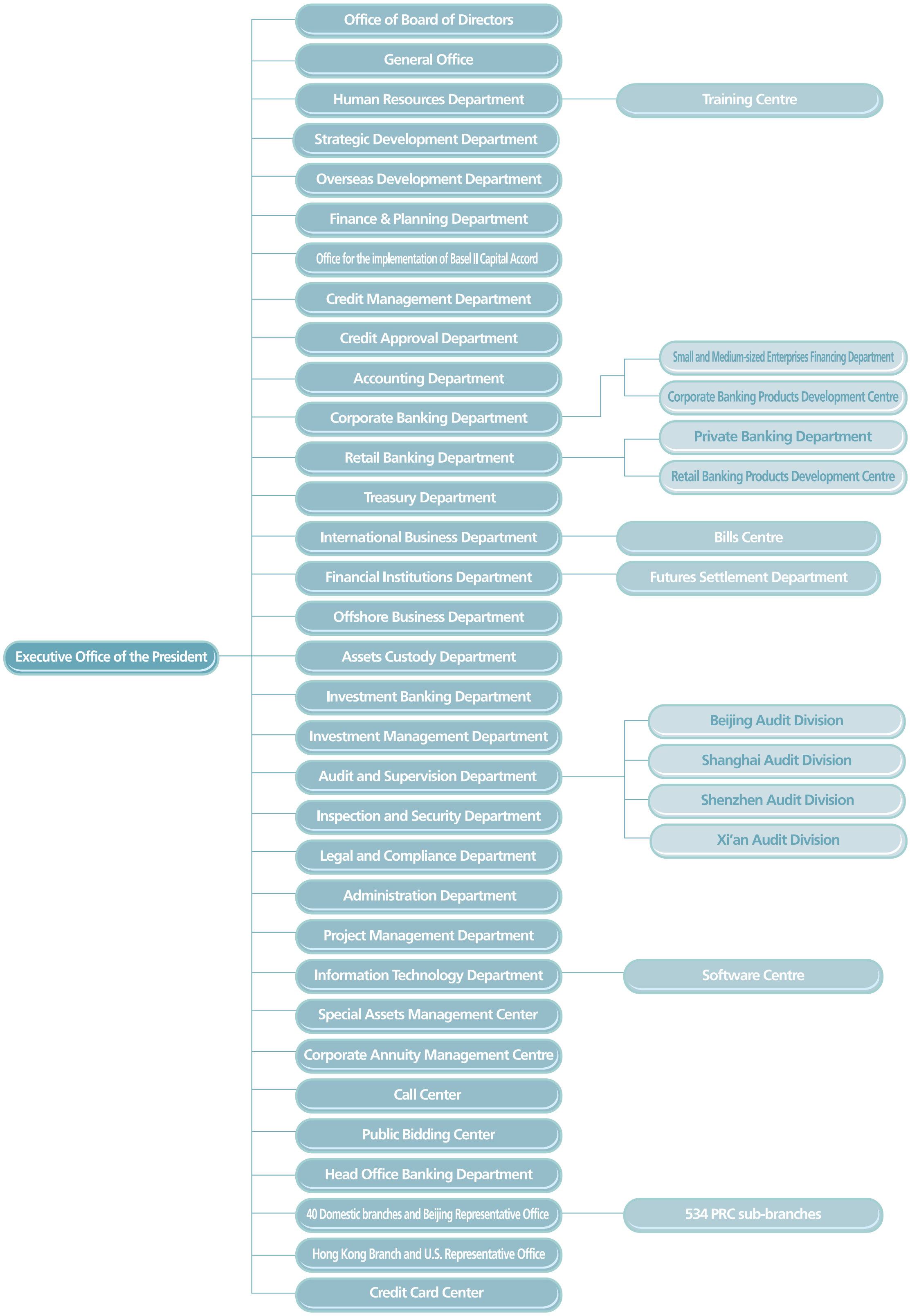
As at 31 December 2007, the Company had 28,971 employees, including 4,236 executives, 21,520 ordinary employees and 3,215 administration staff. Of these staff, 26,680 employees had college education or above, accounting for 92.09% of the total. The Company has now 80 retirees.

Branches and representative offices

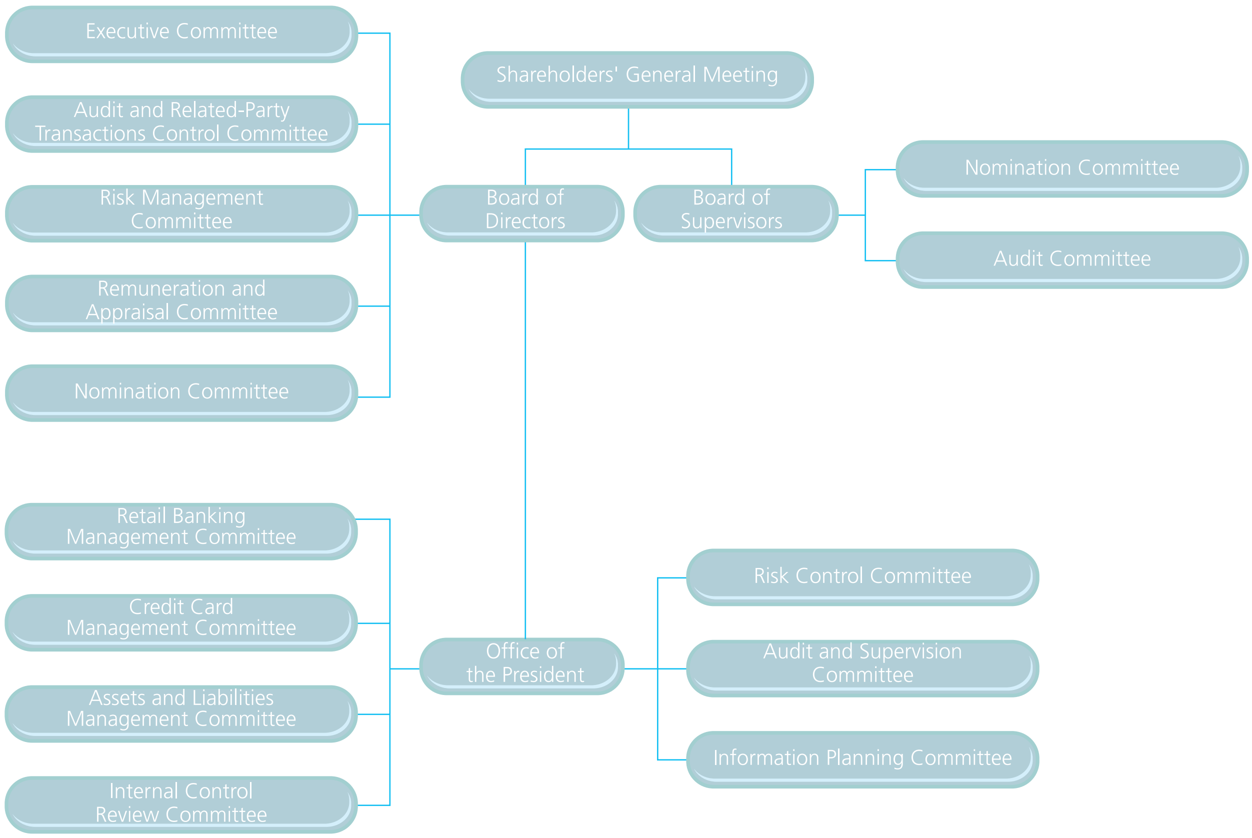
Name of branches	Business address	Postcode	Number of outlets	Number of staff	Total amount of assets (in million of RMB)
Head Office	7088 Shennan Boulevard, Shenzhen	518040	1	1,636	500,324
Shenzhen Branch	2 Shennan Road Central, Shenzhen	518001	66	2,423	95,373
Shanghai Branch	161 Lujiazui Road East, Pudong, Shanghai	200120	47	1,948	81,954
Wuhan Branch	518 Jianshe Avenue, Hankou, Wuhan	430022	24	1,090	32,182
Beijing Branch	156 Fuxingmen Nei Dajie, Beijing	100031	39	2,034	87,196
Shenyang Branch	12 Shiyiwei Road, Heping District, Shenyang	110003	17	980	24,678
Guangzhou Branch	138, Tiyu Road East, Tianhe District, Guangzhou	510620	34	1,256	28,333
Chengdu Branch	9 Shuncheng Street, Qingyang District, Chengdu	610016	20	747	13,739
Lanzhou Branch	9 Qingyang Road, Chengguan District, Lanzhou	730000	15	488	19,588
Xi'an Branch	107 Heping Road, Xi'an	710001	18	774	15,754
Nanjing Branch	1 Hanzhong Road, Nanjing	210005	16	848	32,431
Wuxi Branch	128 Renmin Road Central, Wuxi	214002	9	279	10,576
Changzhou Branch	125 Heping Road South, Changzhou	213003	3	122	2,674
Yangzhou Branch	12 Wencang Road West, Yangzhou	225009	1	52	1,325
Suzhou Branch	128 Sanxiang Road, Suzhou	215004	9	473	15,280
Chongqing Branch	2 Linjiangzhi Road, Yuzhong District, Chongqing	400010	21	777	19,117
Dalian Branch	17 Renmin Road, Zhongshan District, Dalian	116001	14	641	10,328
Hangzhou Branch	310 Zhongshan Road North, Hangzhou	310001	18	850	28,443
Ningbo Branch	938 Baizhang Road East, Ningbo	315041	10	431	14,553
Taizhou Branch	535 Shifu Road, Taizhou, Zhejiang Province	317013	1	76	1,086
Wenzhou Branch	Jinglong Building, Chezhan Avenue, Wenzhou	325000	7	227	7,824
Shaoxing Branch	Jindun Building, 60 Shengli Road East, Shaoxing	312000	5	185	6,782
Jinhua Branch	45 Shuangxi West Road, Jinhua	321016	1	70	2,308
Nanchang Branch	162 Bayi Avenue, Nanchang	330003	12	562	14,216
Changsha Branch	24 Cai'e Road Middle, Furong District, Changsha	410005	17	536	15,878
Fuzhou Branch	60 Guping Road, Fuzhou	350003	12	456	10,420
Quanzhou Branch	Huangxing Building, 301 Fengze Street, Quanzhou	362000	4	139	5,514
Qingdao Branch	36 Hong Kong Road Middle, Shinan District, Qingdao	266071	12	597	31,403
Tianjin Branch	55 Youyi Road North, Hexi District, Tianjin	300204	18	734	23,194
Jinan Branch	21 Chaoshan Street, Lixia District, Jinan	250011	15	536	29,279
Yantai Branch	CMB Building, 237 Nanda Street, Yantai	264000	5	143	4,110
Urumchi Branch	80 Xinhua Road North, Urumchi	830002	10	339	7,498
Kunming Branch	48 Dongfeng Road East, Kunming	650051	15	542	14,949
Hefei Branch	436 Changjiang Road Middle, Hefei	230061	12	526	11,453
Xiamen Branch	862 Xiahe Road, Xiamen	361004	8	368	8,190
Harbin Branch	3 Zhongyang Avenue, Daoli District, Harbin	150001	10	359	6,630
Zhengzhou Branch	68 Jingsan Road, Zhengzhou	450008	10	430	17,258
Dongguan Branch	Yujing New Times Plaza, Dongcheng Avenue, Dongguan	523129	9	384	7,088
Foshan Branch	1-3/F, Hongye Mansion, Jihua 5th Road,Foshan	528000	7	241	6,560
Taiyuan Branch	1 Xinjian Road South, Taiyuan	030001	2	140	3,223
Hohhot Branch	56 Xinhua Street, Hohhot	010010	1	81	1,030
Hong Kong Branch	12 Harcourt Road, Hong Kong		1	72	19,537
Beijing Representative Office	35 Jinrong Avenue, Xicheng District, Beijing	100005	1	8	–
USA Representative Office	509 Madison Avenue, Suite 306, New York, New York 10022, U.S.A		1	1	23
Credit card centre	316 Lao Shan Road, Pudong New District, Shanghai	200120	1	3,370	21,251
Total			579	28,971	1,310,552

The Company continued to expand its branches in 2007. Four branches commenced business and the approval for setting-up preparation of one branch was obtained. On 30 January 2007, approval was obtained from the CBRC Zhejiang Bureau for the commencement of business of the Company's Jinhua Branch; on 17 April 2007, approval was obtained from the CBRC Jiangsu Bureau for the commencement of business of the Company's Yangzhou Branch; on 18 August 2007, the Company was given approval by the CBRC Zhejiang Bureau for the operation of its Taizhou branch; on 17 September 2007, the Company was given approval by the CBRC Inner Mongolia Bureau for the operation of its Hohhot Branch. The Company established 70 new branches during the year. In addition, on 8 November 2007, the Company's application for establishing a branch in New York was approved by the Federal Reserve of the United States, and the preparatory work of the branch was currently in progress.

The Company's Organizational Chart



Governance Structure of the Company:



Note: According to the resolution "Regarding to the amendment of the Articles of Association of China Merchants Bank Co., Ltd." passed at the 2007 the First Extraordinary General Meeting of the Company convened on 22 October 2007, and the resolution passed at the 15th meeting of the Seventh Session of the Board of Directors of the Company convened on 4 February 2008, the Company has adjusted the structure, authorities and composition of the special committees of the Board of Directors and the Board of Supervisors, dividing the Audit and Related-Party Transaction Control Committee of the Board into Audit Committee and Related-Party Transaction Control Committee, and readjusting the Executive Committee into Strategic Committee.

Overview of Corporate Governance

The Company has been striving to enhance its corporate governance since its incorporation.

Through the listing of its domestic A shares in 2002 and its overseas H shares in 2006, the Company has established an improving structure of corporate governance featuring interactions and balances among the shareholders' general meeting, the Board of Directors, the Board of Supervisors and the management team, complying with the regulatory requirements for domestic and overseas listed companies and taking into account its actual condition.

In 2007, the Company had made great efforts to improve its corporate governance, which mainly included:

1. Re-election of new sessions of Board of Directors, Board of Supervisors and senior management

This marked a milestone for the Company's corporate governance in 2007. The re-election replaced 6 directors and 5 supervisors, and strengthened the senior management team. At the 2006 Annual General Meeting held in June 2007, the resolution in respect of the composition of the Seventh Session of the Board of Directors and the Seventh Session of the Board of Supervisors was deliberated and passed. At the 1st meeting of the Seventh Session of the Board of Directors and the 1st meeting of the Seventh Session of the Board of Supervisors held subsequently, the chairman and the vice chairman of the Board of Directors, the chairman of the Board of Supervisors, members and the chairmen of each of the board committees were elected, while senior management members such as President, Executive Vice Presidents, Chief Financial Officer, Chief Audit Officer and Secretary of the Board of Directors were reappointed or newly-appointed.

2. Building a long-term incentive scheme for senior management

When the Company implemented the share reform ("Conversion Scheme") in 2006, the shareholders with put obligation undertook that, after completion of the Conversion Scheme, they would advise the Board of Directors to formulate a long-term incentive plan including share option incentive plan, which would be implemented or proposed to the shareholders' general meeting for approval before implementation by the Board of Directors according to the relevant regulations of the country. The H Share Appreciation Rights Incentive Plan for members of the senior management of the Company was approved at the Company's first extraordinary general meeting for 2007 held on 22 October 2007. The Board of the Company organized the implementation of the first round of grant under the plan on 30 October 2007, and released a public announcement accordingly.

3. Improving auditing methods for the resignation of senior management

The "Auditing Methods for the resignation of Senior Management of China Merchants Bank Co., Ltd." was deliberated and approved at the 4th meeting of the Seventh Session of the Board of Supervisors of the Company held on 30 October 2007, whereby the principles, contents, procedures and methods of auditing for the resignation of senior management were set out clearly in such method.

4. Improving information disclosure system

On 30 January 2007, the CSRC promulgated the "Administrative Measures on Information Disclosure of Listed Companies" which took effect as of the date of promulgation. To implement as soon as possible provisions in the said rule relating to procedures on information disclosure by listed companies so as to improve the management and quality of information disclosure and protect investors' legal rights, the Board of Directors studied carefully the applicable rules and regulations and, based on actual conditions and requirements of the Company's domestic and overseas listings, approved in June 2007 the "Procedures for Information Disclosure".

5. Strengthening management of related party transactions

In 2007, the Board of Directors optimized the composition of the Audit and Related Party Transactions Control Committee. As a result, the executive directors would no longer be a member of the committee, while material related party transactions should be deliberated and approved by the Audit and Related Party Transactions Control Committee before passing the transaction to the Board of Directors for approval. Furthermore, pursuant to regulatory requirements, since 2007, *Report of Particulars about Related Party Transactions for 2006* and *Auditing Report of Particulars about Related Party Transactions for 2006* of the Company should be submitted to the Board of Directors and the Board of Supervisors for review.

6. Enhancing management on investor relationships

In 2007, the directors and management of the Company attended various large scale promotion events such as results conferences and global road shows, and introduced the development of the Company to domestic and overseas institutional investors by way of presentation and in-depth communication, hence building virtuous interaction with domestic and overseas investment institutions, enhancing the transparency and integrity of the Company and setting up a good corporate image in the capital market.

In addition, in 2007, pursuant to the relevant regulatory requirements, the independent non-executive directors and external supervisors of the Company reported their work for the first half year and conducted peer review, and reported their opinions to the shareholders during the 2007 annual general meeting. Meanwhile, the Board of Supervisors actively promoted supervision over the work of directors and management of the Company, and completed for the first time assessment of the work of directors during 2006 which was reported in board meetings, while the external supervisors reported their work for the first half year and conducted peer review for 2006. Furthermore, pursuant to the "Administrative Rules on Shares of the Company held by Directors, Supervisors and Senior Management and the Changes" and the relevant provisions issued by the CSRC, the Company timely organized directors, supervisors and management of the Company to study the "Administrative Rules" and proactively arranged newly appointed directors and supervisors to attend trainings organized by regulatory authorities.

Through our careful and diligent efforts, the Company's corporate governance standard has widely been recognised by the public. In 2007, the Company won the "Outstanding Board of Directors" award in the third "Golden Round Table Prize" assessment of the boards of PRC listed companies organized by the Board of Directors Magazine, and the Company was also granted the "Best Corporate Governance" award of the China region by the British Magazine *Investor Relations*.

Information about general meetings

During the reported period, the Company convened the General Meeting for 2006 and the first extraordinary general meeting of shareholders for 2007 in Shenzhen, respectively on 15 June and 22 October 2007. The notices and the convening, holding and voting procedures of the meetings all complied with the Company Law, the Articles of Association and relevant requirements of the Listing Rules of the SEHK. The 2006 Work Report of the Board of Directors, the 2006 Work Report of the Board of Supervisors, the 2006 Audited Financial Report, the 2006 Final Financial Report, the 2006 Proposed Profit Appropriations Plan, Resolutions in respect of the Seventh Session of the Board of Directors, Resolutions in respect of the Seventh Session of the Board of Supervisors, Proposal Concerning Amendment to the Articles of Association of China Merchants Bank Co., Ltd., Proposal Concerning Amendment to the H Share Appreciation Rights Incentive Plan for Senior Management of China Merchants Bank Co., Ltd. were approved by shareholders at the general meetings. The purpose of convening the general meetings is to ensure shareholders' right to know, and rights of participating and voting in respect of significant matters of the Company.

Resolutions of the Company's General Meeting for 2006 and the first extraordinary general meeting of shareholders for 2007 were published on *China Securities Journal, Shanghai Securities News, Securities Times*, the websites on the Shanghai Stock Exchange (www.sse.com.cn), Hong Kong Stock Exchange (www.hkex.com.hk) and the Company on 18 June and 23 October 2007 respectively.

Board of Directors

Effective operation and scientific decision of the Board of Directors is the core of good corporate governance. The Company implements a system in which the President assumes full responsibility under the leadship of the Board of Directors, which in turn is an independent policy-making body of the Company, responsible for execution of the resolutions passed by the shareholders' general meetings; devising the Company's major principles, policies and development plans; deciding the Company's operating plans and investment proposals; preparing annual budgets, final accounts and profit appropriations plans; and appointing members of senior management but without interference into any specific matters in the Company's daily operational management. The Bank's management team has autonomy in terms of operation.

Membership of the Board of Directors

As at 31 December 2007, the Board had 18 directors, including 9 non-executive directors, 6 independent non-executive directors, and 3 executive directors. Non-executive directors all come from large state-owned enterprises and are experienced in management of international enterprises. Most of them have work experience in the financial industry. The six independent non-executive directors are renowned experts in finance, accounting and law or leaders of large enterprises who have extensive knowledge of the development of China and international banking industry, with one from Hong Kong who is proficient in international accounting standard and Hong Kong capital market. All three executive directors are experienced in the management of banking operation. Such diversified composition of the Board has brought about advanced banking and financial expertise as well as management experience, and has maintained strong independent elements which enable the Board to make independent judgments effectively.

The list of directors is set out on page 77 of this Annual Report. To comply with the Listing Rules, the independent non-executive directors have been clearly identified in all corporate communications of the Company which disclose their names.

Appointment, re-election and removal of directors

In accordance with the Articles of Association of the Company, directors shall be elected or replaced by shareholders in general meeting, and the term of the directors shall be three years. The term of a director is renewable by re-election after its expiry. The procedures for appointment, re-election and removal of directors of the Company are set out in the Articles of Association of the Company. The Nomination Committee of the Company carefully considers the qualifications and experiences of every candidate for director and recommends suitable candidates to the Board. Upon passing the candidate nomination proposal, the Board proposes election of related candidates at a general meeting for approval. The term of a newly-appointed director shall commence from the date upon which the resolution for the appointment is approved and passed by regulatory authority to the expiry of the current term of the Board.

Re-election of the Board of Directors

The Sixth Session of the Board of Directors expired on 25 June 2007. Pursuant to the relevant provisions of the Articles of Association of the Company, the Company convened the meeting of the Nomination Committee, the Board meeting and the annual general meeting on 12 April 2007, 16 April 2007 and 15 June 2007 respectively and considered the issues regarding re-election. Pursuant to the relevant resolutions, the Seventh Session of the Board of Directors was duly elected. The number of directors of the new session of the Board of Directors has increased from 17 to 18. The number of non-executive directors and independent non-executive directors remained at 9 and 6 respectively, while that of executive directors increased from 2 to 3.

Members of the Seventh Session of the Board of Directors of the Company are: Qin Xiao, Fu Yuning, Li Yinquan, Hong Xiaoyuan, Ding An hua Edward, all of whom from China Merchants Group Limited; Wei Jiafu, Sun Yueying, both from China Ocean Shipping (Group) Company; Wang Daxiong, from China Shipping (Group) Company; Fu Junyuan, from China Communications Construction Group (Limited); and Ma Weihua, Zhang Guanghua, and Li Hao, members of the senior management of China Merchants Bank; and Wu Jiesi, Yan Lan, Song Lin, Chow Kwong Fai, Edward, Liu Yongzhang, Liu Hongxia, all of whom are independent non-executive directors.

After completion of re-election of the Company's Board of Directors, the non-executive directors Huang Dazhan and Tan Yueheng, and the independent non-executive directors Austin Hu Chang Tau and Lin Chuxue of the original Sixth Session of the Board of Directors (including Ms. Chen Wei who had resigned) no longer served as directors of the Company. They had performed their duty of diligence and made positive contributions to the Board of the Company during their terms of appointment. The Board of the Company hereby extends its appreciation to the above directors for their dedication and contribution.

Responsibilities of directors

Each of the directors of the Company is fully aware of his/her responsibilities as a director of the Company and has devoted sufficient time and attention to the affairs of the Company. Their attendance of meetings has been satisfactory, with the attendance rates of every director reaching 90%.

All newly appointed directors of the Company will receive training and induction on the first appointment to ensure that they have a proper understanding of the operations and businesses of the Company, and that they are fully aware of their responsibilities and obligations under the laws and the regulatory requirements of China Banking Regulatory Commission, China Securities Regulatory Commission, Shanghai Stock Exchange, the Stock Exchange of Hong Kong and the Articles of Association of the Company. The Company also emphasizes the continuous training of directors, and has maintained liability insurance for directors and senior management. Starting from this year, the Company also commences the practice of independent non-executive directors' annual report on work and peer review, external supervisors' report on work and peer review, and the Board of Supervisors' annual assessment of the performance of directors. The assessment results shall be reported to the shareholders' in general meeting.

The independent non-executive directors of the Company presented their professional advice on the resolutions reviewed by the Board, especially offering their respective independent written opinions on matters involving the appointment and dismissal of directors, the appointment of senior management personnel, the remunerations of directors and senior management, and major connected party transactions, and issued independent opinions to external guarantees of the Company. In addition, the independent non-executive directors of the Company performed professional function in each special committee, with each of them participating in two committees on average. The independent non-executive directors constitute the majority membership and act as convener in the Audit and Related Party Transactions Control Committee, Nomination Committee, Remuneration and Appraisal Committee of the Company. At least one independent non-executive director is an accounting professional in the Audit and Related Party Transactions Control Committee. Such structure serves to strengthen the responsibility consciousness of independent non-executive directors and makes full advantage of their professional dominance. They have provided a lot of valuable professional and independent advice regarding the corporate governance and operation management of the Company, and played a positive role to facilitate the decision making by the Board.

Chairman of the Board and Chief Executive Officer ("CEO")

The positions of the Chairman of the Board and President of the Company have been taken up by different persons and their duties have been clearly defined in accordance with the suggestion of the Listing Rules of Hong Kong. Mr. Qin Xiao serves as Chairman of the Board and is responsible for leading the Board, chairing meetings, ensuring that all directors receive appropriate briefing on issues arising at board meetings, managing the operations of the Board, and ensuring that all major and relevant issues are discussed by the Board in a constructive and timely manner. To enable the Board to discuss all important and relevant matters timely, the Chairman and senior management will work together to ensure that the directors duly receive appropriate, complete and reliable information for their consideration and review.

Mr. Ma Weihua serves as President and CEO, responsible for the business operations and implementation of the strategic and business plans of the Company.

Meetings of the Board of Directors

Throughout the year of 2007, the Board of Directors of the Company held a total of 20 meetings (5 physical meetings and 15 meetings by way of written resolutions), at which major issues involving the finance, operation, strategies and policies of the Company were reviewed and approved.

The following table sets out the records of attendance of the respective directors at physical board meetings held in the year ended 31 December 2007.

Name of director	Remarks	Times of attending physical Board meetings/number of physical meetings (Note 1)	
Non-executive director			
Qin Xiao		5/5	
Wei Jiafu		5/5	
Fu Yuning		5/5	
Li Yinquan		5/5	
Hong Xiaoyuan	(Appointed as director on 15 June 2007)	3/3	(Note 2)
Ding An hua Edward	(Appointed as director on 15 June 2007)	3/3	(Note 2)
Sun Yueying		5/5	
Wang Daxiong		5/5	
Fu Junyuan		5/5	
Huang Dazhan	(Retired as director on 15 June 2007)	2/2	(Note 4)
Tan Yueheng	(Retired as director on 15 June 2007)	2/2	(Note 4)
Executive director			
Ma Weihua		5/5	
Zhang Guanghua	(Appointed as director on 15 June 2007)	3/3	(Note 2)
Li Hao	(Appointed as director on 15 June 2007)	3/3	(Note 2)
Chen Wei	(Resigned as director on 23 March 2007)	0/0	(Note 5)
Independent non-executive director			
Wu Jiesi		5/5	
Chow Kwong Fai, Edward		5/5	
Liu Yongzhang		5/5	
Liu Hongxia		5/5	
Yan Lan	(Appointed as director on 15 June 2007)	3/3	(Note 2)
Song Lin	(Appointed as director on 15 June 2007 but resigned as director on 14 January 2008)	2/3	(Note 2, 3)
Yi Xiqun	(Appointed as director on 14 January 2008)	0/0	(Note 3)
Lin Chuxue	(Retired as director on 15 June 2007)	2/2	(Note 4)
Austin Hu Chang Tau	(Retired as director on 15 June 2007)	2/2	(Note 4)

Notes: 1. During the year ended 31 December 2007, the Board held 5 physical meetings and passed 15 written resolutions.

2. Hong Xiaoyuan, Ding An hua Edward, Zhang Guanghua, Li Hao, Yan Lan and Song Lin were elected as directors of the Company on 15 June 2007. During the period from 1 January to 14 June 2007, the Board held two physical meetings. As Hong Xiaoyuan, Ding An hua Edward, Zhang Guanghua, Li Hao, Yan Lan and Song Lin were not directors of the Company at the time when the two meetings were held, they were not counted in the quorum of these two meetings and should only be counted in the quorum of the three physical Board meetings which were held after they were appointed.

3. On 28 September 2007, the Board of the Company announced that Mr. Song Lin proposed to resign as an independent non-executive director of the Company for personal reason. According to applicable laws and regulations of the People's Republic of China, the resignation of Mr. Song should become effective upon the date of appointment of another independent non-executive director by the Company. To fill the vacancy resulting from Song Lin's resignation as the independent non-executive director, China Merchants Steam Navigation Company Limited, the largest shareholder of the Company, nominated Mr. Yi Xiqun as the candidate of independent non-executive director in the Seventh Session of the Board of Directors of the Company. The relevant resolution was proposed and passed at the first extraordinary general meeting of the Company for 2007 convened on 22 October 2007. On 14 January 2008, China Banking Regulatory Commission approved Mr. Yi Xiqun's qualification of appointment. The term of Mr. Yi Xiqun's appointment as an independent non-executive director of the Company should commence from 14 January 2008 and last until the expiry of the Seventh Session of the Board of Directors of the Company. Mr. Song's resignation became effective on the same day.

4. Huang Dazhan, Tan Yueheng, Lin Chuxue and Austin Hu Chang Tau retired as directors of the Company on 15 June 2007, and therefore were only counted in the quorum of the two physical board meetings held during the period from 1 January to 14 June 2007.

5. Chen Wei resigned as a director and other positions of the Company on 23 March 2007. As the Board held no physical board meeting during the period between 1 January and 22 March 2007, she was not counted in the quorum of physical board meetings.

Meetings of the Board and contents of resolutions

(1) The 37th meeting of the Sixth Session of the Board was convened on 22 January 2007 by way of written resolution. The "Resolution on Relevant Authorizations in Applying for the Establishment of New York Branch" was considered and passed with 16 of the 17 directors casting the vote.

(2) The 38th meeting of the Sixth Session of the Board was convened on 31 January 2007 by way of written resolution. The "Resolution on Considering and Approving a Material Related Party Transaction" was considered and passed with 16 of the 17 directors casting the vote.

(3) The 39th meeting of the Sixth Session of the Board was held on 23 March 2007 in Shenzhen. The resolutions were published on *China Securities Journal, Shanghai Securities News* and *Securities Times* on 26 March 2007 and on the websites of the Shanghai Stock Exchange and the Stock Exchange of Hong Kong.

(4) The 40th meeting of the Sixth Session of the Board was held on 16 April 2007 in Shenzhen. The resolutions were published on *China Securities Journal, Shanghai Securities News* and *Securities Times* on 17 April 2007 and on the websites of the Shanghai Stock Exchange and the Stock Exchange of Hong Kong.

(5) The 41st meeting of the Sixth Session of the Board was convened on 26 April 2007 by way of written resolution. The Company's First Quarterly Report for 2007 was considered and passed with 15 of the 16 directors casting the vote. The resolutions were published on *China Securities Journal, Shanghai Securities News* and *Securities Times* on 27 April 2007 and on the websites of the Shanghai Stock Exchange and the Stock Exchange of Hong Kong.

(6) The 42nd meeting of the Sixth Session of the Board was convened on 18 May 2007 by way of written resolution. The resolution on considering and approving a material related party transaction was considered and passed with 15 of the 16 directors casting the vote.

(7) The 43rd meeting of the Sixth Session of the Board was convened on 31 May 2007 by way of written resolution. The Corporate Governance Inspection Report was considered and passed with 13 of the 16 directors casting the vote.

(8) The 1st meeting of the Seventh Session of the Board was held on 15 June 2007 in Shenzhen. The resolutions were published on *China Securities Journal*, *Shanghai Securities News* and *Securities Times* on 18 June 2007 and on the websites of the Shanghai Stock Exchange and the Hong Kong Stock Exchange .

(9) The 2nd meeting of the Seventh Session of the Board was convened on 5 July 2007 by way of written resolution. The resolution on considering and approving a material related party transaction was considered and passed with 16 of the 18 directors casting the vote.

(10) The 3rd meeting of the Seventh Session of the Board was convened on 19 July 2007 by way of written resolution. The resolutions were published on *China Securities Journal*, *Shanghai Securities News* and *Securities Times* on 20 July 2007 and on the websites of the Shanghai Stock Exchange and the Hong Kong Stock Exchange.

(11) The 4th meeting of the Seventh Session of the Board was convened on 25 July 2007 by way of written resolution. The resolution on considering and approving a material related party transaction was considered and passed with all of the 18 directors casting the vote.

(12) The 5th meeting of the Seventh Session of the Board was held on 9 August 2007 in Chengdu. The resolutions were published on *China Securities Journal*, *Shanghai Securities News* and *Securities Times* on 10 August 2007 and on the websites of the Shanghai Stock Exchange and the Hong Kong Stock Exchange.

(13) The 6th meeting of the Seventh Session of the Board was convened on 29 August 2007 by way of written resolution. The resolutions were published on *China Securities Journal*, *Shanghai Securities News* and *Securities Times* on 30 August 2007 and on the websites of the Shanghai Stock Exchange and the Hong Kong Stock Exchange.

(14) The 7th meeting of the Seventh Session of the Board was convened on 25 September 2007 by way of written resolution. The relevant resolutions were considered and passed with 17 of the 18 directors casting the vote.

(15) The 8th meeting of the Seventh Session of the Board was convened on 27 September 2007 by way of written resolution. The resolutions were published on *China Securities Journal*, *Shanghai Securities News* and *Securities Times* on 29 September 2007 and on the websites of the Shanghai Stock Exchange and the Hong Kong Stock Exchange.

(16) The 9th meeting of the Seventh Session of the Board was convened on 22 October 2007 by way of written resolution. The resolutions were published on *China Securities Journal*, *Shanghai Securities News* and *Securities Times* on 23 October 2007 and on the websites of the Shanghai Stock Exchange and the Hong Kong Stock Exchange.

(17) The 10th meeting of the Seventh Session of the Board was convened on 30 October 2007 by way of written resolution. The resolutions were published on *China Securities Journal*, *Shanghai Securities News* and *Securities Times* on 30 October 2007 and on the websites of the Shanghai Stock Exchange and the Hong Kong Stock Exchange.

(18) The 11th meeting of the Seventh Session of the Board was convened on 9 November 2007 by way of written resolution. The resolutions were published on *China Securities Journal, Shanghai Securities News* and *Securities Times* on 10 November 2007 and on the websites of the Shanghai Stock Exchange and the Hong Kong Stock Exchange.

(19) The 12th meeting of the Seventh Session of the Board was convened on 6 December 2007 by way of written resolution. The resolutions were published on *China Securities Journal, Shanghai Securities News* and *Securities Times* on 7 December 2007 and on the websites of the Shanghai Stock Exchange and the Stock Exchange of Hong Kong.

(20) The 13th meeting of the Seventh Session of the Board was held on 17 December 2007 in Shenzhen. The resolutions were published on *China Securities Journal, Shanghai Securities News* and *Securities Times* on 18 December 2007 and on the websites of the Shanghai Stock Exchange and the Hong Kong Stock Exchange.

Through the said meetings held during 2007, the Board of the Company considered and passed the 2006 Annual Report, the 2006 Report of the Board of Directors, the 2006 Report of the Board of Supervisors, the financial budgets and final accounts, profit appropriation proposal, re-election of the Board of Directors and the Board of Supervisors, the 2007 Quarterly Report and Interim Report, Corporate Governance Self-inspection Report and Rectification Report, compliance polices, as well as a series of material resolutions regarding the appointment of senior management, the establishment of the New York Branch, material Related-Party transactions, the written-off of a large amount of doubtful debts, amendment to the Articles of Association, information disclosure system, the H Shares Appreciation Rights Incentive Plan for senior management, remuneration of senior management staff, the management of the aggregate salaries and other labor costs and the expansion of branches.

Implementation by the Board of Directors of resolutions passed at general meetings of the shareholders

(1) According to the "Resolution in respect of Profit Appropriations for the Year 2006" considered and passed at the 2006 annual general meeting of the shareholders, the profit appropriations scheme of the Company was as follows: 10% of the profit after tax in the financial statements (domestic edition), which amounted to RMB0.711 billion, was transferred to statutory surplus reserve. Regulatory general reserve was RMB3.5 billion. The profit distributable to shareholders for the current year was RMB3.489 billion. The profit distributable to shareholders for the current year in the financial statements (overseas edition) was RMB3.138 billion. According to CSRC Documents 【2001】 No. 58, the benchmark of dividend to be distributed should be the lower of the distributable profits respectively audited by domestic and overseas auditors. That means the cash dividends should be distributed according to the audited distributable profit shown in the financial statements (overseas edition). Based on the total share capital of A shares and H shares, the Company proposed to declare the cash dividend (including tax) of RMB1.20 (dominated in RMB) for every 10 shares, payable in RMB for A share-shareholders and in HKD for H share-shareholders. The actual profit appropriations amount in HKD would be calculated based on the average benchmark rate for RMB to HKD announced by the People's Bank of China on the previous week (including the day for the general meeting) before the date of general meeting. The Company would implement the above profit appropriations on the basis of the total capital at the closing of the equity registration date of A share dividend payout. The Board of Directors of the Company had already implemented the above-mentioned dividend scheme.

(2) According to the "Resolutions in respect of the Seventh Session of the Board of Directors" and the " Resolutions in respect of the Seventh Session of the Board of Supervisors" considered and passed at the 2006 annual general meeting of the Company, the 1st meeting of the Seventh Session of the Board of Directors and the 1st meeting of the Seventh Session of the Board of Supervisors of the Company was convened on 15 June 2007, at which Qin Xiao was elected as Chairman of the Seventh Session of the Board of Directors of the Company, Wei Jiafu was elected as Vice Chairman of the Seventh Session of the Board of Directors, Shi Jiliang was elected as Chairman of the Seventh Session of the Board of Supervisors, and members and chairmen were appointed for each of the specialized committees under the Board of Directors and the Board of Supervisors as well.

(3) According to the "Resolution in respect of the Amendment to the Articles of Association of China Merchants Bank Co., Ltd." considered and passed at the 1st extraordinary general meeting of the Company for 2007, the Board of Directors had submitted the amended Articles of Association to the relevant regulatory authority for approval.

(4) According to the "Resolution in respect of the H Shares Appreciation Rights Incentive Plan for the Senior Management of China Merchants Bank Co., Ltd." considered and passed at the 1st extraordinary general meeting of the Company for 2007, the 10th meeting of the Seventh Session of the Board of Directors was convened on 30 October 2007, at which the "Resolution in respect of the Grant of H Shares Appreciation Rights for 2007 to the Senior Management of China Merchants Bank" was considered and passed, and specific implementation has been carried out accordingly.

(5) According to the "Resolution in respect of the Nomination of Mr. Yi Xiqun as the candidate of the Independent Non-executive Directors of China Merchants Bank Co., Ltd." considered and passed at the 1st extraordinary general meeting of the Company for 2007, the Board of Directors of the Company made application to the relevant regulatory authority for the review and approval of Mr. Yi Xiqun's qualification as an independent non-executive director.

Securities transactions of directors, supervisors and the relevant employees

The Company has adopted the Model Code set out in Appendix 10 to the Listing Rules of Hong Kong as the code of conduct for directors and supervisors of the Company in respect of their dealings in the Company's securities. Upon making specific enquiry of all the directors and supervisors, the Company confirmed that they had complied with the aforesaid Model Code throughout the year ended 31 December 2007.

The Company has also established written guidelines for the relevant employees' securities transactions, which are no less exacting than the Model Code. The Company is not aware of any non-compliance of the said guidelines by employees.

Performance of duties by independent directors

The Board of Directors of the Company currently has 6 independent non-executive directors, the "number" and proportion of which meet the relevant regulatory requirements. Among the members of Audit and Related-Party Transactions Control Committee, Nomination Committee and Remuneration and Appraisal Committee, the majority of the members are independent non-executive directors, with one of them acting as Chairman. During the reported period, all the 6 independent non-executive directors have attended meetings held by the specialized committees under the Board of Directors and the Board of Supervisors, actively expressed their opinions and attached importance to the interests and requests of small and medium shareholders, fully performing their function as independent non-executive directors.

The independent non-executive directors of the Company presented their professional advice on the resolutions reviewed by the Board, especially offering their respective independent written opinions on matters involving the appointment and dismissal of directors, the appointment of senior management personnel, the remunerations of directors and senior management, and major connected party transactions, and issued independent opinions to external guarantees of the Company. The Independent non-executive directors made no dissent to the Company's resolutions of the Board during the year and non-board resolutions and matters.

According to the "Notice on Proper Preparation of Annual Reports for the Year 2007 and Related Works by Listed Companies" (Zheng Jian Gong Si Zi【2007】No.235) published by CSRC on January 2008, the independent non-executive directors of the Company performed the following duties in preparing and reviewing the report for this year.

1. The 2007 audit plan prepared by the external auditor was reviewed before the commencement of the annual audit.

2. The independent non-executive directors received a report regarding the operations of the Company in 2007 and the progress of significant matters, which was reported by the management of the Company, and carried out a spot research at Shenzhen branch. The independent non-executive directors considered the report by the management of the Company was prepared objectively and had fully reflected the operating results of the Company in 2007 and the progress of significant matters.

3. After receiving a presentation on audit findings made by the auditors, the independent non-executive directors discussed the significant issues with the auditors and presented written opinions.

Attendance of independent non-executive directors at board meetings

Name of independent non-executive director	Times of attendance required for the year	Attendance in person (times)	Attendance by proxy (times)	Absence (times)	Remarks
Wu Jiesi	20	16	4	0	Appointed Austin Hu Chang Tau (an independent non-executive director) to exercise voting rights at 40th meeting of the Sixth Session; appointed Chow Kwong Fai, Edward (an independent non-executive director) to exercise voting rights at 1st meeting of the Seventh Session, 5th meeting of the Seventh Session and 13th meeting of the Seventh Session.
Chow Kwong Fai, Edward	20	20	0	0	
Liu Hongxia	20	19	1	0	Appointed Liu Yongzhang (an independent non-executive director) to exercise voting rights at 5th meeting of the Seventh Session.
Liu Yongzhang	20	20	0	0	
Yan Lan	13	12	1	0	Appointed Liu Yongzhang (an independent non-executive director) to exercise voting rights at 5th meeting of the Seventh Session.
Song Lin	13	3	1	9	Mr. Song Lin resigned as an independent non-executive director on 28 September 2007; a resolution in relation to appointment of Yi Xiqun as an independent non-executive director was considered and passed at the 1st extraordinary general meeting of the Company for 2007 convened on 22 October 2007; on 14 January 2008, Mr. Yi Xiqun's qualification as an independent non-executive director was reviewed and approved by the China Banking Regulatory Commission. Song Lin's resignation as independent non-executive director was effective on the same day.
Lin Chuxue	7	6	1	0	Appointed Liu Hongxia (an independent non-executive director) to exercise voting rights at 39th meeting of the Sixth Session.
Hu Chang Tau, Austin	7	5	1	1	Appointed Liu Hongxia (an independent non-executive director) to exercise voting rights at 39th meeting of the Sixth Session.

Note: As Yan Lan and Song Lin were appointed as independent non-executive directors on 15 June 2007, they were required to attend 13 board meetings during the period; Lin Chuxue and Hu Chang Tau, Austin resigned as independent non-executive directors on 15 June 2007, thus they were required to attend 7 board meetings during the reported period.

Board committees

The Board has established five committees, namely, the Executive Committee, the Audit and Related-Party Transactions Control Committee, the Risk Management Committee, the Remuneration and Appraisal Committee and the Nomination Committee, for supervision of different matters of the Company and reporting to the Board of Directors. All these specialized committees have their own specific scope of authority.

In 2007, the work of the Board committees was completed successively by two sessions of committees. Twenty meetings were held, including 6 Risk Management Committee meetings, 9 Audit and Related-Party Transactions Control Committee meetings, 3 Remuneration and Appraisal Committee meetings, and 2 Nomination Committee meetings. The two sessions of Board committees had completed a series of inspections and reviews on special topics and substantial issues regarding risk management policies, compliance policies and incentive policies of the Company, which were proposed to the Board of Directors and the shareholders' general meeting for approval.

The composition and duties of the five committees and their work performed in 2007 are summarized as follows:

Executive Committee

The Executive Committee consists of non-executive directors and executive directors, including non-executive directors Fu Yuning (chairman), Wei Jiafu, Wang Daxiong and Fu Junyuan, and executive director Ma Weihua.

Main authorities and duties:

- to examine and supervise implementation of board resolutions;
- to regularly review the work report of the president's team in relation to the operation and management of the Company;
- to examine the material matters of the Company, including changes in senior management, changes in organizations above the branch level, and significant investments etc.;
- to determine the basis for distribution of president incentive fund;
- to put forward proposals and plans for important issues to be discussed and decided by the Board; and
- to analyze medium to long term development strategies and material investment decisions of the Company and provide recommendations.

In 2007, the Executive Committee of the Board did not hold any meeting.

Audit and Related Party Transactions Control Committee

Members of the Audit and Related-Party Transactions Control Committee are all non-executive directors, with the majority of them being independent non-executive directors and one serving as the chairman. Members include Wang Daxiong and Ding An Hua Edward, who are non-executive directors, and Liu Hongxia (chairman), Chow Kwong Fai, Edward and Yan Lan, who are independent non-executive directors. Upon investigation, no member of the Audit and Related Party Transactions Control Committee has ever served as a partner of the current auditors of the Company.

Main authorities and duties:

- to propose the appointment or replacement of external auditors;
- to monitor the internal audit system of the Company and its implementation;
- to coordinate the communication between internal auditors and external auditors;
- to review the financial information of the Company and its disclosure;
- to examine the internal control system of the Company; and
- to examine the material related-party transactions of the Company.

In 2007, the Audit and Related-Party Transactions Control Committee approved the auditors appointment agreement, reviewed and supervised the auditors in completing the financial auditing for the year 2006 objectively and independently, examined and approved the accounting statement and auditors' report of 2006 which were prepared in accordance with the PRC GAAP and IFRS, and reviewed the 2007 quarterly results, the related financial information and the disclosure thereof.

In addition, the Audit and Related-Party Transactions Control Committee also enhanced the management and control of related-party transactions of the Company, reviewed and confirmed the name list of related parties of the Company, provided revised opinions on *Regulations of China Merchants Bank Co., Ltd. on Related-Party Transactions,* and reviewed seven material related party transactions for the credit businesses of the Company. In particular, the committee conducted four reviews regarding the continuing connected transactions between the Company and China Merchants Securities Co., Ltd., China Merchants Fund Management Company and CIGNA & CMC Life Insurance Company Ltd., and the annual caps and announcements thereof.

The attendance records of 4 physical meetings (Note 1) held by the Audit and Related-Party Transactions Control Committee in 2007 are as follows:

Member	Remarks	Attendance	
Non-executive director			
Wang Daxiong		4/4	
Ding An hua, Edward	Appointed as director on 15 June 2007	1/1	(Note 2)
Fu Junyuan	Retired as director on 15 June 2007	2/3	(Note 3)
Independent non-executive director			
Liu Hongxia (chairman)		4/4	
Chow Kwong Fai, Edward		4/4	
Yan Lan	Appointed as director on 15 June 2007	1/1	(Note 2)
Lin Chuxue	Retired as director on 15 June 2007	2/3	(Note 3)

Notes: 1. Apart from the physical meeting, the Audit and Related-Party Transactions Control Committee passed written resolutions on 5 occasions in 2007.

2. Ding An hua, Edward and Yan Lan were appointed as members of Audit and Related-Party Transactions Control Committee on 15 June 2007. During the period from 1 Jan 2007 to 14 June 2007, three physical meetings were held by the Company. Therefore, Ding An hua, Edward and Yan Lan should not be counted toward the quorum of these three meetings and should only be counted toward the quorum of the physical Board meeting which was held after they were appointed.

3. Fu Junyuan and Lin Chuxue were retired as members of Audit and Related-Party Transactions Control Committee/ directors of the Company on 15 June 2007. Therefore, they should only be counted toward the quorum of the three physical Board meetings which were held during the period from 1 Jan 2007 to 15 June 2007.

According to the "Notice on Proper Preperation of Annual Reports for the Year 2007 and Related Works by Listed Companies " (Zheng Jian Gong Si Zi【2007】No.235) published by CSRC in January 2008, the independent directors of the Company performed the following duties in preparing and reviewing the report for this year.

1. Before the external auditors commenced the annual audit, the 2007 audit plan was reviewed and the financial statements of the Company was considered. The Committee also issued a written consent agreeing to pass the financial statements submitted by the auditors for annual audit.

2. In the course of auditing and after a presentation on audit findings was made by the auditors, the independent directors received a report regarding the operations of the Company in 2007 and the progress of significant matters from the management of the Company. The independent directors discussed the significant matters and the audit progress with the auditors and reviewed the financial statements of the Company again. The Audit Committee then made written opinions for the above issues.

3. Before the annual meeting of Board of Directors commenced, the Audit Committee voted on and made a resolution on the Company's Annual Report for 2007 which was tendered to the Board of Directors for consideration. Moreover, the Audit Committee will review and issue a conclusive report on the audit result performed by the auditors in respect of the Company's financial statements for the year 2007 and a resolution as to the reappointment of auditors to the Board of Directors.

Risk Management Committee

The members of the Risk Management Committee are non-executive directors Hong Xiaoyuan (chairman), Wang Daxiong, Sun Yueying, independent non-executive director Song Lin, and executive director Li Hao.

Main authorities and duties:

- to monitor the risk management of the Company's exposures to credit risks, market risks and operational risks, etc. by senior management;

- to conduct regular assessment of the risk position of the Company; and

- to put forward proposals on the improvement of the risk management and internal control of the Company.

In 2007, the Risk Management Committee reviewed *the Report on Credit Risk Management of China Merchants Bank Co., Ltd* and *Report on Market Risk Management of China Merchants Bank Co., Ltd*, proposed the consideration and full promotion of risk management in terms of strategy, performance and operation etc., studied and reviewed *the Compliance Policies of CMB*, raised issues relating to implementation of the Compliance Policies, and reviewed the writing-off of two items regarding seven major non-performing loans, which had been proposed for approval by the Board of Directors.

The attendance records of 5 physical meetings (Note 1) held by the Risk Management Committee in 2007 are as follows:

Member	Remarks	Attendance	
Non-executive director			
Hong Xiaoyuan (Chairman)	Chairman, appointed as director on 15 June 2007	3/3	(Note 2)
Sun Yueying		5/5	
Wang Daxiong		4/5	
Huang Dazhan	Retired as director on 15 June 2007	2/2	(Note 3)
Executive director			
Li Hao	Appointed as director on 15 June 2007	3/3	(Note 2)
Chen Wei	Retired as director on 23 June 2007	1/2	(Note 3)
Independent non-executive director			
Austin Hu Chang Tau	Retired as director on 15 June 2007	1/2	(Note 3)
Song Lin	Appointed as director on 15 June 2007 and resigned as director on 14 Jan 2008	0/3	(Note 2)

Notes: 1. The Risk Management Committee also passed written resolutions on one other occasion in 2007.

2. Hong Xiaoyuan, Li Hao and Song Lin were appointed as members of Risk Management Committee on 15 June 2007. During the period from 1 Jan 2007 to 14 June 2007, two physical meetings was held by the Company. Therefore, Hong Xiaoyuan, Li Hao and Song Lin should not counted in the quorum of these two meetings and should only be counted in the quorum of the three physical Board meetings which were held after they were appointed.

3. Chen Wei resigned as the Company's director on 23 March 2007. Huang Dazhan and Hu Chang Tau resigned as the Company's director on 15 June 2007. Therefore, they should only be counted in the quorum of the two physical Board meetings which were held before they were resigned.

Remuneration and Appraisal Committee

Current members of the Remuneration and Appraisal Committee, with independent non-executive directors forming the majority of the membership, include Li Yinquan and Fu Junyuan, who are non-executive directors, and Wu Jiesi (chairman), Liu Yongzhang and Song Lin, who are independent non-executive directors.

Main authorities and duties:

- to study and propose standards for appraising directors and senior management, to conduct appraisals and provide advices based on the actual situation of the Company; and

- to study and formulate the remuneration policy and plans for directors and senior management.

In 2007, the Remuneration and Appraisal Committee focused on assisting the Board in improving the incentive system of the Company, and studied and reviewed on a series of significant incentive measures which were presented for the Board's approval. Matters considered and passed by the committee included the *H Share Appreciation Rights Plan for Senior Management, Policies on Remunerations of Senior Management, the Supplementary Provisions to Policies on Total Staff Salary and Other Labour Costs* as well as the *Inquiries on Issues Relating to Implementation of Policies on Remunerations of Senior Management*.

The Remuneration and Appraisal Committee for 2007 considered the first round of grant under H Shares Appreciation Rights Incentive Plan for the Senior Management of the Company which was subsequently submitted to the Board of Directors for implementation.

The Remuneration and Appraisal Committee reviewed the remunerations of Senior Management in accordance with *Measures on Remunerations of Senior Management* of the Company and was of the view that such remunerations conformed to the Company's remuneration policies. The Committee also requested KPMG Huazhen, Certified Public Accountants, to implement a special auditing for the execution of these polices. The remunerations of the independent non-executive directors and external supervisors paid by the Company also conformed to the Company's relevant policies on remuneration.

The Remuneration and Appraisal Committee reviewed the remunerations of the independent non-executive directors, external supervisors and senior management and the first round of grant under the H Shares Appreciation Rights Incentive Plan and was of the view that they were in line with the implementation of the Company's relevant polices on remuneration management system, remuneration packages and incentive plans.

The attendance records of 2 physical meetings (Note) held by the Remuneration and Appraisal Committee in 2007 are as follows:

Member	Remarks	Attendance
Non-executive director		
Li Yinquan		2/2
Fu Junyuan		2/2
Independent non-executive director		
Austin Hu Chang Tau	(Resigned as director on 15 June 2007)	0/0 (Note 2)
Wu Jiesi (chairman)		2/2
Liu Yongzhang		2/2
Song Lin	(Appointed as director on 15 June 2007 but resigned as director on 14 Jan 2008)	0/2

Notes: 1. The Remuneration and Appraisal Committee also passed written resolutions on one other occasion in 2007.

2. Austin Hu Chang Tau resigned as the Company's director on 15 June 2007. As no physical meeting of Remuneration and Appraisal Committee was held by the Company during the period from 1 Jan 2007 to 14 June 2007, he was not counted toward the quorum of physical Board meetings.

Nomination Committee

The majority of the current members of the Nomination Committee, comprises of the independent non-executive directors with one serving as chairman, and includes Fu Yuning, a non-executive director, Ma Weihua, an executive director, and Yan Lan (chairman), Liu Yongzhang and Liu Hongxia, independent non-executive directors.

Main authorities and duties:

- to put forward proposals to the Board on the size and composition of the Board according to the business operations, asset scale and shareholding structure of the Company;

- to study the standards and procedures for the election of directors and senior management, and propose the same to the Board;
- to conduct extensive searches for qualified candidates as directors and senior management; and
- to make preliminary examination on the qualifications of the candidates for directors and senior management and put forward proposals.

In 2007, the Nomination Committee made preliminary examination on the qualifications of the directors, independent non-executive directors and senior management candidates before re-election of the Board of Directors and Board of Supervisors, improved the standards and procedures for the election of directors and senior management, and completed the nomination for re-election of the Seventh Session of the Board of Directors. During 2007, the Nomination Committee of the Company held no physical meeting but on 2 occasions held meetings by way of written resolutions.

Board of Supervisors

During the reported period, the Board of Supervisors held a total of 5 physical meetings, conducted 3 investigations and reviewed 3 specific business reports. The supervisors attended two shareholders' general meetings and were present in 20 Board meetings.

In accordance with the Articles of Association of the Company, the Board of Supervisors accomplished the following works:

(1) reviewed and approved the 2006 Annual Report, the First Quarterly Report of 2007, the 2007 Interim Report, the Third Quarterly Report of 2007, and provided opinions.

(2) supervised and examined the operation of the Company, and, after the observations and investigation of three branches in Chengdu, Taiyuan, and Wuhan, offered opinions and advice for improvement.

(3) formulated the "Auditing Methods for resigning senior management (Provisional)" to review the resignation of senior management.

(4) appraised the performance of directors and provided the *Appraisal Report for the Performance of Directors in 2006 by the Board of Supervisors*.

For the detail of the work of the Board of Supervisors, please refer to "Report of the Board of Supervisors" in this Annual Report.

Statement made by the Board about its responsibility on the financial statements

The senior management of the Company provides the Board with adequate explanation and sufficient information to enable the Board to make informed assessment on the financial and other information submitted to it for approval. The directors of the Company acknowledged their responsibility for preparing the financial statements for the year ended 31 December 2007 to present a true view of the operating results of the Company. So far as the directors are aware, there are no material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue its operation as a going concern.

Appointment of accounting firm

According to the resolutions passed at the 2006 annual general meeting, the Company appointed KPMG Huazhen as the domestic auditor for the year 2007 and KPMG as the overseas auditor for the year 2007. The financial statements of the Company for the year 2007 prepared under PRC GAAP were audited by KPMG Huazhen, Certified Public Accountants, and the financial statements for the year 2007 prepared under International Financial Reporting Standards were audited by KPMG, Certified Public Accountants. The total audit fees amounted to RMB6 million (including but not limited to all outlay expenses such as travel allowance, accommodation fees, communication charges). The statement made by KPMG, Certified Public Accountants, about its reporting responsibilities on the financial statements is set out in the Auditor's Report of the Annual Report. Apart from the audit services, the non-audit service fee for the year 2007 paid by the Company to KPMG, Certified Public Accountants, was RMB3 million, mainly covered reviews of (i) interim financial statements, (ii) new GAAP conversion and (iii) other regulatory reports. KPMG, Certified Public Accountants, and KPMG Huazhen, Certified Public Accountants, have acted as the Company's auditors for more than 3 years.

Internal audit and internal control

Internal audit

The internal auditing department of the Company audits all the business and management activities of the Company, inspects and assesses the risk management and internal control conditions of the Company independently, and provides improvement suggestions to the senior management. The internal auditing department of the Company, which is independent of the operating units that are being inspected and supervised, reports the audit results directly to the Board of Directors, Board of Supervisors and the President. The performance evaluation and appointment of internal auditors of the Company are managed by the Head Office.

In 2007, the risk assessment performed by the internal auditing department of the Company covered lending business, treasury, accounting and financial reporting, retail banking, and information system of the Company. The details of risk assessment include: compliance with the laws, regulations and Company policies and procedures; validity of the risk management policies and procedures of the Company; coverage and validity of the internal control system of the Company, whether the defects found in the inspection and evaluation process are corrected accordingly, etc.

In response to the defects found by the internal auditing department, the Company requires the corresponding super-ordinate departments and the units with defects to jointly make rectification. The rectification results were included in the performance evaluation of the branches concerned in 2007.

Description of a complete, reasonable, and effective internal control system

The Company has established an organization structure that regards the shareholders' general meeting, the Board of Directors, the Board of Supervisors and the senior management as the main management team, and realized an operating system featuring separation of, and check and balance between, ownership and operation, management and supervision. Meanwhile, with the guideline of risk prevention and prudent operation, the Company has established systematic and sound management rules and regulations for credit risk, capital business, accounting, human resources, information systems, branch operations, anti-money laundering, internal monitoring and safeguarding, basically covering the process and operation stages of all businesses of the Company. On the basis of sufficiency, legitimacy, validity and appropriateness, the management of the Company regularly reviews the internal control condition to ensure that internal control measures are thoroughly implemented and operation requirements are fulfilled.

The Company's existing internal control system is proved to be complete, reasonable and effective in strengthening its management, monitoring and binding mechanism, in regulating business behaviours, preventing and resolving risks as well as protecting asset safety. The system ensures the achievement of operational goals, the healthy growth of every business sector, the implementation of the State's laws and regulations, and the preparation of the 2007 financial statements which give a true and fair view of the Company's financial conditions. The Company will continue to improve its internal control in terms of completeness, reasonability and effectiveness with an improving legal system of the State and the strengthening of organic growth and management of the Company.

As reviewed by the Board of the Company, no significant defects have been identified in the Company's internal control system in terms of completeness, reasonableness and effectiveness.

Misconduct reporting and monitoring

The Company has established a system for reporting cases, accidents and major events. Branches at various levels shall, as required by the Head Office, report their respective cases, accidents and major events to the Head Office within 24 hours, and submit relevant statistics to the Head Office on a regular basis. In addition, the Company reports staff misconducts and major accidents to CBRC as required.

During the reported period, the Company organized and commenced a 3-month campaign of special inspections for preventing unlawful activities and elimination of the "Five Prohibited" (gambling, for instance) across the Company for the purpose of strengthening compliance and effective internal control in the management of all businesses. Remarkable results have been achieved with the Head Office's centralized planning, careful organization and mobilization of the whole staff, and detailed implementation in the two inspection activities. For misconducts identified in the inspections regarding management and operation, all relevant units launched specific rectification initiatives and put each of them to implementation. At present, one of the six serious offenders has been dismissed and five forced to resign. Some cases of football gambling were also revealed in the inspections, on which the Company was determined to take harsh corrective measures. 16 staff were punished, with 9 dismissed and 7 forced to resign. Meanwhile, extremely rare cases of misappropriation of fund in the offshore accounts by staff were found during the self-inspections. The campaign for preventing unlawful activities and elimination of the "Five Prohibited" together with the self-inspections has received appreciation and support from the CBRC and the CBRC Shenzhen Bureau.

Communications with shareholders

The Board maintains regular dialogues with shareholders, especially through annual general meetings where shareholders are encouraged to participate. The management of the Company communicates regularly with institutional investors and analysts to keep them abreast of the latest developments of the Company. Inquiries from the investors will be dealt with in a timely manner. For any inquiries, investors may write directly to the Company at its principal place of business in Shenzhen or in Hong Kong.

To ensure effective communication, the Company has also maintained a website (www.cmbchina.com), which provides information about the business developments and operations, financial information, information about corporate governance and other information of the Company.

Information disclosure and investor relations

The Company disclosed significant information in a responsive, accurate, truthful and complete manner pursuant to relevant provisions on information disclosure, so that all the shareholders of the Company have equal chance of access to the relevant information. Apart from fulfilling legal obligation of information disclosure, the Company also takes the initiatives in information disclosure to improve its transparency. In 2007, the Company published 4 regular reports, 2 summary regular reports, 48 temporary announcements, 16 temporary announcements for warrants, 6 documents for corporate governance and 2 documents for general meetings on Shanghai Stock Exchange. The Company also published 2 regular reports, 61 announcements and 2 circulars to shareholders. Furthermore, the 2006 Annual Report of the Company as the Company's first annual report prepared according to the listing rules of Mainland China and Hong Kong has won two prizes, "The Silver Prize for Chairman's Statement of the Best Annual Report" and "The Honorary Prize for the Overall Performance of the Best Annual Report", namely "The 2007 ARC International Annual Report Award".

The Company made continuing efforts to improve investor relations management and advanced capital marketing. In the reported period, the Company received 115 visits from domestic and overseas investors, attended 25 investment promotion conferences sponsored by well-established investment banks worldwide, and staged road shows in Europe, U.S. and Southeast Asia. Through the above promotional activities, the management made sincere communication with institutional investors. The Company consulted with small and medium shareholders by email, telephone, etc. on a daily basis, and answered their questions dutifully, patiently and responsively and in a timely manner.

Through extensive, careful and effective work, the investor relationship management of the Company has won widespread recognition. During the reported period, the Company won a lot of honours. For example, the Company won six awards from the British magazine "Investor Relations" award in China, namely "The Best Investor Relations (state-owned enterprise)" award, "The Best Corporate Governance (state-owned enterprise)" award, "The Best Annual Report and Other Publications" award, "The Best Progress of Investor Relations (state-owned enterprise)" award, "The Best CEO of Investor Relations (state-owned enterprise)" award and "The Best Director of Investor Relations (state-owned enterprise)"; the Company won the "2006 Best Investor Relations" award and Lan Qi, Secretary of Board of Directors, was awarded the "2006 China Gold Medal Secretaries of Board of Directors" in "2006 China Financial List" organized by Hexun.com; the Company continued to win the first prize for "Top 10 Public-listed Companies with the Greatest Investment Value" and the "Top 10 Public-listed Companies with Share Reform and Communication" award etc., and Lan Qi, Secretary of Board of Directors, was named "2006 Gold Medal Secretaries of Board of Directors" in the second Public Security Cup named "Top 10 China Public-listed Companies with Competitiveness and Credibility"; the Company was awarded "2006 Top 10 Public-listed Companies with Influence in China " and Lan Qi, Secretary of Board of Directors, was named "the Best Secretary of Board of Directors of China Public-listed Companies of 2006" in the "2006 Public-listed Companies with Influence in China" award organized by Shanghai Securities News; Lan Qi, Secretary of Board of Directors, continued to be named "Gold Medal Secretaries of Board of Directors" and "Company Secretary – Media Recognition Award" in "2007 Gold Medal Secretaries of Board of Directors" award jointly organized by "New wealthy" and Quanjing Net; the Company won a number of prizes for investment relations management in "2007 China Investment Relations Management Annual Meeting" award jointly organized by "China Securities" and Nanjing University: "2006 China Top 100 Listed Companies Summit ", "The Best Large-scale Company", "The Best Communication" award, "The Best Disclosure" award and Lan Qi, Secretary of Board of Directors, was granted "The Best Executor" award for investment relations management.

Independent operation of the Company

The Company has no controlling shareholders and de facto controllers. As a commercial bank, the Company maintains full independence in terms of business, staff, assets, organization and finance under the regulation of PBOC and CBRC. The Company is an independent legal person responsible for its own profits and losses, running independent complete business and is capable of independent business operation.

Corporate governance & Self-inspection Campaigns

During the reported period, the Company launched its own special campaign on corporate governance based on the requirements set out in the "The Notice on Specific Matters in relation to the Strengthening of Corporate Governance of Listed Companies" (CSRC Coporate No.【2007】28) and the "The Notice on Specific Matters in relation to the improvement of Corporate Governance of Listed Companies" (CSRC Corporate No.【2007】29) issued by the China Securities Regulatory Commission and the "The Notice on Specific Matters in relation to the Strengthening of Corporate Governance of Shenzhen Listed Companies" SZBRB No.【2007】14) issued by the Shenzhen Bureau of the China Securities Regulatory Commission. Having formulated the work plan for its own special campaign on corporate governance, the Company began to make special self-inspection of its corporate governance since April 2007 and finished the task by the end of May. On 12 June, the Company disclosed the Corporate Governance Self-inspection Report to the public and received proposals from public investors by telephone, mail, network platform, etc. An online forum was held on 18 June and the Company submitted a summary report on public proposals regarding its corporate governance to the regulatory department on 5 September. The Shenzhen Regulatory Bureau of the China Securities Regulatory Commission made a site inspection since 5 September and issued the "Regulatory Opinions on the Corporate Governance of China Merchants Bank Co., Ltd." on 30 September. Based on the result of the self-inspection, the regulatory opinions and public proposals, the Company formulated and implemented the corrective measures for its special campaign on corporate governance.

1. Issues revealed in the self-inspection phase of special campaign on corporate governance and the corrective measures

The Company places emphasis on seven aspects, namely "Construction of Corporate Governance System", "Structure of Board of Directors and Board of Supervisors ", "Standard Operation of General Meeting, Board of Directors and Board of Supervisors ", "Internal Control System of the Company", "Incentive and Restrictive System of the Company", "Information Disclosure Management of the Company" and "Investor Relations Managements of the Company", in the self-inspection phase, carried out careful self-inspections, summarized the distinctive methods on the aspect of corporate governance and identified existing issues and the reasons on corporate governance. Issues identified in the self-inspections and the corrective measures are as follows:

(1) Further strengthen the role of the special committees of the Board of Directors and Board of Supervisors for improving the efficiency of decision making. On 22 October 2007, the Company reviewed and passed the "Resolution on revising the Articles of Association of China Merchants Bank Co., Ltd." whereby the Company changed the structure and responsibility of the Board of Directors and Board of Supervisors, adjusted the Executive Committee of the Board of Directors to the Strategy Committee, divided the Audit and Related-Party Transaction Control Committee into the Audit Committee and the Related-Party Transaction Control Committee to further strengthen the role of special committees, enhance the strategy decision functions of the Board of Directors and improve the management of related-party transactions. Meanwhile, to enhance its supervisory function, the Board of Supervisors has changed the Audit Committee into the Supervision Committee.

(2) Speed up the building and strengthening of long-term incentive systems. To further build and strengthen the incentive systems, improve the structure of corporate governance and effectively combine the interests of shareholders, the Company and individual operators, the Board of Directors of the Company has implemented the H Shares Appreciation Rights Plan for senior management of China Merchants Bank Co., Ltd..

(3) Improve the Board of Supervisors' auditing measures for resignation of senior management. Through careful research and discussion and extensive consultation for advices, the Company had in the 4th meeting of the Seventh Session of the Board of Supervisors on 30 October 2007 reviewed and passed "The auditing measures for resigning senior management of China Merchants Bank Co., Ltd. (provisional)", which expressively stipulated the principles, contents, procedures and methods of auditing for resigning senior management.

2. Regulatory Opinions on corporate governance of the Company from CSRC, Shenzhen Bureau and the corrective measures

On 5 September 2007, CSRC Shenzhen Bureau has carried out an on-site inspection on corporate governance of the Company. During the course of inspection, much emphasis is put on the standard operation of "Three Committees", the formulation and implementation of "Management Systems of Information Disclosure", the execution of the "Administrative Rules on Shares of the Company Held by Directors, Supervisors and Senior Management and the Changes" and whether there were issues such as the release to controlling shareholders of information which has not come into public domain and the deposit of fund in subsidiary financial institutions of controlling shareholders. Based on the inspection, the CSRC Shenzhen Bureau produced the "Regulatory Opinions on Corporate Governance of China Merchants Bank Co., Ltd." (SZBRB Corporate No.【2007】57), the main contents of which are as follows:

(1) Failure of independent non-executive directors to express independent opinions on certain significant matters

According to the "Regulatory Opinions", independent non-executive directors of the Company had failed to express independent opinions on certain significant matters relating to the "Administrative Measures on Remuneration for Senior Management (Provisional)", the appointment and replacement of individual directors and the engagement of financial officers of the Company. The office of the Company's Board of Directors has in October 2007 added into the internal working system the procedure for expressing opinion by independent non-executive directors in respect of related matters, and would thereafter propose relevant significant matters for the independent opinions of independent directors strictly adhering to the "Guidelines on Building System of Independent Non-executive Directors" and the provisions in the Articles of Association of the Company.

(2) Notices of certain general meetings without sufficient disclosures

As indicated in the "Regulatory Opinions", the notice of 2006 annual general meeting whereby the Seventh Session of the Board of Directors and the Seventh Session of the Board of Supervisors were proposed to be elected had no sufficient disclosures on the information of proposed directors and supervisors, on whether they had connected relations with listed companies or their controlling shareholders and effective controllers, on their shareholdings in public listed companies, on whether they had been imposed penalty or punished by CSRC and other related departments or stock exchanges. The Company had carried out adjustments according to the "Regulatory Opinions" and disclosed the above contents in the biographies of proposed independent non-executive directors in the document for the first extraordinary general meeting dated 15 October 2007.

3. Opinions from investors and the general public on corporate governance and the corrective measures

For purposes of accomplishing public consultation, the Company has added an eye-catching column titled "Taking Advice on the special campaign regarding corporate governance of China Merchants Bank" on the home page of its website. The Company also solicits public opinions or suggestions regarding its corporate governance through special hotlines and network forums. After the release of its Corporate Governance Self-inspection Report, of which the Company is among the first batch of ten companies to announce it publicly, the Company held an online meeting to exchange views regarding corporate governance on 18 June 2007 for opinions and suggestions from investors and the public regarding its corporate governance.

During the online exchange meeting, some investors pointed out that matters listed in the Articles of Association of the Company relating to the restriction of appointment as directors have not included the circumstances listed in the *Guide to Independent Directors and External Supervisors System of Shareholding Commercial Banks* relating to restriction of appointment as directors (shareholders holding more than 1% of the shares of the Company or staff holding office in shareholder's companies).

At the first extraordinary meeting held on 22 October 2007, the Company reviewed and passed the resolution in respect of amendment to the Articles of Association of China Merchants Bank Co., Ltd., and, according to the suggestion of investors, included therein relevant provisions in the *Guide to Independent Directors and External Supervisors System of Shareholding Commercial Banks*. In practice the Company has been in compliance with the provisions of the *Guide to Independent Directors and External Supervisors System of Shareholding Commercial Banks* relating to the independent directors. Accordingly, the aforesaid amendment to the Articles of Association in effect has not changed the terms of appointment of independent directors of the Company.

In 2007, the Company completed all the above improvement initiatives and received recognition from the supervisory authority. The Company published the "Report on Improvement of Corporate Governance of China Merchants Bank Co., Ltd." on 30 October 2007.

After the completion of the self-examination procedures of the Company's corporate governance systems, the relevant supervisory authority invited the Company to share its relevant experience in the operation of special committees in the seminar regarding corporate governance issues for Shenzhen listed companies.

Quality First

Solid Growth

1. Principal business activities

The Company is engaged in banking and related financial services.

2. Financial highlights

Highlights of operating results, assets and liabilities of the Company for the 5 years ended 31 December 2007 are set out in "Five-year Financial Summary" of this annual report.

3. Allowances for impairment losses

The details of the movements of allowances for impairment losses of the Company are set out in "Management Discussion and Analysis – Loan quality analysis – Movements of allowances for impairment losses on loans to customers" of this annual report.

4. Profit appropriation for the year 2007

10% of the profit after tax in the audited financial statements (prepared in accordance with the PRC accounting principles), amounted to RMB1.524 billion, was appropriated to statutory surplus reserve. Regulatory general reserve was RMB3 billion. Profits distributable to shareholders for the current year was RMB12.093 billion. Based on the total share capital of A shares and H shares, the Company proposed to declare a cash dividend (including tax) of RMB2.80 (dominated in RMB) for every 10 shares, payable in RMB for A share-shareholders and in HKD for H share-shareholders. The actual profit distribution amount in HKD will be calculated based on the average benchmark rate for RMB to HKD announced by the People's Bank of China one week (including the day of the general meeting) before the date of convening the general meeting of the shareholders. The profits which have not been appropriated will be carried forward to the next year.

As the "CMB Convertible Bonds" (110036) issued by the Company have not been fully converted into share capital of A shares and capital reserve of the Company, it is impossible to determine the total share capital at the share registration date and the total amount of cash dividends cannot be determined at the moment. In this regard, the Company proposed to declare the above cash dividends based on the total share capital at the closing of the registration date of A shares dividend.

5. Donations

The total amount of the charitable donations and other donations contributed by the Company and its employees for the year ended 31 December 2007 was RMB16,142,000.

6. Fixed Assets

Changes in fixed assets as at 31 December 2007 are set out in note 20 to the financial statements in this annual report.

7. Major holding companies and joint-stock companies

(in millions of RMB)

Name of companies	Investment period	Shareholdings percentage on the Company	Investment at the end of reported period
China Merchants Fund Management Co., Ltd.	None	33.4%	225
CMB International Capital Corporation Limited ("CMBICC")	None	100%	251
China UnionPay Co., Ltd.	None	4.8%	38
EPS Company (Hong Kong) Limited	None	0.7%	8

Notes:

(1) China Merchants Fund Management Co., Ltd. is a fund management company approved by the CSRC. Its scope of operations includes fund establishment, fund management business and other operations approved by the CSRC. In August 2007, the Company acquired 33.4% interest in China Merchants Fund Management Co., Ltd. for a consideration of RMB191 million.

(2) CMBICC, formerly known as Jiangnan Finance Co., Ltd., is the Company's wholly-owned subsidiary approved by the PBOC through its Yin Fu【1998】No. 405, and was renamed as CMB International Capital Corporation Ltd. on 22 February 2002 upon approval of PBOC through its Yin Fu【2002】No. 30.

(3) Upon approval of the PBOC through its Yin Fu【2001】No. 234 about the Establishment of China UnionPay Co., Ltd., the Company contributed RMB80 million to establish China UnionPay Co., Ltd. The above contribution included the assessed net value of RMB41.984 million in the form of the bank card network service centers in various cities and RMB38.016 million as additional cash investment. China UnionPay Co., Ltd. was incorporated on 26 March 2002. The RMB38,016,000 of investment in 2002 by the Company was accounted for as long-term equity investment.

(4) EPS Company (Hong Kong) Limited was incorporated in 1984 by several licensed banks in Hong Kong for the provision of e-pay services for customers in Hong Kong, Macau and Shenzhen.

8. Shareholdings and trading in equity interest of other listed companies

During the reported period, the Company had not held or traded the equity interest of other listed companies.

9. Purchase, sale or redemption of listed securities of the Company

For the year ended 31 December 2007, neither the Company, nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

10. Arrangement of pre-emptive rights

The Articles of Association of the Company does not have any provision on pre-emptive rights, and the shareholders of the Company do not have any pre-emptive right.

11. Retirement and welfare

Details about retirement welfares provided by the Company to its employees are set out in note 28 to the financial statements in this annual report.

12. Principal customers

As at 31 December 2007, the operating income of the top 5 customers of the Company did not exceed 30% of the total operating income of the Company. The directors and related persons of the Company did not have any material interests in the aforesaid 5 customers.

13. Use of fund raised and non-fund raising significant investments

Use of fund raised from H Shares

The Company issued 2,200,000,000 H Shares at face value of RMB1 per share at the price of HK$8.55 per share on The Stock Exchange of Hong Kong Limited ("Hong Kong Stock Exchange" or "SEHK") on 22 September 2006, and through the exercise of the over-allotment option, issued 220,000,000 H Shares at face value of RMB1 per share at the price of HK$8.55 per share on SEHK on 27 September 2006, raising RMB20.505 billion net fund, which was all in place on 5 October 2006. According to the commitments stated in the Prospectus, the fund raised would be used as additional capital to enhance capital adequacy and the capacity of risk resistance.

Non-fund raising material investments

As at the end of 2007, the accumulated fund invested in Shanghai Lujiazui Project amounted to RMB488,000,000, of which RMB81,000,000 was invested during the reported period.

14. Long and short positions of directors, supervisors and senior management

As at 31 December 2007, none of the directors, supervisors and senior management of the Company held or was deemed to hold interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporation (within the meaning of Part XV of the SFO) or as being recorded pursuant to section 352 of the SFO or as otherwise notified by the directors or supervisors to the Company and SEHK in accordance with Model Code for Securities Transactions by Directors of Listed Issuers as set out in the Listing Rules; neither were the directors, supervisors and senior management of the Company authorized to buy any share or debenture of the Company or any of its related companies.

15. Equity held by directors in businesses competing with those of the Company

No director of the Company held any equity in any business constituting or likely to constitute direct or indirect competition with that of the Company.

16. Financial, business and kinship relations between directors, supervisors and senior management

Directors, supervisors and senior management of the Company did not have any relations between each other, including financial, business, kinship or other material or connected relations.

17. Contractual rights and service contracts of directors and supervisors

The directors and supervisors of the Company did not have direct or indirect material interest in any contract of significance to the Group (excluding service contracts) to which the Company or any of its subsidiaries was a party during the year. The directors and supervisors of the Company did not enter into any service contract with the Company which is not determinable by the Company within one year without payment of compensation (excluding statutory compensations).

18. The Company, directors and supervisors punished by CSRC and the Stock Exchanges

During the Reported Period, none of the Company, the Board, directors or supervisors was subject to investigation, administrative sanction or public criticism by CSRC or publicly condemned by the Stock Exchanges.

19. Confirmation of independence of Independent Non-executive Directors

None of the six independent non-executive directors of our Company were involved in matters set out in Rule 3.13 of the Listing Rules which would lead to concern over his/her independence. In addition, the Company has received confirmation from each of the independent non-executive directors about his/her independence according to the requirements of the Listing Rules and therefore considers each of them to be independent.

20. Undertakings of the Company

The Company has no undertakings which need to be notified during the reported period.

21. Overview of connected transactions

In accordance with Chapter 14A of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited ("Listing Rules"), the transactions between the Company and China Merchants Group Limited ("CM Group"), China Ocean Shipping (Group) Company Limited ("COSCO"), and Shandong State-Owned Asset Investment Holding Co., Limited ("Shandong Investment Group") and their associates constitute connected transactions referred to in the Listing Rules. The following are the exempt and non-exempt continuing connected transactions of the Company determined in accordance with the Listing Rules.

Exempt continuing connected transactions

The continuing connected transactions between the Company and members of China Merchants Group Limited include providing China Merchants Group Limited with e-Tax – online tax payment service, providing custody service for China Merchants Group Limited, providing corporate annuity account management service for China Merchants Group Limited, providing settlement service among China Merchants Group Limited, providing e-Bond – online bond trading service for China Merchants Group Limited, property management service provided by China Merchants Group Limited and renting property from China Merchants Group Limited. The above connected transactions follow the normal commercial terms and conditions and are charged according to the normal commercial charging standards and government designated charging standards. As at the end of 2007, the total service charge for each category of transactions between the Company and China Merchants Group Limited amounted to less than 0.1% of the relevant percentage ratios set out in Chapter 14 of the Listing Rules. In accordance with rule 14A.33 (3) of the Listing Rules, the above transactions are exempt continuing connected transactions and are exempted from compliance with the reporting, announcement and approval by independent shareholders obligations under the Listing Rules.

The continuing connected transactions between the Company and COSCO members include settlement services and e-Bond services. As at the end of 2007, the total service charge for each category of transactions between the Company and China Merchants Group Limited amounted to less than 0.1% of the relevant percentage ratios set out in Chapter 14 of the Listing Rules. In accordance with rule 14A.33 (3) of the Listing Rules, the above transactions are exempt continuing connected transactions and are exempted from compliance with the reporting, announcement and approval by independent shareholders obligations under the Listing Rules.

The continuing connected transactions between the Company and members of Shandong Investment Group include settlement services and consignment loan arrangements. As at the end of 2007, the total service charge for each category of transactions between the Company and Shandong Investment Group amounted to less than 0.1% of the relevant percentage ratios set out in Chapter 14 of the Listing Rules. In accordance with rule 14A.33(3) of the Listing Rules, the above transactions are exempt continuing connected transactions and are exempted from compliance with the reporting, announcement and approval by independent shareholders obligations under the Listing Rules.

Non-exempt continuing connected transactions

The non-exempt continuing connected transactions of the Company are those conducted between the Company and China Merchants Securities Company Limited ("CM Securities"), China Merchants Fund Management Company Limited ("CMFM") and CIGNA & CMC Life Insurance Company Limited ("CMC Life Insurance"), respectively.

With the approval of the Board of Directors, the Company announced in 2007 the continuing connected transactions with each of CM Securities, CMFM and CMC Life Insurance, and approved the 2007 annual caps of the aggregate transaction amount to be received from these companies to be RMB868,000,000, RMB195,400,000 (from the date CMFM became a connected party of the Company till 31 December 2007) and RMB89,000,000, respectively. The relevant information was set out in *Announcements of Continuing Connected Transactions of the Company* on 26 March 2007, 9 July 2007, 29 September 2007 and 7 December 2007, respectively.

CM Securities

The Bank-Securities Express Services, the third-party custodian business, the wealth management agency services and the collective investment products services between the Company and CM Securities constituted continuing connected transactions of the Company under the Listing Rules, among which the Bank-Securities Express Services were discontinued on 31 August 2007 in order to comply with the regulatory requirements.

The Company entered into a service co-operation agreement with CM Securities in 2007, which was concluded in accordance with normal commercial terms and conditions, and the agency service fees paid to the Company by CM Securities in accordance with the service cooperation agreement was determined through arm's length negotiation with reference to the charging standards of the Company for securities agency services provided by the Company to independent third party securities companies.

On 26 March 2007, the Company approved the annual cap for the continuing connected transactions with CM Securities to be RMB480,000,000, which was less than 2.5% of the relevant percentage ratio as calculated under Rule 14.07 of the Listing Rules. Accordingly, such transactions were required only to comply with the reporting and announcement requirements under Rules 14A.45 to 14A.47 of the Listing Rules and exempted from Independent Shareholders' approval requirements. As a result of the continuous business expansion between the Company and CM Securities, the buoyancy of the capital market as well as the uprising demands for financial services in the PRC market, the Company noted that the cap of RMB480,000,000 would not be sufficient to fulfil the requirement for the whole year of 2007, and accordingly the Company revised the annual cap for continuing connected transaction with CM Securities to RMB868,000,000. As the revised cap for continuing connected transaction exceeded 2.5% of the relevant percentage ratios as calculated under Rule 14.07 of the Listing Rules, the Company sought the approval of the independent shareholders in compliance with the requirements under Rules 14A.45 to 14A.47 of the Listing Rules.

As at 31 December 2007, the transaction amount of the continuing connected transactions between the Company and CM Securities amounted to RMB611,000,000.

CMFM

The fund marketing agency services between the Company and CMFM constituted continuing connected transactions of the Company under the Listing Rules.

The Company entered into a service co-operation agreement with CMFM in 2007, which was concluded in accordance with normal commercial terms and conditions, and the agency service fees paid to the Company by CMFM in accordance with the service cooperation agreement was determined through arm's length negotiation with reference to the charging standards of the Company for fund services provided by the Company to independent third party fund management companies.

On 9 July 2007, the Company announced that the annual cap for the continuing connected transactions with CMFM for the period from CMFM became a connected party of the Company till 31 December 2007 to be RMB195,400,000, which was less than 2.5% of the relevant percentage ratios as calculated pursuant to Rule 14.07 of the Listing Rules, accordingly, such transactions were required only to comply with the reporting and announcement requirements under Rules 14A.45 to 14A.47 of the Listing Rules and exempted from Independent Shareholders' approval requirements.

As at 31 December 2007, the transaction amount of the continuing connected transactions between the Company and CMFM for the period from CMFM became a connected party of the Company on 28 August 2007 till 31 December 2007 amounted to RMB80,300,000.

CMC Life Insurance

The insurance marketing agency services between the Company and CMC Life Insurance constituted continuing connected transactions of the Company under the Listing Rules.

On 9 July 2007, the Company announced the annual cap for the continuing connected transactions with CMC Life Insurance to be RMB 70,000,000, which was less than 2.5% of the relevant percentage ratios as calculated pursuant to Rule 14.07 of the Listing Rules, accordingly, such transactions were required only to comply with the reporting and announcement requirements under Rules 14A.45 to 14A.47 of the Listing Rules and exempted from independent shareholders' approval requirements. As a result of the expansion of the insurance products market as well as the uprising demands for insurance products, the Company noted that the annual cap of RMB70,000,000 would not be sufficient to fulfil the requirement for the whole year of 2007. Accordingly, the Company revised the cap for continuing connected transaction to be RMB89,000,000. As the revised cap for continuing connected transaction did not exceed 2.5% of the relevant percentage ratios as calculated pursuant to Rule 14.07 of the Listing Rules, the Company has only complied with the reporting and announcement requirements under the Listing Rules.

As at 31 December 2007, the transaction amount of the continuing connected transactions between the Company and CMC Life Insurance amounted to RMB83,630,000.

The independent non-executive directors of the Company had reviewed the above non-exempt continuing connected transactions between the Company and CM Securities, CMFM and CMC Life Insurance, respectively, and confirmed that:

(1) the transactions were conducted in the ordinary and usual course of business of the Company;

(2) the terms and conditions of transactions are fair and reasonable and in the interests of the Company and its shareholders as a whole;

(3) the transactions were conducted on normal commercial terms and conditions and on terms and conditions that are no less favourable than those for independent third parties; and

(4) the transactions were conducted in accordance with the relevant agreements.

The auditors of the Company have reviewed the above transactions and submitted to the Board of Directors of the Company a letter setting out the following:

(1) the transactions were approved by the directors of the Company;

(2) the transactions were conducted in accordance with relevant agreements concluded by the Company; and

(3) the transactions did not exceed the aforesaid annual caps as approved by SEHK.

Exemption as connected persons

In accordance with rules 1.01, 14A.11 and 19A.04 of the Listing Rules, after H Shares listing of the Company with SEHK, the promoters of the Company and their associates would constitute connected persons of the Company. Accordingly, the continuing connected transactions between the Company and the said promoters and would be considered as continuing connected transactions requiring compliance with the provisions of rules 14A.45 and 14A.48 of the Listing Rules on reporting, announcement and approval of independent shareholders, unless otherwise exempted.

Accordingly, the Company had applied to, and was granted by, the Hong Kong Stock Exchange a waiver in accordance with rule 14A.42 of the Listing Rules. Subject to the terms of the waiver, Qinhuangdao Port Group Company Limited, a promoter of the Company, and other promoters of the Company not having owned any equity in the Company, i.e. Shenzhen Huihe Investment and Develop Co., Ltd. and China National Offshore Oil Nanhai East Corporation and their associates would not be treated as connected parties to the Company under the Listing Rules, and accordingly all the connected transactions between the Company and the aforesaid companies are exempt from compliance with the provisions under Chapter 14A of the Listing Rules.

22. Material litigation and arbitrations

As at 31 December 2007, the number of pending litigation and arbitration cases involving the Company totalled at 1,426, involving a total principal sum of RMB869,709,780, US$5,119,700, JPY308,910,000 and INR8,766,900; the interest totalled at RMB90,394,500 and US$582,000. In particular, the total number of pending litigation and arbitration cases against the Company totalled at 42, involving a total principal of RMB223,007,600, US$152,000 and INR8,766,900; the interest totalled at RMB20,276,800 and US$9,900. There are two pending cases with principal over RMB100,000,000, involving an aggregate principal of RMB260,300,000; the interest totalled at RMB3,506,400.

23. Material contracts

The material contracts of the Company did not cover custody or contracting of other companies' assets or vice versa which are outside the ordinary course of business. The relevant guarantee contracts all fell within the guarantee businesses within the business scope of the Company, and the Company is not aware of any significant guarantee, guarantee for its holding subsidiaries, nor illegal guarantee.

24. Significant event in respect of fund entrusting

During the reported period, there was no event in respect of fund entrusting beyond of our normal business.

25. Major asset acquisition, disposal and reorganization

In August 2007, the Company acquired a 33.4% equity interest in China Merchants Fund Management Co., Ltd.

26. Implementation of the H Share appreciation rights incentive plan during the reported period

For details about the implementation of the Company's H Share appreciation rights incentive plan in 2007, please refer to the section "Directors, supervisors, senior management, employees and operational structure".

27. Explanatory notes and independent opinions of the Independent Non-executive Directors towards the Company's guarantees

China Merchants Bank Co., Ltd.
Explanatory notes and independent opinions of the independent non-executive directors towards the Company's guarantees

In accordance with Zheng Jian Fa【2003】No. 56 of the China Securities Regulatory Commission and the relevant provisions of the Shanghai Stock Exchange, the Independent Non-executive Directors of China Merchants Bank Co., Ltd. carried out a due review of the Company's guarantees for 2007 on an open, fair and objective basis, and their opinions are as follows:

After review, it was ascertained that the guarantee business of China Merchants Bank Co., Ltd. was approved by the People's Bank of China and the China Banking Regulatory Commission, and it is carried out in the ordinary course of business of banks as a conventional business. As at the end of December 2007, the balance of the Company's guarantee business (including irrecoverable letters of guarantees and shipping guarantees) was RMB55.275 billion, up 49.14% from the beginning of the year.

The Company emphasizes risk management of the guarantee business. It formulates specific management measures and operation workflow according to the risk characteristics of this business. In addition, the Company enhances risk monitoring and safeguards of this business through management means such as on-site and off-site checks. During the reported period, the operations of the Company's guarantee business was normal and there was no default guarantees.

China Merchants Bank Co., Ltd.
Independent Non-executive Directors
Wu Jiesi　Chow Kwong Fai, Edward
Liu Hongxia　Liu Yongzhang　Yan Lan　Yi Xiqun

28. Liabilities, changes in funding and credit facilities and cash arrangement of the Company for the repayment of convertible bonds in the coming years

As at the end of the reported period, the Company had only RMB14 million of convertible bonds remained outstanding, the Company will be capable of paying the principal and interests of the convertible bonds.

29. Compliance Statement for Corporate governance

As a H-Share listed company, the Company has fully complied with the provisions of the Code On Corporate Governance Practices set out in appendix 14 of the Listing Rules and has dedicated to maintain its high standard of corporate governance.

30. Compliance with Banking (Disclosure) Rules

The Company prepared the financial statements for the year 2007 in strict compliance with the Banking (Disclosure) Rules issued by Hong Kong Monetary Authority.

31. Review on annual results

KPMG Certified Public Accountants, our external auditor, has audited the financial statements of the Company prepared in accordance with the International Financial Reporting Standards, and has issued an unqualified audit report. The Audit Committee of the Company has reviewed the results and financial report of the Company for the year ended 31 December 2007.

32. Annual General Meeting and Closure of Register of Members

The dates of the Company's 2007 Annual General Meeting, closure of register of members and other relevant matters will be separately announced in the notice of the annual general meeting to be issued by the Company.

33. Publication of Annual Report

Both Chinese and English versions of the annual report are available on the websites of the Company (www.cmbchina.com) and The Stock Exchange of Hong Kong Limited (www.hkex.com.hk). In the event of any discrepancies in interpretations between the English version and Chinese versions, the Chinese version shall prevail.

The Company also prepared the financial statements in Chinese in accordance with the PRC Generally Accepted Accounting Principles, which is available on the websites of the Company (www.cmbchina.com) and Shanghai Stock Exchange (www.sse.com.cn).

By Order of the Board

Qin Xiao
Chairman of Board of Directors

18 March 2008

Report of the Board of Supervisors

The Board of Supervisors has 9 members, including 2 external supervisors, 4 shareholder representative supervisors and 3 employee representative supervisors. During the reported period, the Board of Supervisors fulfilled supervisory duties pursuant to *Company Law and Articles* of Association of the Company.

Information about Board of Supervisors meetings during the reported period

On 15-16 April 2007, the 11th Meeting of the Sixth Session of the Board of Supervisors of the Company was convened in Shenzhen, 7 out of the 9 eligible Supervisors were present at the meeting. At the meeting, the working report of Board of Supervisors for the year 2006, the working report of President for the year 2006, the text and the summary of the annual report for the year 2006, the final financial report for the year 2006 and the financial budget for the year 2007, the profit appropriations plan for the year 2006, the resolution to appoint the statutory auditors and to fix their remuneration for the year 2007, the resolution in respect of the candidate list of the supervisors of the Seventh Session of the Board of Supervisors and the assessment report on the duty performance of Directors in 2006 were considered and approved; and the report on the audit of the related party transactions for the year 2006, the report on the audit work for the year 2006 and the report on the credit quality for the year 2006 were addressed.

On 26 April 2007, the 12th Meeting of the Sixth Session of the Board of Supervisors was convened through voting by correspondence. 8 out of 9 supervisors eligible for voting voted at the meeting. The first quarterly report of 2007 of the Company was approved at the meeting.

On 15 June 2007, the 1st Meeting of the Seventh Session of the Board of Supervisors of the Company was convened in Shenzhen. Nine supervisors had been notified for the meeting and seven of them were present. At the meeting, Shi Jiliang was elected as the Chairman of the Seventh Session of the Board of Supervisors of China Merchants Bank Co., Ltd., and Shi Jiliang, Zhu Genlin and Yang Zongjian were appointed to be the members of the Nomination Committees under the Board of Supervisors, with Shi Jiliang as the Chairman. Shao Ruiqing, Chen Haoming and Yin Xuwen were appointed to be the members of the Audit Committee of the Board of Supervisors, with Shao Ruiqing as the Chairman.

On 8-9 August 2007, the 2nd Meeting of the Seventh Session of the Board of Supervisors of the Company was convened in Chengdu. Nine supervisors had been notified for the meeting and seven of them were present. At the meeting, the working report of President for the first half of the year 2007, the text and the summary of the interim report for the year 2007 of the Company and the resolution in respect of Amendments to the Articles of the Association of China Merchants Bank Co., Ltd. were considered and approved, and the working report on the resignation review of Mr. Chen Wei as well as the result thereof were addressed. And the meeting has also suggested certain amendments to the Auditing Methods for Resigning Senior Management of China Merchants Bank Co., Ltd..

On 22 October 2007, the 3rd Meeting of the Seventh Session of the Board of Supervisors was convened through voting by correspondence. 9 out of 9 Supervisors eligible for voting voted on the meeting. The third quarterly report of 2007 of the Company was approved on the meeting.

On 30 October 2007, the 4th Meeting of the Seventh Session of the Board of Supervisors was convened through voting by correspondence. 9 out of 9 Supervisors eligible for voting voted on the meeting. Rectification Report on the Specific Activity of Corporate Governance and the Measures for the Review on the Retiring Senior Management of China Merchants Bank Co., Ltd. (Trial) were considered and approved at the meeting.

In 2007, the Company convened 2 general meetings and 22 meetings of the Board of Directors. Supervisors attended the general meetings and were present at the meetings of the Board of Directors as non-voting delegates, and supervised the law and regulation compliance and voting procedures of the general meetings and meetings of the Board of Directors.

Questionnaire surveys made by Board of Supervisors

On 30 May 2007, the Board of Supervisors conducted questionnaire survey in Chengdu Branch's financial accounting rules and regulations and the execution of its cost management.

On 25-26 July 2007, the Board of Supervisors conducted questionnaire survey in Taiyuan Branch's establishment and execution of the credit rules and accounting system.

On 23-24 October 2007, the Board of Supervisors conducted questionnaire survey in Wuhan Branch's internal control, operation risk management and case precautionary practices.

Operation of Committees under the Board of Supervisors

The Nomination Committee and the Audit Committee are established under the Board of Supervisors, each consisting of 3 supervisors. The Nomination Committee and the Audit Committee are headed by external supervisors.

The members of the Nomination Committee are: Shi Jiliang (chairman), Zhu Genlin and Yang Zongjian. The major duties of the Nomination Committee are: to make proposals to the Board of Supervisors on the size and composition of the Board of Supervisors; to study the standards and procedures for the election of supervisors and propose the same to the Board of Supervisors; to conduct extensive searches for qualified candidates for supervisors; to make preliminary examination on the qualifications of the candidates for supervisors nominated by shareholders and to provide relevant recommendations. During the reported period, the Nomination Committee of the Board of Supervisors has made preliminary examination on the qualifications of the candidates as the supervisors of seventh session, and submitted the examination results to the Board of Supervisors for consideration.

Members of the Audit Committee are: Shao Ruiqing (chairman), Chen Haoming and Yin Xuwen. The major duties of the Audit Committee are: to formulate schemes for conducting inspection and supervision of the financial activities of the Company; to formulate plans for conducting reviews on resigning directors and senior management; to formulate plans for conducting audit on the business policies, risk management and internal control of the Company. During the reported period, the Auditing Committee of the Board of Supervisors drafted the Auditing Methods for Resigning Senior Management (for Trial Implementation).

Independent opinions on relevant matters from the Board of Supervisors

The Board of Supervisors was of the view that the business activities of China Merchants Bank in 2007 complied with Company Law, Commercial Banks Law and Articles of Association, and that the decision making procedure was lawful and valid. None of the director or senior executive was found to have violated the relevant laws, regulations or the Articles of Association or had done anything detrimental to the interests of the Company or shareholders; KPMG audited the financial reports of the year in accordance with the international audit standard and produced standard unqualified audit report, stating that the financial reports gave a true, objective and accurate view of the financial position and operating results of the Company; the projects actually funded with the capital raised were consistent with the undertakings in the Capital Raising Description; the connected transactions were fair and reasonable, not running against the spirit of fairness or detrimental to the interests of the Company or shareholders. The Board of Supervisors lodged no objections to the reports and proposals submitted by the Board of Directors to the general meetings for 2007, and concluded that the board had duly implemented relevant resolutions of the general meetings.

By Order of the Board of Supervisors

Shi Jiliang
Chairman of the Board of Supervisors

18 March 2008

Social Responsibilities of the Company

In recent years, social responsibility of commercial banks increasingly attract extensive attention from the social public. The Company has put tremendous efforts to take up social responsibility and promote social harmony while maintaining its business development in a steady and healthy pace, and these works generate social effects to some extent.

Actively developing 'Green Credit' and protecting resources and ecology

In response to the nation's call for energy-saving and emission-reduction, the Company formulated the Green Finance Action Plan in all directions, introduced the concept of environment protection in all daily operation activities, enhanced the staff's awareness of environment protection and carried out full process of environment evaluation. The Company organized and developed the Green Finance Action, granting favor to environment protection corporations in loan lending business and shortening loans for corporations labeled as "three highs". As at the end of 2007, the Company granted 30% more loans for renewable energy projects as compared to the beginning of the year, which included hydropower, wind electricity, solar electricity and biomass power; the Company supported clean energy projects and loans in this sector increased 20% as compared to the beginning of the year, which included natural gas, nuclear power projects, etc.; the Company also supported environment protection projects and loans in this sector increased 22% as compared to the beginning of the year, which included environment protection equipment, sewage treatment, garbage disposal, atmospheric pollution preventive projects and so on; the Company supported energy-saving and emission-reducing projects and loans in this sector increased 33% as compared to the begging of the year, which included key industries, transportations, constructions, electric appliance and lighting and so on. The Company is determined to make the environment protection and carbon trade, etc. as its targeted industries in 2008, and it will strengthen industries research and product creation, refine industry credit policy, and offer more support for these industries.

In addition, the Company strengthened its cooperation with international environment protection organizations. In October 2007, the Company formally joined the United Nations Environment Programme Finance Initiative (UNEP FI). In December, as the nation's Ministry of Finance entered into the intermediate loan agreement for energy efficiency projects with the French Development Agency, the Company, being one of the three loan transfer banks, acquired a transferred loan amount of Euro 20 million with 15-year maturity, especially for energy efficiency projects and renewable energy projects in specified provinces. In 17 December 2007, the Company negotiated with the German KFW Bankengruppe (德國復興信貸銀行) and planned to cooperate to provide credit in energy-saving and environment protection field in 2008.

Tackling commercial bribery and money laundering activities and safeguarding market discipline

Following the guidance of China Banking Regulatory Commission and People's Bank of China, the Company seriously tackled commercial bribery and money laundering activities. The Company carried out comprehensive self-inspection and review for any improper transactions carefully and conducted site investigations on certain branches. The Company compiled and issued the Notice to Staff on Tackling Commercial Bribery to all staff and reeducated the staff how to tackle commercial bribery and improper transaction activities. The Company has made great efforts to prepare the system of anti-money laundering, system development, information delivery, work examination, promotion and training, and by so doing further strengthened the base of anti-money laundering and stepped into a new phase of the Company's anti-money laundering regime.

Donation towards education and alleviating poverty

(1) Establishing the Sunflower Children Growth Fund

In March 2007, the Company established the Sunflower Children Growth Fund with China Children and Teenagers' Fund, so as to help the children in needy areas to stay away from hazards and harms and grow in a healthy way. The Company donated RMB1 million to initiate the fund and devoted the revenue from Lang Lang Piano Solo Charity Concert in Shenzhen, Beijing and Shanghai to the course of children arts.

(2) Establishing the Special Sports Charity Fund under the Hope Project

In March 2007, the Company established the "Hope Project – CMB Special Sports Charity Fund" with China Youth Development Foundation, so as to purchase sports facilities for the Hope Project primary schools that met certain standards. Through the piecemeal collection from" donate one yuan for every credit card applied, donate one cent for each time a credit card is used", the Company raised the charity fund of RMB11,765,800 as at the end of the year and fulfilled the plan of providing a full set basic sports facilities for 610 Hope Project primary schools.

(3) Organizing the Education Assistance Program for Left-behind Children

In August 2007, "the Education Assistance Program for Left-behind Children – 1,000-village Charity Plan" jointly organized by the Company and China Children and Teenager's Fund started officially. The program is aimed to help schools in poor areas with relatively concentrated left-behind children to improve their study conditions. In next ten years, the Company will donate fund to facilitate "Caring Mission by Sunflower" libraries and sunny playgrounds for 1,000 schools (500 primary schools and 500 middle schools) in 1,000 rural villages all around the country.

Sponsoring Culture and Sports Industries and Promoting Social Civilization and Progress

(1) Sponsoring the Performance Season of Shanghai Symphony Orchestra

On 18 January 2007, the Company entered into a contract with Shanghai Symphony Orchestra, as to sponsor solely the orchestra's 2007-2008 performance season, and to support the orchestra's performance at the Golden Hall in Vienna. By these ways, the Company is welcoming and promoting the 2008 Beijing Olympic Games with music.

(2) Sponsoring the China Competition of F1 Motorboat World Championship

On 22 May 2006, China Tianrong F1 Motorboat CMB Team was established. The team is the first international F1-class team belonging to the Chinese. The establishment of the team fills up the blank of China's absence from World F1 Games. In June 2007, the Company officially entered into contract with China Team for F1 Motorboat World Championship, and obtained naming right again to China Tianrong F1 Motorboat Team.

(3) Sponsoring the National Team of Sailboat, Sailboard and Racing boat

On 24 March 2007, the Company became the sole sponsor in finance industry to the National Team of Sailboat, Sailboard and Racing boat, and signed a contract to support "1,000-boat-Campaign 2008" project organized by Qingdao Municipal Government.

Participating Actively in Activities Organized by Social Responsibility Organizations

In 2007, the Company continued to actively support the various activities aimed at global ecological protection organized by two charity organizations, Alxa Society Entrepreneur Ecology (SEE) and Corporate Social Responsibility League of China.

Contents

KPMG

Independent auditor's report to the shareholders of China Merchants Bank Co., Ltd

We have audited the accompanying financial statements of China Merchants Bank Co., Ltd (the "Bank") and its subsidiary (collectively the "Group") set out on pages 132 to 230 which comprise the consolidated balance sheet and balance sheet as at 31 December 2007, and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

The directors are responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards promulgated by the International Accounting Standards Board and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the fair presentation of financial statements that are free from material misstatements, 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. This report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance as to 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 our judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Bank'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 Bank's internal control. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates made by the directors, 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 opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Bank and of the Group as at 31 December 2007, and of the Group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

KPMG
Certified Public Accountants

8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

18 March 2008

CONSOLIDATED INCOME STATEMENT

for the year ended 31 December 2007

(Expressed in millions of Renminbi unless otherwise stated)

	Note	2007	2006
Interest income	3	**51,585**	33,990
Interest expense	4	**(17,683)**	(12,481)
Net interest income		**33,902**	21,509
Fee and commission income	5	**7,258**	2,988
Fee and commission expense		**(819)**	(474)
Net fee and commission income		**6,439**	2,514
Other net income	6	**707**	843
Operating income		**41,048**	24,866
Operating expenses	7	**(16,738)**	(11,091)
Operating profit before impairment losses		**24,310**	13,775
Impairment losses	11	**(3,305)**	(3,691)
Share of profits of an associate		**38**	–
Profit before tax		**21,043**	10,084
Income tax	12	**(5,800)**	(3,290)
Net profit attributable to equity holders of the Bank		**15,243**	6,794
Dividends			
Declared and paid	34(a)	**1,764**	3,193
Proposed in respect of current year	34(b)	**4,117**	1,764
		5,881	4,957
		RMB	RMB
Earnings per share			
Basic	13(a)	**1.04**	0.53
Diluted	13(b)	**1.04**	0.53

The notes on pages 139 to 230 form part of these financial statements.

CONSOLIDATED BALANCE SHEET

at 31 December 2007

(Expressed in millions of Renminbi unless otherwise stated)

	Note	**2007**	2006 (restated)
Assets			
Cash and balances with banks and other financial institutions	14	**20,276**	20,861
Balances with central bank	15	**146,266**	82,372
Placements with banks and other financial institutions	16	**225,669**	88,171
Loans and advances to customers	17	**654,417**	549,420
Investments	18	**244,123**	178,885
Interest in an associate	19	**225**	–
Fixed assets	20	**8,722**	7,006
Deferred tax assets	21(a)	**2,162**	2,260
Other assets	22	**8,692**	5,127
Total assets		**1,310,552**	934,102
Liabilities			
Deposits from banks and other financial institutions	23	**218,520**	68,854
Placements from banks and other financial institutions	24	**46,603**	7,749
Deposits from customers	25	**943,534**	773,757
Financial liabilities at fair value through profit or loss	18(e)	**2,945**	106
Certificates of deposit issued	26(a)	**1,095**	1,170
Convertible bonds issued	26(b)	**13**	22
Other debts issued	26(c)	**9,992**	9,987
Current taxation		**2,588**	2,652
Other liabilities	27	**13,778**	11,145
Subordinated notes issued	26(d)	**3,500**	3,500
Total liabilities		**1,242,568**	878,942
Shareholders' equity			
Share capital	29	**14,705**	14,703
Capital reserve	30	**27,545**	27,536
Surplus reserve	31	**3,088**	2,377
Investment revaluation reserve	32	**(471)**	195
Regulatory general reserve	33	**9,500**	6,500
Retained profits		**7,976**	1,374
Proposed profit appropriations	34(b)	**5,641**	2,475
Total shareholders' equity		**67,984**	55,160
Total shareholders' equity and liabilities		**1,310,552**	934,102

Approved and authorised for issue by the board of directors on 18 March 2008.

Qin Xiao, *Director*
Ma Wei Hua, *Director*

The notes on pages 139 to 230 form part of these financial statements.

BALANCE SHEET

at 31 December 2007

(Expressed in millions of Renminbi unless otherwise stated)

	Note	**2007**	2006 (restated)
Assets			
Cash and balances with banks and other financial institutions	14	**20,268**	20,831
Balances with central bank	15	**146,266**	82,372
Placements with banks and other financial institutions	16	**225,669**	88,171
Loans and advances to customers	17	**654,417**	549,420
Investments	18	**244,115**	178,885
Investment in a subsidiary	1(c)	**251**	53
Interest in an associate	19	**191**	–
Fixed assets	20	**8,675**	6,956
Deferred tax assets	21(a)	**2,162**	2,260
Other assets	22	**8,650**	5,081
Total assets		**1,310,664**	934,029
Liabilities			
Deposits from banks and other financial institutions	23	**218,520**	68,854
Placements from banks and other financial institutions	24	**46,603**	7,749
Deposits from customers	25	**943,769**	773,757
Financial liabilities at fair value through profit or loss	18(e)	**2,945**	106
Certificates of deposit issued	26(a)	**1,095**	1,170
Convertible bonds issued	26(b)	**13**	22
Other debts issued	26(c)	**9,992**	9,987
Current taxation		**2,588**	2,652
Other liabilities	27	**13,762**	11,134
Subordinated notes issued	26(d)	**3,500**	3,500
Total liabilities		**1,242,787**	878,931
Shareholders' equity			
Share capital	29	**14,705**	14,703
Capital reserve	30	**27,545**	27,536
Surplus reserve	31	**3,088**	2,377
Investment revaluation reserve	32	**(471)**	195
Regulatory general reserve	33	**9,500**	6,500
Retained profits		**7,869**	1,312
Proposed profit appropriations	34(b)	**5,641**	2,475
Total shareholders' equity		**67,877**	55,098
Total shareholders' equity and liabilities		**1,310,664**	934,029

Approved and authorised for issue by the board of directors on 18 March 2008.

Qin Xiao, *Director*
Ma Wei Hua, *Director*

The notes on pages 139 to 230 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2007

(Expressed in millions of Renminbi unless otherwise stated)

		2007							
	Note	Share capital	Capital reserve	Surplus reserve	Investment revaluation reserve	Regulatory general reserve	Retained profits	Proposed profit appropriations	Total
At 1 January 2007		14,703	27,536	2,377	195	6,500	1,374	2,475	55,160
Net profit for the year		–	–	–	–	–	15,243	–	15,243
Appropriations to statutory surplus reserve for the year 2006		–	–	711	–	–	–	(711)	–
Proposed dividends for the year 2007	34(b)	–	–	–	–	–	(4,117)	4,117	–
Dividends paid for the year 2006	34(a)	–	–	–	–	–	–	(1,764)	(1,764)
Transfer of retained profits to regulatory general reserve		–	–	–	–	3,000	(3,000)	–	–
Conversion of convertible bonds	29, 30	2	9	–	–	–	–	–	11
Realised on disposal of available-for-sale financial assets, net of deferred tax	32	–	–	–	99	–	–	–	99
Changes in fair value of available-for-sale financial assets, net of deferred tax	32	–	–	–	(765)	–	–	–	(765)
Proposed appropriations to statutory surplus reserve for the year 2007	34(b)	–	–	–	–	–	(1,524)	1,524	–
At 31 December 2007		14,705	27,545	3,088	(471)	9,500	7,976	5,641	67,984

The notes on pages 139 to 230 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2007

(Expressed in millions of Renminbi unless otherwise stated)

		2006							
	Note	Share capital	Capital reserve	Surplus reserve	Investment revaluation reserve	Regulatory general reserve	Retained profits	Proposed profit appropriations	Total
At 1 January 2006		10,374	6,095	1,591	404	3,000	2,918	1,616	25,998
Net profit for the year		–	–	–	–	–	6,794	–	6,794
H-Shares issued	29	2,420	–	–	–	–	–	–	2,420
Share premium arising from H-Shares issued	30	–	18,085	–	–	–	–	–	18,085
Appropriations to statutory surplus reserve and statutory public welfare fund for the year 2005		–	–	786	–	–	–	(786)	–
Proposed dividends									
– for the year 2005		–	–	–	–	–	(153)	153	–
– for the year 2006	34(b)	–	–	–	–	–	(1,764)	1,764	–
– special		–	–	–	–	–	(2,210)	2,210	–
Dividends for the year 2005 and special dividend paid	34(a)	–	–	–	–	–	–	(3,193)	(3,193)
Transfer of retained profits to regulatory general reserve		–	–	–	–	3,500	(3,500)	–	–
Capital reserve transferred to share capital upon issue of A-Shares	29, 30	971	(971)	–	–	–	–	–	–
Conversion of convertible bonds	29, 30	938	4,327	–	–	–	–	–	5,265
Realised on disposal of available-for-sale financial assets, net of deferred tax	32	–	–	–	(42)	–	–	–	(42)
Changes in fair value of available-for-sale financial assets, net of deferred tax	32	–	–	–	(167)	–	–	–	(167)
Proposed appropriations to statutory surplus reserve for the year 2006	34(b)	–	–	–	–	–	(711)	711	–
At 31 December 2006		14,703	27,536	2,377	195	6,500	1,374	2,475	55,160

The notes on pages 139 to 230 form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31 December 2007

(Expressed in millions of Renminbi unless otherwise stated)

	Note	2007	2006
Operating activities			
Profit before tax		**21,043**	10,084
Adjustments for:			
– Impairment losses charged on loans and advances		**3,006**	3,537
– Impairment losses charged/(released) on balances and placements with banks and other financial institutions		**152**	(91)
– Impairment losses charged on other assets		**147**	245
– Unwind of interest income on impaired loans		**(118)**	(222)
– Depreciation		**1,020**	910
– Amortisation of discount and premium of debt investments		**(1,630)**	(267)
– Amortisation of discount and premium of issued debts		**6**	7
– Write-off of loans and advances, net of recoveries		**(480)**	(270)
– Net gain on debt investments		**(43)**	(335)
– Net gain on disposal of fixed assets		**(19)**	(1)
– Interest income on debt investments		**(4,983)**	(3,652)
– Interest expense on issued debts		**439**	474
Changes in operating assets and liabilities			
Increase in balances with central bank		**(50,978)**	(18,245)
Increase in balances and placements with banks and other financial institutions with original maturity over 3 months		**(96,535)**	(6,910)
Decrease/(increase) in discounted bills		**51,560**	(4,309)
Increase in loans and advances to customers		**(159,025)**	(89,208)
(Increase)/decrease in other assets		**(2,942)**	7,362
Increase in deposits from customers		**169,777**	139,353
Increase in deposits and placements from banks and other financial institutions		**188,520**	33,356
Increase in other liabilities		**5,179**	2,812
Net cash inflow from operating activities		**124,096**	74,630
Income tax paid		**(5,625)**	(3,410)

CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31 December 2007

(Expressed in millions of Renminbi unless otherwise stated)

	Note	**2007**	2006
Investing activities			
Payment for purchase of debt investments		**(965,816)**	(157,403)
Proceeds from redemption or disposal of debt investments		**899,457**	104,685
Interest received from debt investments		**3,869**	3,526
Payment for acquisition of interest in an associate		**(191)**	–
Payment for purchase of fixed assets		**(2,975)**	(1,768)
Proceeds from sale of fixed assets		**267**	260
Net cash outflow from investing activities		**(65,389)**	(50,700)
Net cash inflow before financing activities		**53,082**	20,520
Financing activities			
Proceeds from H-Shares issuance		**–**	21,049
Cost of issuing shares, net of interest income		**–**	(544)
Proceeds from issuance of certificates of deposit		**1,119**	–
Repayment of certificates of deposit issued		**(1,142)**	–
Dividends paid		**(1,712)**	(3,160)
Interest paid on issued debts		**(431)**	(465)
Net cash (outflow)/inflow from financing activities		**(2,166)**	16,880
Net increase in cash and cash equivalents		**50,916**	37,400
Cash and cash equivalents at 1 January		**118,246**	81,490
Effect of foreign exchange rate changes		**(2,131)**	(644)
Cash and cash equivalents at 31 December	35(a)	**167,031**	118,246
Cash flows from operating activities include:			
Interest received		**43,881**	30,552
Interest paid		**16,274**	11,291

The notes on pages 139 to 230 form part of these financial statements.

(Expressed in millions of Renminbi unless otherwise stated)

1 ORGANISATION, PRINCIPAL ACTIVITIES AND DETAILS OF PRINCIPAL SUBSIDIARY

(a) Organisation

The Bank is a commercial bank incorporated in Shenzhen, the People's Republic of China (the "PRC"). With the approval of the China Securities Regulatory Commission (the "CSRC") of the PRC, the A-Shares of the Bank were listed on Shanghai Stock Exchange on 9 April 2002.

On 22 September 2006, the Bank's H-Shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited.

As at 31 December 2007, apart from the Head Office, the Bank had branches in Shenzhen, Shanghai, Beijing, Shenyang, Nanjing, Guangzhou, Wuhan, Lanzhou, Xi'an, Chengdu, Chongqing, Hangzhou, Fuzhou, Jinan, Tianjin, Dalian, Urumqi, Kunming, Hefei, Zhengzhou, Harbin, Nanchang, Changsha, Xiamen, Ningbo, Wenzhou, Wuxi, Suzhou, Hong Kong, Qingdao, Dongguan, Shaoxing, Yantai, Quanzhou, Changzhou, Taiyuan, Foshan and Hohhot. In addition, the Bank has two representative offices in Beijing and New York.

(b) Principal activities of the Bank

The Bank provides deposits taking, clearing and other related services. It also engages in the provision of credit and bills discounting, other treasury related activities; and acts as issuing agent and underwriter for government bonds.

(c) Details of the subsidiary consolidated

The particulars of the Bank's subsidiary as at 31 December 2007 are set out below.

Name of company	Place of incorporation and operation	Particulars of the issued and paid up capital *(HK$ million)*	% of ownership held by the Bank	Principal activities
CMB International Capital Corporation Limited	Hong Kong	250 (2006: 50)	100%	Investment advisory services

2 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance and basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") and its interpretations promulgated by the International Accounting Standards Board ("IASB"), and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. A summary of the significant accounting policies adopted by the Group is set out below.

The IASB has issued certain new and revised IFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Bank. Note 2(b) provides information on the changes in accounting polices resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(b) Changes in accounting policies

The IASB has issued a number of new and revised IFRSs and Interpretations that are first effective or available for early adoption for the current accounting period of the Bank and the Group.

There have been no significant changes to the accounting policies applied in these financial statements for the years presented as a result of these developments. However, as a result of the adoption of IFRS 7, *Financial instruments: Disclosures* and the amendment to International Accounting Standard ("IAS") 1, *Presentation of financial statements: Capital disclosures*, there have been some additional disclosures provided as follows:

As a result of the adoption of IFRS 7, the financial statements include expanded disclosure about the significance of the Group's financial instruments and the nature and extent of risks arising from those instruments, compared with the information previously required to be disclosed by IAS 30, *Disclosures in the financial statements of banks and similar financial institutions*, and IAS 32, *Financial instruments: Disclosure and presentation*. These disclosures are provided throughout these financial statements, in particular in note 40.

The amendment to IAS 1 introduces additional disclosure requirements to provide information about the level of capital and the Bank's and the Group's objectives, policies and processes for managing capital. These new disclosures are set out in note 40(g).

Both IFRS 7 and the amendment to IAS 1 do not have any material impact on the classification, recognition and measurement of the amounts recognised in the financial statements.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period (see note 44).

(c) Basis of measurement

Unless stated otherwise, the financial statements are presented in Renminbi ("RMB"), which is the Group's functional and presentation currency, rounded to the nearest million.

The financial statements are prepared using the historical cost basis except that financial assets and liabilities at fair value through profit or loss including derivatives, and available-for-sale assets are stated at their fair value; and certain non-financial assets are stated at deemed cost.

The preparation of the financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of IFRSs that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the subsequent period are discussed in note 41.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(d) Basis of consolidation

The financial statements include the financial statements of the Bank and its subsidiary. Subsidiary is an enterprise controlled by the Bank. Control exists when the Bank has the power, directly or indirectly, to govern the financial and operational policies of an enterprise so as to obtain benefits from its activities. The result and affairs of the subsidiary is included from the date that control commences until the date that control ceases.

The result of the subsidiary is included in the consolidated result of the Group. All significant inter company transactions and balances, and any unrealised gains or losses arising from inter company transactions, have been eliminated on consolidation.

In the Bank's balance sheet, its investment in a subsidiary is stated at cost less allowances for impairment losses.

(e) Associate

An associate is an entity in which the Group or the Bank has significant influence, but not control, or joint control, over its management, including participation in the financial and operating policy decisions.

An investment in an associate is accounted for in the consolidated financial statements under the equity method and is initially recorded at cost and adjusted thereafter for the post acquisition change in the Group's share of the associate's net assets. The consolidated income statement includes the Group's share of the post-acquisition, post-tax results of the associate for the year, including any impairment loss on goodwill relating to the investment in the associate recognised for the year (see notes 2(f) and (m)).

When the Group's share of losses exceeds its interest in the associate, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate. For these purposes, the Group's interest in the associate is the carrying amount of the investment under equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the associate.

Unrealised profits and losses resulting from transactions between the Group and its associate are eliminated to the extent of the Group's interest in the associate, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

In the Bank's balance sheet, its interest in an associate is stated at cost less impairment losses.

(f) Goodwill

Goodwill represents the excess of the cost of a business combination or an investment in an associate over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities.

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units and is tested annually for impairment (see note 2(m)). In respect of associate, the carrying amount of goodwill is included in the carrying amount of the interest in the associate.

Any excess of the Group's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over the cost of a business combination or an investment in an associate is recognised immediately in consolidated income statement.

On disposal of cash generating unit, or an associate during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(g) Intangible assets (other than goodwill)

Intangible assets are stated at cost less accumulated amortisation and impairment losses (see note 2(m)). Amortisation of intangible assets with finite useful lives is charged to the consolidated income statement on a straight-line basis over the assets' estimated useful lives (5-50 years).

Land use rights are stated at cost, amortised on a straight-line basis over the respective lease periods of 40-50 years.

Intangible assets are not amortised while their useful lives are assessed to be indefinite. The Group does not have intangible assets with useful lives assessed to be indefinite.

(h) Financial instruments

(i) Initial recognition

All financial assets and financial liabilities are recognised in the consolidated balance sheet when and only when, the Group becomes a party to the contractual provisions of the instrument. Financial assets are derecognised on the date when the contractual rights to the cash flows expire or substantially all the risks and rewards of ownership are transferred. A regular way purchase or sale of financial assets is recognised using settlement date accounting, except for derivatives which are recognised using trade date accounting.

Financial liabilities are derecognised on the date when the obligations specified in the contracts are discharged, cancelled or expire.

At initial recognition, all financial assets and liabilities are measured at fair value plus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on a valuation technique whose variables include observable market data.

The Group classifies its financial instruments into different categories at inception, depending on the purpose for which the assets were acquired or the liabilities were incurred. The categories are:

– financial assets and financial liabilities at fair value through profit or loss include those financial assets and financial liabilities held principally for the purpose of short term profit taking and those financial assets and liabilities that are designated by the Group upon recognition as at fair value through profit or loss. They are not allowed to reclassify into or out of this category which it is held or issued.

  All derivatives not qualified for hedging purposes are included in this category and are carried as assets when their fair value is positive and as liabilities when their fair value is negative;

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(h) Financial instruments *(continued)*

(i) Initial recognition *(continued)*

– Financial instruments are designated at fair value through profit or loss upon initial recognition when:

  – the assets or liabilities are managed, evaluated and reported internally on a fair value basis;

  – the designation eliminates or significantly reduces an accounting mismatch which would otherwise arise;

  – the asset or liability contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract; or

  – the separation of the embedded derivative from the financial instrument is not prohibited;

– held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Group has the positive intent and ability to hold to maturity;

– loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those that the Group intends to sell immediately or in the near term, and those that are designated as available-for-sale upon initial recognition;

– available-for-sale assets are non-derivative financial assets that are designated as available-for-sale or are not classified as financial assets at fair value through profit or loss, loans and receivables or held-to-maturity financial assets; and

– financial liabilities, other than that at fair value through profit or loss and designated at fair value through profit or loss, are measured at amortised cost using the effective interest method.

Subsequent to initial recognition, financial assets and financial liabilities are measured at fair value, without any deduction for transaction costs that may occur on sale or other disposal except for loans and receivables, held-to-maturity financial assets and financial liabilities not at fair value through profit or loss, which are measured at amortised cost using the effective interest method. Financial assets and financial liabilities that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are stated at cost.

Gains and losses from changes in the fair value of financial instruments at fair value through profit or loss are included in the consolidated income statement when they arise.

Gains and losses arising from a change in the fair value of available-for-sale assets are recognised directly in equity, except for impairment losses and foreign exchange gains and losses on monetary assets, until the financial asset is derecognised at which time the cumulative gains or losses previously recognised in equity will be recognised in the consolidated income statement.

For financial assets and liabilities carried at amortised cost, a gain or loss is recognised in the consolidated income statement when the financial asset or liability is derecognised, impaired and amortised.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(h) Financial instruments *(continued)*

(ii) Fair value measurement principles

The fair value of financial instruments is based on their quoted market price in an active market at the valuation date without any deduction for transaction costs. If a quoted market price is not available, the fair value of the instrument is estimated using pricing models referenced to the fair value of another instrument that is substantially the same (without deduction for transaction costs) or discounted cash flow techniques. Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate is a market rate at the valuation date for an instrument with similar terms and risk profile.

(iii) Hedge accounting

The Group does not have derivative financial instruments which meet the criteria for hedge accounting.

(iv) Specific instruments

Cash equivalents

Cash equivalents comprise balances with banks and the central bank, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

Placements with and takings from banks and other financial institutions

Banks represent other banks approved by the People's Bank of China (the "PBOC"). Other financial institutions represent finance companies, investment trust companies and leasing companies which are registered with and under the supervision of the China Banking Regulatory Commission (the "CBRC") and insurance companies, securities firms, and investment fund companies, etc. which are registered with and under the supervision of other regulatory authorities. Placements with banks and other financial institutions are accounted for as loans and receivables.

Investments

Equity investments are accounted for as trading or available-for-sale financial assets. Debt investments are classified as financial assets at fair value through profit or loss, held-to-maturity financial assets, loans and receivables, and available-for-sale financial assets in accordance with the Group's holding intention at acquisition.

Loans and advances

Loans and advances directly granted by the Group to customers or participation in syndicated loans are accounted for as loans and receivables.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(h) Financial instruments *(continued)*

(v) Derivative financial instruments

The Group's derivative financial instruments include spot, forward and foreign currency swaps, interest rate swaps and option contracts undertaken in response to customers' needs or for the Group's own asset and liability management purposes. To hedge against risks arising from derivative transactions undertaken for customers, the Bank enters into similar derivative contracts with other banks.

Derivative financial instruments are stated at fair value, with gains and losses arising recognised in the consolidated income statement.

(vi) Embedded derivatives

An embedded derivative is a component of a hybrid (combined) instrument that includes both the derivative and a host contract with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative. The embedded derivatives are separated from the host contract and accounted for as a derivative when (a) the economic characteristics and risks of the embedded derivative are not closely related to the host contract; and (b) the hybrid (combined) instrument is not measured at fair value with changes in fair value recognised in the consolidated income statement.

When the embedded derivative is separated, the host contract is accounted for in accordance with note 2(h)(i) above.

(i) Fixed assets and depreciation

Fixed assets, including investment properties, are stated at cost or deemed cost less accumulated depreciation. These also include land held under operating leases and buildings thereon, where the fair value of the leasehold interest in the land and buildings cannot be measured separately at the inception of the lease and the building is not clearly held under an operating lease.

Depreciation is calculated to write off the cost of fixed assets over their following estimated useful lives, after taking into account an estimated residual value at 3% of the cost of each asset, on a straight-line basis:

Land and buildings	20 years
Investment properties	20 years
Computer equipment	5 years
Motor vehicles and other equipment	5 years
Leasehold improvements	the shorter of the unexpired term of lease and the estimated useful lives, being no more than 5 years

Construction in progress represents property under construction and is stated at cost less impairment losses. Cost comprises the direct and indirect cost of construction. Construction in progress is transferred to an appropriate class of property and equipment when the asset is ready for its intended use. No depreciation is provided for construction in progress.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(i) Fixed assets and depreciation *(continued)*

The carrying amount of fixed assets is reviewed periodically in order to assess whether the recoverable amount has declined below the carrying amount. When such a decline has occurred, the carrying amount is reduced to the recoverable amount. The amount of impairment loss is recognised in the consolidated income statement. The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present values.

Subsequent expenditure relating to a fixed asset is capitalised only when it is probable that future economic benefits associated with the fixed assets will flow to the Group. All other expenditure is recognised in the consolidated income statement as an expense as incurred.

Profits or losses on disposal of fixed assets are determined as the difference between the net disposal proceeds and the carrying amount of the fixed assets and are accounted for in the consolidated income statement as they arise.

(j) Repossessed assets

In the recovery of impaired loans and advances, the Group may take possession of assets held as collateral through court proceedings or voluntary delivery of possession by the borrowers. When it is intended to achieve an orderly realisation of the impaired assets and the Group is no longer seeking repayment from the borrower, repossessed assets are reported in "other assets".

Repossessed assets are measured at the lower of the carrying value of the related loans and advances and fair value less costs to sell at the date of exchange. They are not depreciated or amortised.

Impairment losses on initial classification and on subsequent remeasurement are recognised in the consolidated income statement.

(k) Operating leases

Leases of assets under which the lessor assumes substantially all the risks and benefits of ownership are classified as operating leases. Payments made under the leases are charged to the consolidated income statement in equal instalments over the accounting periods covered by the lease term.

(l) Repurchase and resale agreements

Securities sold under repurchase agreements are considered to be, in substance, secured loans borrowed. Therefore, the amounts received are included in "Amounts due to central bank" or "Placements from banks and other financial institutions", depending on the identity of the counterparty. Conversely securities or loans purchased subject to commitment to resell are considered as loans granted, and the amounts paid are accounted for as "Balances with central bank" or "Placements with banks and other financial institutions", depending on the identity of the counterparty.

The difference between the purchase and resale consideration or sale and repurchase consideration is amortised over the period of the transaction using the effective interest method and is included in interest income or expense, as appropriate.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(m) Impairment

(i) Financial assets

Financial assets are assessed at each balance sheet date to determine whether there is any objective evidence that a financial asset or a 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 and that 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. Objective evidences include:

- significant financial difficulty of the issuer or borrower;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the borrower;
- disappearance of an active market for financial assets because of financial difficulties; and
- a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of loans and receivables and held-to-maturity investments, which are measured at amortised cost, whose recovery is considered doubtful but not remote. In this case, the impairment losses are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against loans and receivables or held-to-maturity investments directly and any amounts held in the allowance account relating to that borrower/investment are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in consolidated income statement.

Losses expected as a result of future events, no matter how likely, are not recognised because the necessary loss event has not yet occurred.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(m) Impairment *(continued)*

(i) Financial assets (continued)

Impairment losses on loans and advances

The Group uses two methods of assessing impairment losses on loans and advances: those assessed individually and those assessed on a collective basis.

– *Individually assessed*

Loans and advances which are considered individually significant are assessed individually for impairment. This includes all loans and advances in the corporate lending portfolios.

Impairment allowances are made on individually impaired loans when there is objective evidence of impairment that will impact the estimated future cash flows of the loan. Individually impaired loans and advances are graded as substandard or below.

Impairment allowances of an individually impaired loan is measured as the difference between the loan's carrying amount and the present value of estimated future cash flows discounted at the loan's original effective interest rate. The carrying amount of the loan is reduced through the use of the allowances for impairment losses.

The calculation of the present value of the estimated future cash flows of a collateralised loan or receivable reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

– *Collectively assessed*

Impairment allowances are calculated on a collective basis for the following:

– in respect of losses which have been incurred but have not yet been identified for loans subject to individual assessment for impairment; and

– for homogeneous groups of loans that are not considered individually significant, representing the retail lending portfolios.

Incurred but not yet identified impairment

If no objective evidence of impairment exists for an individually assessed loan on an individual basis, whether significant or not, the loans are grouped in a pool of loans with similar credit risk characteristics for the purpose of calculating a collective impairment allowance. This allowance covers loans that are impaired at the balance sheet date but will not be individually identified as such until some time in the future. As soon as information is available that specifically identifies objective evidence of impairment on individual loans in the pool of loans, those loans are removed from the pool. Loans 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 for impairment. The collective assessment allowance is determined after taking into account:

– the structure and risk characteristics of the Group's loan portfolio (indicating the borrower's ability to repay all loans) and the expected loss of the individual components of the loan portfolio based primarily on the historical loss experience;

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(m) Impairment *(continued)*

(i) Financial assets (continued)

Impairment losses on loans and advances *(continued)*

– *Collectively assessed (continued)*

Incurred but not yet identified impairment *(continued)*

– the emergence period between a loss occurring and that loss being identified and evidenced by the establishment of an allowance against the loss on an individual loan; and

– management's judgement as to whether the current economic and credit conditions are such that the actual level of inherent losses is likely to be greater or less than that suggested by historical experience.

Homogeneous groups of loans

Portfolios of homogeneous loans are collectively assessed using roll rate or historical loss rate methodologies. Overdue period represents the major observable objective evidence for impairment.

Impairment losses are recognised in the consolidated income statement.

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, the previously recognised impairment loss is reversed. The reversal shall not result in a carrying amount of the loan that exceeds the amortised cost at the date the impairment is reversed had the impairment not been recognised. The amount of the reversal is recognised in the consolidated income statement.

Where the loan has no reasonable prospect of recovery, the loan is written off. Amount recovered from a loan that has been written off will be recognised as income through the impairment loss account in the consolidated income statement.

Loans and receivables with renegotiated terms are loans that have been restructured due to deterioration in the borrower's financial position and where the Group has made concessions that it would not otherwise consider. Renegotiated loans and receivables are subject to ongoing monitoring to determine whether they remained as impaired or overdue.

In the recovery of impaired loans, the Group may take repossession of the collateral assets through court proceedings or voluntary delivery of repossession by the borrowers. Upon the seizure of these assets, the carrying value of the related loan principal and interest receivable are initially transferred to "Repossessed assets", and the respective allowances for impairment losses are transferred to "impairment allowance for repossessed assets". The Group does not hold the repossessed assets for own use.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(m) Impairment *(continued)*

(i) Financial assets *(continued)*

Impairment losses on available-for-sale financial assets

When a decline in the fair value of an available-for-sale financial asset has been recognised in equity and there is objective evidence that an available-for-sale financial asset is impaired, the cumulative loss that had been recognised directly in equity is removed from equity and is recognised in the consolidated income statement even though the financial assets has not been derecognised.

The amount of the cumulative loss that is recognised in the consolidated income statement is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in consolidated income statement. For an available-for-sale asset that is not carried at fair value as its fair value cannot be reliably measured, such as an unquoted equity instrument, the amount of any impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increases can be objectively related to an event occurring after the impairment loss was recognised in the consolidated income statement, the impairment loss is reversed, with the amount of the reversal being recognised in the consolidated income statement.

Impairment losses recognised in the consolidated income statement for an investment in an equity instrument classified as available-for-sale are not reversed through the consolidated income statement. Any subsequent increase in the fair value of these assets is recognised directly in equity.

(ii) Other assets

Internal and external sources of information are reviewed at balance sheet date to identify indications that other assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased.

If any such indication exists, the assets' recoverable amount is estimated. In addition, for goodwill, intangible assets that are not yet available for use and intangible assets that have indefinite useful lives, the recoverable amount is estimated at balance sheet date whether or not there is any indication of impairment.

– *Calculation of recoverable amount*

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(m) Impairment *(continued)*

(ii) Other assets (continued)

– *Recognition of impairment losses*

An impairment loss is recognised in the consolidated income statement whenever the carrying amount of an asset, or the cash-generating unit to which it belongs exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

– *Reversals of impairment losses*

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to the consolidated income statement in the year in which the reversals are recognised.

(n) Convertible bonds issued

At initial recognition the liability component of the convertible bonds issued is calculated as the present value of the future interest and principal payments, discounted at the market rate of interest applicable at the time of initial recognition to similar debt securities that do not have a conversion option. The liability component is subsequently carried at amortised cost until it is converted or redeemed. Any excess of proceeds over the amount initially recognised as the liability component is in substance an option and is recognised as the equity component in the capital reserve.

If the bond is converted into shares, the carrying value of the liability component and any interest payable at the time of conversion, are transferred to "share capital" based on the numbers of shares issued at par and the differences are recognised as share premium in capital reserve.

(o) Financial guarantee issued, provisions and contingent liabilities

(i) Financial guarantees issued

Financial guarantees are contracts that require the issuer (i.e. the guarantor) to make specified payments to reimburse the beneficiary of the guarantee (the holder) for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Where the Group issues a financial guarantee to customers, the fair value of the guarantee (being the guarantee fees received) is initially recognised as deferred income within other liabilities.

The deferred income is amortised in the income statement over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognised in accordance with note 2(o)(ii) and when (a) it becomes probable that the holder of the guarantee will call upon the Group under the guarantee, and (b) the amount of that claim on the Group is expected to exceed the amount currently carried in other liabilities in respect of that guarantee i.e. the amount initially recognised, less accumulated amortisation.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(o) Financial guarantee issued, provisions and contingent liabilities *(continued)*

(ii) Other provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(p) Income recognition

(i) Interest income

Interest income is recognised in the consolidated income statement on an accruals basis, taking into account the effective interest rate of the instrument or an applicable floating rate. Interest income includes the amortisation of any discount or premium or other differences between the initial carrying amount of any interest bearing instrument and its amount at maturity calculated on an effective interest rate basis.

When a financial asset or a group of financial assets are impaired, interest income is recognised on the impaired financial assets using the rate of interest used to discount future cash flows for the purpose of measuring the related impairment loss.

Interest income and expenses on all financial assets and liabilities that are classified as trading or designated at fair value through profit and loss are considered to be incidental and are therefore presented together with all other changes in fair value arising from the portfolio. Net income from financial instruments designated at fair value through profit or loss and net trading income comprises all gains and losses from changes in fair value (net of accrued coupon) of such financial assets and financial liabilities, together with interest income and expense, foreign exchange differences and dividend income attributable to those financial instruments.

(ii) Fee and commission income

Fee and commission income is recognised in the consolidated income statement when the corresponding service is provided.

(iii) Dividend income

– Dividend income from listed investments is recognised when the underlying investment is declared ex-dividend.

– Where the investments are unlisted, interim dividend income is recognised when declared by the Board of Directors of the investees. Final dividend income is recognised only when the amount proposed by the Board of Directors of the investees is approved by shareholders at general meetings.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(q) Taxation

(i) Income tax

Income tax in the consolidated income statement comprises current tax and movement in deferred tax. Income tax is recognised in the consolidated income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year calculated based on the Accounting Standards for Business Enterprises issued by Ministry of Finance of the PRC (the "MOF") and other relevant regulations issued by the MOF collectively and adjusted for items based on the prevailing tax laws and interpretations, using PRC tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided, using the balance sheet liability method, for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date.

When it is probable that the future taxable profit will be available to utilise the above timing differences, a deferred tax asset will be recognised. Deferred tax assets are reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the related tax benefit to be utilised.

(ii) Other taxes

Other taxes, including business tax and surcharges and property tax, are calculated at respective tax rates enacted at the balance sheet date and are included in the operating expenses.

(r) Foreign currency translations

Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated into RMB at the foreign exchange rates ruling at that date. Non-monetary assets and liabilities, and share capital which are measured at historical cost in a foreign currency are translated into RMB at the foreign exchange rates ruling at the date of the transaction, whilst those stated at fair value are translated into RMB at the foreign exchange rate ruling at the date of valuation. Income and expenses denominated in foreign currencies are translated at the exchange rates ruling at the dates of the transactions. When the gain or loss on a non-monetary item, including available-for-sale equity instrument, is recognised directly in equity, any exchange component of that gain or loss is recognised directly in equity, all other foreign exchange differences arising on settlement and translation of monetary and non-monetary assets and liabilities are recognised in the consolidated income statement.

(s) Offsetting

Financial assets and liabilities are offset and the net amount is reported in the consolidated balance sheet when the Group has a legally enforceable right to set off the recognised amounts and the transactions are intended to be settled on a net basis.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(t) Employee benefits

(i) Salaries and staff welfare

Salaries, bonus and other benefits are accrued in the period in which the associated services are rendered by employees.

(ii) Post employment benefits

The Group participates in a number of defined contribution retirement benefit schemes managed by different provincial governments or independent insurance companies. Obligation for contributions to these schemes are jointly borne by the Group and the staff, and contributions paid by the Group are recognised as an expense in the consolidated income statement as incurred.

(iii) Share-based payment

The Group offers equity incentives to its employee, namely H-share Appreciation Rights Scheme for the Senior Management ("the Scheme"). The scheme is accounted for as cash settled plan. The fair value of the equity incentives is measured at grant date using Black-Scholes model, taking into account the terms and condition upon which the equity incentives were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the equity incentives, the total estimated fair value of the equity incentives is spread over the vesting period, taking into account the probability that the equity incentives will vest.

During the vesting period, the equity incentives that is expected to vest is reviewed. Any adjustment to the cumulative fair value recognised in prior years is charged or credited to the income statement for the year of the review. On vesting date, the amount recognised as an expense is adjusted to reflect the actual amount of equity incentives that vest.

(u) Related parties

For the purposes of these financial statements, parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals (being members of key management personnel, significant shareholders and/or their close family members) or other entities and include entities which are under the significant influence of related parties of the Group where those parties are individuals, and post-employment benefit plans which are for the benefit of employees of the Group or of any entity that is a related party of the Group.

(v) Segmental reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services ("business segment") or in providing products or services within a particular economic environment ("geographical segment"), which is subject to risks and rewards that are different from those of other segments.

(Expressed in millions of Renminbi unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(w) Fiduciary activities

The Group acts in a fiduciary capacity in entrusted loan and entrusted investment business. Assets held by the Group and the related undertakings to return such assets to customers are excluded from the balance sheets as the risks and rewards of the assets reside with the customers.

(x) Dividends or profit distributions

Dividends or profit distributions are recognised as a liability in the year in which they are approved and declared.

3 INTEREST INCOME

	2007	2006
Loans and advances (note)		
– corporate loans	**25,231**	18,853
– retail loans	**8,482**	4,967
– discounted bills	**5,315**	3,071
Balances with central bank	**1,742**	1,044
Balances and placements with		
– banks	**3,652**	1,782
– other financial institutions	**550**	354
Debt investments	**6,613**	3,919
Interest income on financial assets that are not at fair value through profit or loss	**51,585**	33,990

Note: Included in the above is interest income of RMB118 million accrued on impaired loans for the year ended 31 December 2007 (2006: RMB223 million).

4 INTEREST EXPENSE

	2007	2006
Deposits from customers	**13,255**	10,449
Deposits and placements from		
– banks	**950**	424
– other financial institutions	**3,033**	1,127
Issued debts	**445**	481
Interest expense on financial liabilities that are not at fair value through profit or loss	**17,683**	12,481

(Expressed in millions of Renminbi unless otherwise stated)

5 FEE AND COMMISSION INCOME

	2007	2006
Bank cards fees	**1,896**	1,003
Remittance and settlement fees	**774**	607
Agency services fees	**2,978**	778
Commissions from credit commitment and loan business	**424**	267
Trust services fees	**696**	52
Others	**490**	281
	7,258	2,988

Note: Included above is fee and commission income earned by the Group arising from:

(i) trust and fiduciary activities where the Group holds or invests assets on behalf of its customers of RMB696 million (2006: RMB52 million).

(ii) financial assets and liabilities not carried at fair value through profit or loss (other than amount included in determining the effective interest rate) of RMB1,794 million (2006: RMB1,158 million).

6 OTHER NET INCOME

	2007	2006
Trading profits arising from		
– foreign exchange	**226**	337
– securities, derivatives and other trading activities	**267**	265
Net gain on financial instruments designated at fair value through profit or loss	**29**	49
Net loss on disposal of available-for-sale financial assets	**(4)**	(22)
Distributions from investment in funds	**53**	117
Net gain on disposal of fixed assets	**19**	1
Rental income	**64**	64
Others	**53**	32
	707	843

7 OPERATING EXPENSES

	2007	2006
Staff costs		
– salaries, bonuses and staff welfare (note (i))	**6,563**	3,872
– contributions to defined contribution retirement schemes	**720**	500
– housing allowances	**402**	386
– others	**407**	295
	8,092	5,053
Business tax and surcharges	**2,384**	1,573
Depreciation	**1,020**	910
Rental expenses	**1,078**	831
Other general and administrative expenses	**4,164**	2,724
	16,738	11,091

Notes:

(i) Performance bonus is included in the above salaries and bonuses, the details of which are disclosed in note 28(d).

(ii) Auditors' remuneration amounted to RMB6 million for 2007 (2006: RMB5 million) and non-audit service fee paid to auditors was RMB3 million for 2007 (2006: RMB1 million).

(Expressed in millions of Renminbi unless otherwise stated)

8 DIRECTORS' AND SUPERVISORS' EMOLUMENTS

The emoluments of the Directors and Supervisors during the year are as follows:

	2007					
	Directors' fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Discretionary bonuses (note (i)) RMB'000	Share-based payments (note (ii)) RMB'000	Retirement scheme contributions RMB'000	Total RMB'000
Executive directors						
Ma Wei Hua	–	4,200	4,500	193	931	9,824
Li Hao	–	2,100	2,540	96	467	5,203
Zhang Guang Hua	–	1,552	1,663	96	352	3,663
Chen Wei	–	527	777	–	74	1,378
Non-executive directors						
Qin Xiao	–	–	–	–	–	–
Wei Jia Fu	–	–	–	–	–	–
Fu Yu Ning	–	–	–	–	–	–
Li Yin Quan	–	–	–	–	–	–
Hong Xiao Yuan	–	–	–	–	–	–
Edward Ding An Hua	–	–	–	–	–	–
Sun Yue Ying	–	–	–	–	–	–
Wang Da Xiong	–	–	–	–	–	–
Fu Jun Yuan	–	–	–	–	–	–
Huang Da Zhan	–	–	–	–	–	–
Tan Yue Heng	–	–	–	–	–	–
Independent non-executive directors and supervisors						
Wu Jie Si	300	–	–	–	–	300
Song Lin	150	–	–	–	–	150
Yan Lan	150	–	–	–	–	150
Edward Chow Kwong Fai	300	–	–	–	–	300
Liu Yong Zhang	300	–	–	–	–	300
Liu Hong Xia	300	–	–	–	–	300
Lin Chu Xue	150	–	–	–	–	150
Austin Hu Chang Tau	150	–	–	–	–	150
Shi Ji Liang	600	–	–	–	–	600
Zhu Gen Lin	–	–	–	–	–	–
Chen Hao Ming	–	–	–	–	–	–
Shao Rui Qing	300	–	–	–	–	300
Dong Xian De	–	–	–	–	–	–
Li Jiang Ning	–	–	–	–	–	–
Yin Xu Wen	–	892	592	–	186	1,670
Yang Zong Jian	–	864	592	–	191	1,647
Shi Shun Hua	–	997	322	–	162	1,481
Li Yi	–	–	–	–	–	–
Lu Yu Huan	–	–	–	–	–	–
Lin Rong Guang	–	928	560	–	271	1,759
Xiang You Zhi	–	126	–	–	22	148
Zhou Wen Qiong	–	421	161	–	119	701
	2,700	12,607	11,707	385	2,775	30,174

(Expressed in millions of Renminbi unless otherwise stated)

8 DIRECTORS' AND SUPERVISORS' EMOLUMENTS *(continued)*

Notes:

(i) As at 31 December 2007, discretionary bonuses were not yet paid. The actual amount of bonuses may be adjusted upwards or downwards by 25% subject to the review and approval of the board of directors.

(ii) These represent the estimated fair value of the share option granted to Senior Management under the H-Share Appreciation Rights Scheme. The fair value of the share option is estimated in accordance to the accounting policy set out in note 2(t)(iii). The share option under this Scheme had an exercise price of HK$39.3. As at 31 December 2007, the closing price of the H-Share of the Bank was HK$31.85. Details of this Scheme are set out in note 28(e).

	2006					
	Directors' fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Discretionary bonuses RMB'000	Share-based payments RMB'000	Retirement scheme contributions RMB'000	Total RMB'000
Executive directors						
Ma Wei Hua	–	4,200	3,506	–	927	8,633
Chen Wei	–	2,100	1,753	–	311	4,164
Non-executive directors						
Qin Xiao	–	–	–	–	–	–
Wei Jia Fu	–	–	–	–	–	–
Fu Yu Ning	–	–	–	–	–	–
Li Yin Quan	–	–	–	–	–	–
Huang Da Zhan	–	–	–	–	–	–
Tan Yue Heng	–	–	–	–	–	–
Sun Yue Ying	–	–	–	–	–	–
Wang Da Xiong	–	–	–	–	–	–
Fu Jun Yuan	–	–	–	–	–	–
Independent non-executive directors and supervisors						
Wu Jie Si	172	–	–	–	–	172
Lin Chu Xue	173	–	–	–	–	173
Austin Hu Chang Tau	173	–	–	–	–	173
Edward Chow Kwong Fai	138	–	–	–	–	138
Liu Yong Zhang	138	–	–	–	–	138
Liu Hong Xia	138	–	–	–	–	138
Shi Ji Liang	263	–	–	–	–	263
Zhu Gen Lin	–	–	–	–	–	–
Chen Hao Ming	–	–	–	–	–	–
Li Yi	–	–	–	–	–	–
Lu Yu Huan	–	–	–	–	–	–
Lin Rong Guang	–	896	382	–	256	1,534
Xiang You Zhi	–	558	240	–	94	892
Zhou Wen Qiong	–	319	140	–	82	541
Shao Rui Qing	138	–	–	–	–	138
Zhang Yu Qing	35	–	–	–	–	35
Yang Jun	35	–	–	–	–	35
Lu Ren Fa	35	–	–	–	–	35
Ding Hui Ping	35	–	–	–	–	35
Wang Qi Yan	35	–	–	–	–	35
	1,508	8,073	6,021	–	1,670	17,272

(Expressed in millions of Renminbi unless otherwise stated)

8 DIRECTORS' AND SUPERVISORS' EMOLUMENTS *(continued)*

The number of the Directors and Supervisors whose emoluments are within the following bands is set out below.

RMB	**2007**	2006
Nil – 500,000	**27**	26
500,001 – 1,000,000	**2**	2
1,000,001 – 1,500,000	**2**	–
1,500,001 – 2,000,000	**3**	1
3,500,001 – 4,000,000	**1**	–
4,000,001 – 4,500,000	**–**	1
5,000,001 – 5,500,000	**1**	–
8,500,001 – 9,000,000	**–**	1
9,500,001 – 10,000,000	**1**	–
	37	31

None of the Directors and Supervisors received any inducements, or compensation for loss of office, or waived any emoluments during the year.

9 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments for the year ended 31 December 2007, 2 (2006: 2) are Directors or Supervisors whose emoluments are included in Note 8 above. The aggregate of the emoluments in respect of the five individuals during the year is as follows:

	2007 **RMB'000**	2006 RMB'000
Salaries and other emoluments	**12,180**	12,653
Discretionary bonuses	**13,920**	10,226
Share-based payments	**558**	–
Contributions to defined contribution retirement schemes	**2,741**	2,430
	29,399	25,309

The number of the five highest paid individuals whose emoluments fell within the following bands is set out below:

RMB	**2007**	2006
3,500,001 – 4,000,000	**1**	1
4,000,001 – 4,500,000	**–**	3
5,000,001 – 5,500,000	**3**	–
8,500,001 – 9,000,000	**–**	1
9,500,001 – 10,000,000	**1**	–

(Expressed in millions of Renminbi unless otherwise stated)

10 LOANS TO DIRECTORS, SUPERVISORS AND OFFICERS

Loans to Directors, Supervisors and Officers of the Bank disclosed pursuant to section 161B of the Hong Kong Companies Ordinance are as follows:

	2007	2006
Aggregate amount of relevant loans made by the Bank outstanding at year end	**7**	7
Maximum aggregate amount of relevant loans made by the Bank outstanding during the year	**16**	9

11 IMPAIRMENT LOSSES

	2007	2006
Impairment losses charged/(released) on:		
– loans and advances (Note 17(c))	**3,006**	3,537
– deposits and placements with banks and other financial institutions	**152**	(91)
– other assets	**147**	245
	3,305	3,691

12 INCOME TAX

(a) Income tax in the consolidated income statement represents:

	2007	2006
Current tax	**5,565**	3,347
Deferred tax	**235**	(57)
	5,800	3,290

(Expressed in millions of Renminbi unless otherwise stated)

12 INCOME TAX *(continued)*

(b) A reconciliation of income tax expense in the consolidated income statement and that calculated at the applicable tax rate is as follows:

	2007	2006
Profit before tax	**21,043**	10,084
Notional tax on profit before tax, calculated at the statutory tax rate of 33%	**6,944**	3,328
Add/(less) the tax effect of the following items:		
– Non-deductible expenses	**559**	198
– Non-taxable income	**(158)**	(209)
– Different income tax rates in other areas	**(1,691)**	(331)
– Effect of change in tax rate on opening deferred tax balances	**480**	–
– Others	**(334)**	304
Actual income tax expense	**5,800**	3,290

Notes:

(i) Pursuant to the approval (Cai Shui 2007 No. 63) issued by the MOF and the State Administration of Taxation on 9 April 2007, the Bank's deductible salary expense for the year ended 31 December 2007 was approved to be RMB5.47 billion (2006: RMB3.45 billion).

(ii) The income tax rates applicable to the Bank's operations in certain areas such as Shenzhen Special Economic Zone and Urumqi are 15% and 16.5% respectively during the year.

13 EARNINGS PER SHARE

Movements of the share capital are included in Note 29 of the financial statements.

(a) Basic earnings per share

The calculation of basic earnings per share is based on the net profit attributable to equity holders of the Bank and the weighted average number of shares in issue, calculated as follows:

	2007	2006
Net profit	**15,243**	6,794
Weighted average number of shares in issue (in million)	**14,704**	12,833
Basic earnings per share (in RMB)	**1.04**	0.53

(Expressed in millions of Renminbi unless otherwise stated)

13 EARNINGS PER SHARE *(continued)*

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the diluted net profit and the weighted average number of shares in issue after adjusting for the effect of all dilutive potential shares, calculated as follows:

	2007	2006
Net profit	**15,243**	6,794
Interest expense on convertible bonds issued	**1**	9
Diluted net profit	**15,244**	6,803
Weighted average number of shares in issue (in million)	**14,704**	12,833
Effect of deemed conversion of convertible bonds (in million)	**4**	60
Weighted average number of shares in issue after dilution (in million)	**14,708**	12,893
Diluted earnings per share (in RMB)	**1.04**	0.53

14 CASH AND BALANCES WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

(a) Analysed by nature

	Group		**Bank**	
	2007	2006	**2007**	2006
Cash	**6,381**	4,622	**6,373**	4,592
Balances with banks	**13,922**	16,267	**13,922**	16,267
Balances with other financial institutions	**6**	6	**6**	6
	20,309	20,895	**20,301**	20,865
Less: Impairment allowances				
– banks	**(29)**	(30)	**(29)**	(30)
– other financial institutions	**(4)**	(4)	**(4)**	(4)
	(33)	(34)	**(33)**	(34)
	20,276	20,861	**20,268**	20,831

(Expressed in millions of Renminbi unless otherwise stated)

14 CASH AND BALANCES WITH BANKS AND OTHER FINANCIAL INSTITUTIONS *(continued)*

(b) Balances with banks and other financial institutions (analysed by geographical location)

	Group and Bank	
	2007	2006
Balances with		
– banks in the Mainland	**8,870**	11,137
– other financial institutions in the Mainland	**1**	2
	8,871	11,139
Balances with		
– banks outside the Mainland	**5,024**	5,100
	13,895	16,239

(c) Movements of allowances for impairment losses (note)

	Group and Bank	
	2007	2006
As at 1 January	**34**	98
Charge for the year	**–**	1
Reversal for the year	**(1)**	–
Write-offs	**–**	(65)
As at 31 December	**33**	34

Note: The impairment loss for balances with banks and other financial institutions is individually assessed.

(d) Impaired balances with banks and other financial institutions and allowances

	Group and Bank	
	2007	2006
Gross impaired balances with banks and other financial institutions	**33**	34
Individually assessed impairment allowances	**(33)**	(34)
Net balances	**–**	–
Gross impaired balances with banks and other financial institutions as a percentage of total balances with banks and other financial institutions	**0.24%**	0.21%

(Expressed in millions of Renminbi unless otherwise stated)

15 BALANCES WITH CENTRAL BANK

	Group and Bank	
	2007	2006
Statutory deposit reserve funds	**108,342**	57,364
Surplus deposit reserve funds	**36,521**	24,702
Fiscal deposits	**1,403**	306
	146,266	82,372

The statutory deposit reserve funds are not available for the Group's daily operations. The statutory deposit reserve funds are calculated at 14.5% and 5% for eligible RMB deposits and foreign currency deposits respectively as at 31 December 2007 (2006: 9% and 4% for eligible RMB deposits and foreign currency deposits). Eligible deposits include deposits from government authorities and other organisations, fiscal deposits (other than budgets), retail deposits, corporate deposits, net credit balances of entrusted business and other deposits.

16 PLACEMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

(a) Analysed by nature

	Group and Bank	
	2007	2006
Money market placements		
– banks	**42,697**	38,843
– other financial institutions	**300**	10,390
	42,997	49,233
Balances under resale agreements (note)		
– banks	**164,356**	17,770
– other financial institutions	**18,595**	21,294
	182,951	39,064
	225,948	88,297
Less: Impairment allowances		
– banks	**(274)**	(57)
– other financial institutions	**(5)**	(69)
	(279)	(126)
	225,669	88,171

Note: Assets purchased under the above resale agreements are registered national bonds issued by the PRC government, bonds issued by the PBOC and policy banks and other debt securities of equivalent amounts.

(Expressed in millions of Renminbi unless otherwise stated)

16 PLACEMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

(continued)

(b) Analysed by original maturity

	Group and Bank	
	2007	2006
Maturing		
– within one month	**77,751**	58,813
– between one month and one year	**144,290**	27,728
– after one year	**3,628**	1,630
	225,669	88,171

(c) Analysed by geographical location

	Group and Bank	
	2007	2006
Placements with		
– banks in the Mainland	**187,071**	20,309
– other financial institutions in the Mainland	**18,890**	31,615
	205,961	51,924
Placements with		
– banks outside the Mainland	**19,708**	36,247
	225,669	88,171

(d) Movements of allowances for impairment losses

	Group and Bank					
	2007			2006		
	Collectively assessed	**Individually assessed**	**Total**	Collectively assessed	Individually assessed	Total
As at 1 January	**121**	**5**	**126**	213	36	249
Charge for the year	**157**	**–**	**157**	61	–	61
Reversal for the year	**(4)**	**–**	**(4)**	(153)	–	(153)
Write-offs	**–**	**–**	**–**	–	(31)	(31)
As at 31 December	**274**	**5**	**279**	121	5	126

(Expressed in millions of Renminbi unless otherwise stated)

16 PLACEMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

(continued)

(e) Impaired placements with banks and other financial institutions and allowances

	Group and Bank	
	2007	2006
Gross impaired placements with banks and other financial institutions	**5**	5
Individually assessed impairment allowances	**(5)**	(5)
Net balances	**–**	–
Gross impaired placements with banks and other financial institutions as a percentage of total placements with banks and other financial institutions	**–**	0.01%

17 LOANS AND ADVANCES TO CUSTOMERS

(a) Loans and advances to customers

	Group and Bank	
	2007	2006
Corporate loans	**445,865**	359,883
Discounted bills	**52,276**	103,836
Retail loans	**175,026**	101,983
Gross loans and advances to customers	**673,167**	565,702
Less: impairment allowances		
– individually-assessed	**(7,685)**	(7,873)
– collectively-assessed	**(11,065)**	(8,409)
	(18,750)	(16,282)
Net loans and advances to customers	**654,417**	549,420

(Expressed in millions of Renminbi unless otherwise stated)

17 LOANS AND ADVANCES TO CUSTOMERS *(continued)*

(b) Analysis of loans and advances to customers

(i) Analysed by legal form of borrowers:

	Group and Bank	
	2007	2006
Domestic enterprises:		
State-owned enterprises	**179,192**	142,804
Joint-stock enterprises	**56,619**	42,642
Other limited liability enterprises	**77,186**	72,608
Others	**56,831**	44,783
	369,828	302,837
Foreign-invested enterprises	**69,522**	52,391
Enterprises operating in the Mainland	**439,350**	355,228
Enterprises operating outside the Mainland	**6,515**	4,655
Corporate loans	**445,865**	359,883
Discounted bills	**52,276**	103,836
Retail loans	**175,026**	101,983
Gross loans and advances to customers	**673,167**	565,702

(Expressed in millions of Renminbi unless otherwise stated)

17 LOANS AND ADVANCES TO CUSTOMERS *(continued)*

(b) Analysis of loans and advances to customers *(continued)*

(ii) Analysed by industry sector:

	Group and Bank	
	2007	2006 (restated)
Manufacturing and processing	**132,652**	103,870
Transportation, storage and postal services	**75,827**	77,181
Wholesale and retail	**58,441**	31,003
Production and supply of electric power, gas and water	**40,901**	38,260
Property development	**43,181**	26,686
Leasing and commercial services	**29,789**	27,646
Construction	**17,145**	12,668
Mining	**10,310**	9,594
Telecommunications, computer services and software	**7,145**	7,182
Financial services	**6,952**	4,115
Others	**23,522**	21,678
Corporate loans	**445,865**	359,883
Discounted bills	**52,276**	103,836
Credit cards	**21,324**	10,146
Mortgages	**131,138**	81,383
Others	**22,564**	10,454
Retail loans	**175,026**	101,983
Gross loans and advances to customers	**673,167**	565,702

Notes:

(i) Majority of loans granted by the Bank were used in the PRC. Loans used in Hong Kong represented an insignificant portion of the gross loans portfolio (2007: 0.8%; 2006: 0.4%) and therefore no further analyses by borrower's industry sector was made.

(ii) The Bank has redefined the classification of industry sector in 2007 for better management. The comparative figures were restated accordingly.

(Expressed in millions of Renminbi unless otherwise stated)

17 LOANS AND ADVANCES TO CUSTOMERS *(continued)*

(b) Analysis of loans and advances to customers *(continued)*

(iii) Analysed by borrowers' geographical areas:

Loans and advances to customers by geographical area are classified according to the location of the counterparties after taking into account the transfer of risk. In general, risk transfer applies when a loan and advance is guaranteed by a party located in an area that is different from that of the counterparty. At 31 December 2007, over 90% of the Group's loans and advances to customers was classified under the People's Republic of China (unchanged from the positions at 31 December 2006)

(c) Movements of allowances for impairment losses

	Group and Bank			
	2007			
	Loans and advances	Impaired loans and advances		
	for which impairment losses are collectively assessed	For which impairment losses are collectively assessed	For which impairment losses are individually assessed	Total
At 1 January	8,005	404	7,873	16,282
Charge for the year (note 11)	2,551	229	1,432	4,212
Releases for the year (note 11)	–	–	(1,206)	(1,206)
Unwinding of discount	–	–	(118)	(118)
Recoveries of loans and advances previously written off	–	–	48	48
Write-offs	–	(2)	(526)	(528)
Transfers in	–	–	238	238
Exchange difference	(122)	–	(56)	(178)
At 31 December	10,434	631	7,685	18,750

(Expressed in millions of Renminbi unless otherwise stated)

17 LOANS AND ADVANCES TO CUSTOMERS *(continued)*

(c) Movements of allowances for impairment losses *(continued)*

	Group and Bank			
	2006			
	Loans and advances	Impaired loans and advances		
	for which impairment losses are collectively assessed	For which impairment losses are collectively assessed	For which impairment losses are individually assessed	Total
At 1 January	6,135	315	7,060	13,510
Charge for the year (note 11)	1,878	96	2,178	4,152
Releases for the year (note 11)	–	–	(615)	(615)
Unwinding of discount	–	–	(222)	(222)
Recoveries of loans and advances previously written off	–	–	58	58
Write-offs	–	(7)	(321)	(328)
Transfers out	–	–	(188)	(188)
Exchange difference	(8)	–	(77)	(85)
At 31 December	8,005	404	7,873	16,282

(Expressed in millions of Renminbi unless otherwise stated)

17 LOANS AND ADVANCES TO CUSTOMERS *(continued)*

(d) Loans and advances to customers and allowances for impairment losses

	Group and bank					
	2007					
	Loans and advances for which impairment losses are collectively assessed	Impaired loans and advances for which impairment losses are collectively assessed	Impaired loans and advances for which impairment losses are individually assessed	Total	Gross impaired loans and advances as a % of gross loans and advances	Fair value of collaterals held against individually assessed impaired loans and advances
Gross loans and advances to						
– financial institutions	3,660	–	7	3,667	0.19	–
– non-financial institution customers	659,113	809	9,578	669,500	1.55	1,119
	662,773	809	9,585	673,167	1.54	1,119
Less:						
Allowances for impairment losses on loans and advances to						
– financial institutions	(16)	–	(3)	(19)		
– non-financial institution customers	(10,418)	(631)	(7,682)	(18,731)		
	(10,434)	(631)	(7,685)	(18,750)		
Net loans and advances to						
– financial institutions	3,644	–	4	3,648		
– non-financial institution customers	648,695	178	1,896	650,769		
	652,339	178	1,900	654,417		

(Expressed in millions of Renminbi unless otherwise stated)

17 LOANS AND ADVANCES TO CUSTOMERS *(continued)*

(d) Loans and advances to customers and allowances for impairment losses *(continued)*

	Group and bank					
	2006					
	Loans and advances for which impairment losses are collectively assessed	Impaired loans and advances: for which impairment losses are collectively assessed	Impaired loans and advances: for which impairment losses are individually assessed	Total	Gross impaired loans and advances as a % of gross loans and advances	Fair value of collaterals held against individually assessed impaired loans and advances
Gross loans and advances to						
– financial institutions	10,094	–	–	10,094	–	–
– non-financial institution customers	543,602	557	11,449	555,608	2.16	2,289
	553,696	557	11,449	565,702	2.12	2,289
Less:						
Allowances for impairment losses on loans and advances to						
– financial institutions	(41)	–	–	(41)		
– non-financial institution customers	(7,964)	(404)	(7,873)	(16,241)		
	(8,005)	(404)	(7,873)	(16,282)		
Net loans and advances to						
– financial institutions	10,053	–	–	10,053		
– non-financial institution customers	535,638	153	3,576	539,367		
	545,691	153	3,576	549,420		

The collaterals of the Bank included cash deposit, shares, land use right, property, motor vehicles and equipment, etc. The fair value of collaterals was estimated by management based on the latest available external valuations adjusted by taking into account the current realisation experience as well as market situation.

(Expressed in millions of Renminbi unless otherwise stated)

18 INVESTMENTS

	Group		Bank	
	2007	2006	**2007**	2006
Financial assets at fair value through profit or loss (Note 18(a))	**10,838**	7,960	**10,830**	7,960
Available-for-sale investments (Note 18(b))	**142,116**	109,476	**142,116**	109,476
Held-to-maturity debt securities (Note 18(c))	**74,632**	54,065	**74,632**	54,065
Receivables (Note 18(d))	**16,537**	7,384	**16,537**	7,384
	244,123	178,885	**244,115**	178,885

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

	Group		Bank	
	2007	2006	**2007**	2006
(i) Trading assets				
Listed/quoted				
In the Mainland				
– PRC government bonds	**340**	11	**340**	11
– bonds issued by the PBOC	**986**	1,993	**986**	1,993
– bonds issued by policy banks	**2,146**	1,512	**2,146**	1,512
– other debt securities	**2,932**	1,360	**2,932**	1,360
Outside the Mainland				
– other debt securities	**788**	–	**788**	–
– equity investments	**8**	–	**–**	–
	7,200	4,876	**7,192**	4,876
Unlisted/unquoted				
Outside the Mainland				
– other debt securities	**100**	–	**100**	–
	7,300	4,876	**7,292**	4,876
Derivative financial instruments (Note 40(h))	**3,293**	203	**3,293**	203
	10,593	5,079	**10,585**	5,079

(Expressed in millions of Renminbi unless otherwise stated)

18 INVESTMENTS *(continued)*

(a) Financial assets at fair value through profit or loss *(continued)*

	Group		Bank	
	2007	2006	**2007**	2006
(ii) Financial assets designated at fair value through profit or loss				
Listed/quoted				
In the Mainland				
– PRC government bonds	**245**	2,441	**245**	2,441
– bonds issued by policy banks	**–**	440	**–**	440
	245	2,881	**245**	2,881
	10,838	7,960	**10,830**	7,960

	Group		Bank	
	2007	2006	**2007**	2006
Financial assets at fair value through profit or loss (excluding derivative financial instruments)				
Issued by:				
Sovereigns	**1,571**	4,445	**1,571**	4,445
Banks and other financial institutions	**2,836**	1,952	**2,836**	1,952
Public sector entities	**198**	–	**198**	–
Corporates	**2,940**	1,360	**2,932**	1,360
	7,545	7,757	**7,537**	7,757

(Expressed in millions of Renminbi unless otherwise stated)

18 INVESTMENTS *(continued)*

(b) Available-for-sale investments

	Group and Bank	
	2007	2006
Listed/quoted		
In the Mainland		
– PRC government bonds	**6,858**	7,387
– bonds issued by the PBOC	**53,338**	38,748
– bonds issued by policy banks	**45,763**	20,950
– other debt securities	**25,109**	13,822
Outside the Mainland		
– other debt securities	**9,325**	8,879
– investments in funds	**–**	6,914
	140,393	96,700
Unlisted/unquoted		
In the Mainland		
– bonds issued by the PBOC	**–**	4,951
– bonds issued by policy banks	**–**	5,461
– other debt securities	**401**	401
– equity investments	**38**	38
Outside the Mainland		
– other debt securities	**1,141**	1,915
– equity investments	**143**	10
	1,723	12,776
	142,116	109,476

(Expressed in millions of Renminbi unless otherwise stated)

18 INVESTMENTS *(continued)*

(b) Available-for-sale investments *(continued)*

	Group and Bank	
	2007	2006
Issued by:		
Sovereigns	**60,475**	51,086
Banks and other financial institutions	**56,282**	45,333
Public sector entities	**1,970**	1,085
Corporates	**23,389**	11,972
	142,116	109,476

(c) Held-to-maturity debt securities

	Group and Bank	
	2007	2006
Listed/quoted		
In the Mainland		
– PRC government bonds	**16,444**	13,773
– bonds issued by the PBOC	**10,810**	2,270
– bonds issued by policy banks	**34,582**	28,626
– other debt securities	**4,042**	3,511
Outside the Mainland		
– other debt securities	**8,754**	5,885
	74,632	54,065
Issued by:		
Sovereigns	**31,923**	16,072
Banks and other financial institutions	**39,594**	33,762
Public sector entities	**849**	1,435
Corporates	**2,266**	2,796
	74,632	54,065
Fair value	**74,037**	54,335

(Expressed in millions of Renminbi unless otherwise stated)

18 INVESTMENTS *(continued)*

(d) Receivables

	Group and Bank	
	2007	2006
Unlisted/unquoted		
In the Mainland		
– PRC government bonds	**7,962**	5,506
– bonds issued by the PBOC	**8,000**	–
– other debt securities	**50**	–
Outside the Mainland		
– other debt securities	**525**	1,878
	16,537	7,384
Issued by:		
Sovereigns	**15,962**	5,710
Banks and other financial institutions	**282**	1,362
Corporates	**293**	312
	16,537	7,384

Receivables are unlisted/unquoted bearer's national bonds issued by the PRC government and other debt investments which are not quoted in an active market in the PRC or overseas. Accordingly, the Group is unable to disclose their market values. The Group considers the recoverable amounts from these assets upon their maturities are the same as their carrying values and no provision for impairment losses is required.

(e) Financial liabilities at fair value through profit or loss

	Group and Bank	
	2007	2006
Derivative financial instruments (Note 40(h))	**2,945**	106

(f) In November 2007, the Bank entered into an agreement with two independent third parties to acquire 10% equity interest in Taizhou Commercial Bank ("TCB") for a total consideration of RMB272.1 million. As of 31 December 2007, the proposed acquisition has yet to be approved by the CBRC.

Upon completion of the transaction, the Group's investment in TCB will be recognised as an available-for-sale investment and will be accounted for in the consolidated financial statements in accordance with IFRSs.

(Expressed in millions of Renminbi unless otherwise stated)

19 INTEREST IN AN ASSOCIATE

	Group		Bank	
	2007	2006	**2007**	2006
Unlisted shares, at cost	**–**	–	**191**	–
Share of net assets	**111**	–	**–**	–
Goodwill	**114**	–	**–**	–
	225	–	**191**	–

The following list contains only the particulars of an associate as of 31 December 2007, which is an unlisted corporate entity and principally affected the results or assets of the Group:

Name of associate	Form of business structure	Place of incorporation and operation	Particulars of issued and paid up capital	Proportion of ownership interest: Group's effective interest	Proportion of ownership interest: Held by the bank	Principal activity
China Merchants Fund Management Company Limited	Incorporated	Shenzhen	210	33.4%	33.4%	Asset management

Summary financial information on associate

	Assets	Liabilities	Equity	Revenues	Profit/(loss)
2007					
100 per cent	**525**	**192**	**333**	**595**	**203**
Group's effective interest	**175**	**64**	**111**	**93**	**38**

(Expressed in millions of Renminbi unless otherwise stated)

20 FIXED ASSETS

2007

	Group						
	Land and buildings	Investment properties (note 20(b))	Construction in progress (note 20(c))	Computer equipment	Leasehold improvements	Motor vehicles and other equipment	Total
Cost:							
At 1 January 2007	4,558	584	766	3,014	1,411	1,013	11,346
Additions	48	–	1,154	1,162	366	245	2,975
Transfers	543	(53)	(508)	–	25	2	9
Disposals/write-offs	(84)	–	(1)	(348)	(1)	(58)	(492)
At 31 December 2007	5,065	531	1,411	3,828	1,801	1,202	13,838
Accumulated depreciation:							
At 1 January 2007	1,153	146	–	1,633	761	647	4,340
Depreciation	229	28	–	461	174	128	1,020
Transfers	37	(37)	–	–	–	–	–
Written back on disposals/write-offs	(34)	–	–	(167)	–	(43)	(244)
At 31 December 2007	1,385	137	–	1,927	935	732	5,116
Net book value:							
At 31 December 2007	3,680	394	1,411	1,901	866	470	8,722

(Expressed in millions of Renminbi unless otherwise stated)

20 FIXED ASSETS *(continued)*

2006

	Group						
	Land and buildings	Investment properties (note 20(b))	Construction in progress (note 20(c)) (restated)	Computer equipment	Leasehold improvements	Motor vehicles and other equipment	Total (restated)
Cost:							
At 1 January 2006	4,086	558	742	2,673	1,120	910	10,089
Additions	83	–	610	694	218	163	1,768
Transfers	491	26	(581)	–	73	–	9
Disposals/write-offs	(102)	–	(5)	(353)	–	(60)	(520)
At 31 December 2006	4,558	584	766	3,014	1,411	1,013	11,346
Accumulated depreciation:							
At 1 January 2006	986	100	–	1,423	610	572	3,691
Depreciation	195	46	–	396	151	122	910
Written back on disposals/write-offs	(28)	–	–	(186)	–	(47)	(261)
At 31 December 2006	1,153	146	–	1,633	761	647	4,340
Net book value:							
At 31 December 2006	3,405	438	766	1,381	650	366	7,006

(Expressed in millions of Renminbi unless otherwise stated)

20 FIXED ASSETS *(continued)*

2007

	Bank						
	Land and buildings	Investment properties (note 20(b))	Construction in progress (note 20(c))	Computer equipment	Leasehold improvements	Motor vehicles and other equipment	Total
Cost:							
At 1 January 2007	4,542	552	766	3,013	1,410	1,013	11,296
Additions	48	–	1,154	1,160	364	244	2,970
Transfers	543	(53)	(508)	–	25	2	9
Disposals/write-offs	(83)	–	(1)	(348)	(1)	(58)	(491)
At 31 December 2007	5,050	499	1,411	3,825	1,798	1,201	13,784
Accumulated depreciation:							
At 1 January 2007	1,153	146	–	1,633	761	647	4,340
Depreciation	228	27	–	460	171	127	1,013
Transfers	37	(37)	–	–	–	–	–
Written back on disposals/write-offs	(34)	–	–	(167)	–	(43)	(244)
At 31 December 2007	1,384	136	–	1,926	932	731	5,109
Net book value:							
At 31 December 2007	3,666	363	1,411	1,899	866	470	8,675

(Expressed in millions of Renminbi unless otherwise stated)

20 FIXED ASSETS *(continued)*

2006

	Bank						
	Land and buildings	Investment properties (note 20(b))	Construction in progress (note 20(c)) (restated)	Computer equipment	Leasehold improvements	Motor vehicles and other equipment	Total (restated)
Cost:							
At 1 January 2006	4,069	526	742	2,673	1,120	910	10,040
Additions	83	–	610	693	217	161	1,764
Transfers	491	26	(581)	–	73	–	9
Disposals/write-offs	(101)	–	(5)	(353)	–	(58)	(517)
At 31 December 2006	4,542	552	766	3,013	1,410	1,013	11,296
Accumulated depreciation:							
At 1 January 2006	986	100	–	1,423	610	572	3,691
Depreciation	195	46	–	396	151	122	910
Written back on disposals/write-offs	(28)	–	–	(186)	–	(47)	(261)
At 31 December 2006	1,153	146	–	1,633	761	647	4,340
Net book value:							
At 31 December 2006	3,389	406	766	1,380	649	366	6,956

(Expressed in millions of Renminbi unless otherwise stated)

20 FIXED ASSETS *(continued)*

(a) Analysed by remaining terms of leases

The net book value of land and buildings, and investment properties at the balance sheet date is analysed by the remaining terms of the leases as follows:

	Group		Bank	
	2007	2006	**2007**	2006
Held in the Mainland				
– long leases (over 50 years)	**552**	467	**507**	419
– medium-term leases (10 – 50 years)	**3,472**	3,309	**3,472**	3,309
	4,024	3,776	**3,979**	3,728
Held in Hong Kong				
– medium-term leases (10 – 50 years)	**50**	67	**50**	67
	4,074	3,843	**4,029**	3,795

(b) Investment properties mainly represent the portion of the Bank's headquarters in Shenzhen that has been leased out under operating leases or is available for lease. As at 31 December 2007, fair value of these properties was RMB1.04 billion (2006: RMB0.75 billion). The Group's total future minimum lease payments under non-cancellable operating leases are receivables as follows:

	Group and Bank	
	2007	2006
1 year or less	**54**	41
5 years or less but over 1 year	**82**	48
Over 5 years	**2**	–
	138	89

(c) For the year ended 31 December 2007, the amortisation of the land use right of RMB8.65 million was capitalised as the cost of the properties built on the land (2006: RMB8.65 million). Upon completion of the construction, the property will be transferred to relevant asset categories based on the intention of usage.

(Expressed in millions of Renminbi unless otherwise stated)

20 FIXED ASSETS *(continued)*

(d) As at 31 December 2007, the Directors considered that there was no impairment loss on fixed assets (2006: nil).

(e) As at 31 December 2007, ownership documentation for the Group's properties with a net carrying value of RMB199 million (2006: RMB539 million) was being finalised.

21 DEFERRED TAX

(a) Recognised deferred tax assets

The components of deferred tax assets/(liabilities) are as follows:

	Group and Bank	
	2007	2006
Impairment losses on loans and advances to customers and other assets	**2,038**	2,384
Investment revaluation reserve	**103**	(34)
Deductible salary expenses	**144**	–
Others	**(123)**	(90)
	2,162	2,260

(Expressed in millions of Renminbi unless otherwise stated)

21 DEFERRED TAX *(continued)*

(b) Movements of deferred tax

	Group and Bank				
	Impairment losses on loans and advances to customers and other assets	**Investment revaluation reserve**	**Deductible salary expenses**	**Others**	**Total**
At 1 January 2007	**2,384**	**(34)**	**–**	**(90)**	**2,260**
Recognised in the consolidated income statement	**(346)**	**–**	**144**	**(33)**	**(235)**
– due to timing differences	**116**	**–**	**144**	**(15)**	**245**
– due to income tax rate change	**(462)**	**–**	**–**	**(18)**	**(480)**
Recognised in reserves	**–**	**137**	**–**	**–**	**137**
– due to timing differences	**–**	**144**	**–**	**–**	**144**
– due to income tax rate change	**–**	**(7)**	**–**	**–**	**(7)**
At 31 December 2007	**2,038**	**103**	**144**	**(123)**	**2,162**
At 1 January 2006	2,292	(71)	–	(55)	2,166
Recognised in the consolidated income statement	366	–	–	(35)	331
Recognised in reserves	–	37	–	–	37
Write-offs	(274)	–	–	–	(274)
At 31 December 2006	2,384	(34)	–	(90)	2,260

On 16 March 1007, the Fifth Plenary Session of the Tenth National People's Congress passed the Corporate Income Tax Law of the People's Republic of China ("new tax law") which will take effect on 1 January 2008. As a result of the new tax law, the income tax rate applicable to the Bank's business in areas other than Shenzhen will be reduced from 33% to 25% from 1 January 2008; the income tax rate for the Bank's business in Shenzhen will gradually increase from 15% to the standard rate of 25% over a five-year transition period (being 18% in 2008, 20% in 2009, 22% in 2010, 24% in 2011 and 25% in 2012).

(Expressed in millions of Renminbi unless otherwise stated)

22 OTHER ASSETS

	Group		Bank	
	2007	2006 (restated)	**2007**	2006 (restated)
Interest receivable				
– debt securities	**2,737**	1,623	**2,737**	1,623
– loans and advances to customers	**1,595**	952	**1,595**	952
– others	**561**	231	**561**	231
	4,893	2,806	**4,893**	2,806
Amounts pending for settlement	**153**	937	**153**	937
Repossessed assets (note)	**111**	390	**111**	390
Prepaid lease payments	**156**	125	**156**	125
Capital injection for establishment of a finance lease company	**2,000**	–	**2,000**	–
Others	**1,379**	869	**1,337**	823
	8,692	5,127	**8,650**	5,081

Note: During the year ended 31 December 2007, the Group has taken possession of collateral it holds as security with the nature and carrying amounts analysed as follows:

	Group and Bank	
	2007	2006
Nature		
Residential properties	**886**	1,179
Others	**361**	496
	1,247	1,675
Less: Impairment allowances	**(1,136)**	(1,285)
	111	390

Repossessed assets obtained are intended for an orderly realisation of the impaired loans and advances and are not intended for the own use of the Group.

23 DEPOSITS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	Group and Bank	
	2007	2006
Deposits from banks	**6,951**	5,636
Deposits from other financial institutions	**211,569**	63,218
	218,520	68,854

(Expressed in millions of Renminbi unless otherwise stated)

24 PLACEMENTS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

(a) Analysed by nature

	Group and Bank	
	2007	2006
Money market takings		
– banks	**5,555**	1,512
Balances under repurchase agreements (note)		
– banks	**21,922**	2,056
– other financial institutions	**19,126**	1,076
	41,048	3,132
Rediscounted bills	**–**	3,105
	46,603	7,749

Note: Assets sold under the above repurchase agreements are registered national bonds issued by the PRC government, bonds issued by policy banks and other debt securities of equivalent amounts.

(Expressed in millions of Renminbi unless otherwise stated)

24 PLACEMENTS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

(continued)

(b) Analysed by geographical location

	Group and Bank	
	2007	2006
Money market takings		
– banks in the Mainland	**5,555**	1,356
– banks outside the Mainland	**–**	156
	5,555	1,512
Balances under repurchase agreements		
– banks in the Mainland	**21,922**	2,056
– other financial institutions in the Mainland	**14,728**	1,076
– other financial institutions outside the Mainland	**4,398**	–
	41,048	3,132
Rediscounted bills		
– banks in the Mainland	**–**	2,805
– other financial institutions in the Mainland	**–**	300
	–	3,105
	46,603	7,749

(Expressed in millions of Renminbi unless otherwise stated)

25 DEPOSITS FROM CUSTOMERS

	Group		Bank	
	2007	2006	**2007**	2006
Demand deposits				
– corporate customers	**350,951**	257,235	**351,008**	257,235
– retail customers	**190,697**	152,449	**190,697**	152,449
	541,648	409,684	**541,705**	409,684
Time deposits				
– corporate customers	**266,050**	204,563	**266,228**	204,563
– retail customers	**135,836**	159,510	**135,836**	159,510
	401,886	364,073	**402,064**	364,073
	943,534	773,757	**943,769**	773,757

26 ISSUED DEBT SECURITIES

(a) Certificates of deposit issued

On 1 November 2007, the Bank issued 1-year certificates of deposit at a nominal value of US$150 million with interest at LIBOR + 0.15% per annum payable quarterly.

(b) Convertible bonds issued

On 10 November 2004, the Bank issued a 5-year convertible bond with a nominal value of RMB6,500 million. The interest rates are 1.0% for the first year, 1.375% for the second year, 1.75% for the third year, 2.125% for the forth year and 2.5% for the fifth year, payable on 10 November each year. The convertible bonds can be converted into the Bank's shares at the holder's option at RMB9.34 per share during the period from 10 May 2005 to 10 November 2009. Upon maturity, an additional 6% interest will be given to bond holders who have not converted the bonds into shares.

The conversion price of the bonds was revised from RMB9.34 per share to RMB6.23 per share with effect from 17 June 2005 following the issue of bonus shares by the Bank in 2005.

The conversion price of the bonds has been further revised from RMB6.23 per share to RMB5.74 per share with effect from 24 February 2006 following the issue of bonus shares by the Bank in 2006.

On 25 September 2006, the convertible bonds of the Bank in circulation were less than RMB30 million. Pursuant to the relevant requirements, the convertible bonds were suspended for trading with effect from 29 September 2006. Holders of convertible bonds can convert the bonds into share anytime before the conversion period expires.

(Expressed in millions of Renminbi unless otherwise stated)

26 ISSUED DEBT SECURITIES *(continued)*

(b) Convertible bonds issued *(continued)*

The Bank has an early redemption option which commences six months after the bonds' issue date and lapses on the maturity date. During that period, the Bank may redeem any outstanding convertible bonds at 103% of the nominal value of the convertible bonds plus the accrued interest if the closing price of the Bank's listed A-Shares is more than 125% of the then applicable conversion price for 20 consecutive business days.

During the final year before the maturity date of the convertible bonds, if the last traded price of the Bank's listed A-Shares falls below 75% of the conversion price for 20 consecutive trading days, the bond holders can exercise the put option to sell to the Bank all or a portion of the outstanding bonds at 108.5% of the nominal value of the convertible bonds plus accrued interest.

Details of the convertible bonds are as follows:

	Group and Bank	
	2007	2006
Initial recognition:		
– Nominal value	**6,500**	6,500
– Issuance cost	**(65)**	(65)
– Equity component	**(918)**	(918)
Liability component at issue date	**5,517**	5,517
Accretion	**235**	234
Amounts converted to shares	**(5,739)**	(5,729)
Liability component as at 31 December	**13**	22

(c) Other debts issued

Particulars	**Terms**	**Date of issue**	**Annual Fixed Interest Rate** (%)	**Nominal value** (in million)
Fixed term notes	36 months	From 13 October 2005 to 26 October 2005	2.13	5,000
Fixed term notes	60 months	From 13 October 2005 to 26 October 2005	2.56	5,000

The CBRC and the PBOC approved the Bank's issuance of a total of RMB15,000 million fixed term notes on 29 September 2005 (Yin Jian Fu [2005] No. 252) and 9 October 2005 (Yin Fu [2005] No. 75). The Bank issued a total of RMB10,000 million fixed rate term notes during the period from 13 October 2005 to 26 October 2005. Interest on these notes is payable annually.

(Expressed in millions of Renminbi unless otherwise stated)

26 ISSUED DEBT SECURITIES *(continued)*

(d) Subordinated notes issued

Particulars	Terms	Date of issue	Annual fixed interest rate (%)	Nominal value (in million)
Fixed rate notes	61 months	31 March 2004 and 10 June 2004	4.59 to 5.1	3,500

The CBRC approved the Bank's issuance of RMB3,500 million subordinated notes on 30 March 2004 (Yin Jian Fu [2004] No. 36), and the amount has been included as supplementary capital in calculating the Bank's capital adequacy ratio. Interest on the subordinated notes is payable annually.

27 OTHER LIABILITIES

	Group		Bank	
	2007	2006	**2007**	2006
Interest payable	**4,428**	3,450	**4,428**	3,450
Clearing and settlement accounts	**869**	1,873	**869**	1,873
Salaries and welfare payable (Note 28)	**3,599**	2,751	**3,599**	2,751
Deferred interest income on discounted bills	**1,466**	1,014	**1,466**	1,014
Business tax and surcharges payable	**1,077**	757	**1,077**	757
Cheques and remittances returned	**273**	123	**273**	123
Payment and collection account	**557**	364	**557**	364
Others	**1,509**	813	**1,493**	802
	13,778	11,145	**13,762**	11,134

28 STAFF WELFARE SCHEME

(a) Welfare payable

Prior to 1 January 2007, this included statutory welfare payable, which is accrued based on 14% of the total salaries. Effective from 1 January 2007, the Group is no longer required to make accrual for statutory welfare payable following the issuance of "Financial Rules for Banking and Finance Enterprises" [Order (2006) No. 42].

28 STAFF WELFARE SCHEME *(continued)*

(b) Retirement benefits

(i) Defined contribution schemes

In accordance with the regulations in the PRC, the Group participates in statutory retirement schemes organised by the municipal and provincial governments for its employees. The Group's contributions to the schemes are determined by local governments and vary at a range of 8% to 35% (2006: 8% to 35%) of the staff salaries.

In addition to the above statutory retirement schemes, the Group has established a supplementary defined contribution plan for its employees. The Group's annual contributions to this plan are determined based on 8.33% of the staff salaries since 1 January 2004. The Group's total contributions during the year are disclosed in Note 7.

(ii) Supplementary retirement scheme

In 2007, the Group purchased annuity contract with total premiums of RMB700 million (2006: RMB500 million) from independent life insurance companies to provide supplementary defined contribution retirement benefits to its full-time employees on payroll as of the year end date. New employees who join the Group after respective year ends are not eligible for this benefit. These were voluntary payments and the Group has no further obligations to make future contributions.

The Group has no other material obligations for the payment of other post retirement benefits other than the contributions described above.

(c) Staff quarters

The Group purchases quarters by using the public welfare fund, and leases to the staff at market rates on short term basis. Rental income is recognised in the consolidated income statement as other net income.

(d) Staff incentive scheme

The Group has implemented a staff performance bonus scheme during the years ended 31 December 2007 and 2006. The performance bonus was accrued at a fixed percentage based on the growth in net profit for the year as approved by the board of directors.

(Expressed in millions of Renminbi unless otherwise stated)

28 STAFF WELFARE SCHEME *(continued)*

(e) Cash settled share-based transactions

The Group has a H-share Appreciation Rights Scheme for the Senior Management which was adopted on 30 October 2007 whereby the directors of the Group are authorized, at their discretion, to invite the Senior Management of the Group to take up options at nil consideration to subscribe for shares of the Group. The options vest after 2 years from the date of grant and then exercisable within a period of 8 years. Each of the share appreciation right is linked to one H-share.

(i) The terms and conditions of the grants that existed during the years are as follows, whereby all options are settled by delivery of cash:

	Number of instruments (in million)	**Vesting conditions**	**Contractual life of options**
Options granted on 30 October 2007	1.29	2 years from the date of grant	10 years

(ii) The number and weighted average exercise prices of share options are as follows:

	2007		2006	
	Weighted average exercise price (HK$)	**Number of options (in million)**	Weighted average exercise price (HK$)	Number of Options (in million)
Outstanding as at the beginning of the year	**–**	**–**	–	–
Exercise during the year	**–**	**–**	–	–
Granted during the year	**39.3**	**1.29**	–	–
Outstanding at the end of the year	**39.3**	**1.29**	–	–
Exercisable at the end of the year	**–**	**–**	–	–

The weighted average share price at the date of exercise for shares options exercised during the year was HK$39.3 (2006: not applicable).

The options outstanding at 31 December 2007 had an exercise price of HK$39.3 (2006: not applicable) and a weighted average remaining contractual life of 9.83 years (2006: not applicable).

(Expressed in millions of Renminbi unless otherwise stated)

28 STAFF WELFARE SCHEME *(continued)*

(e) Cash settled share-based transactions *(continued)*

(iii) Fair value of share options and assumptions

The fair value of services received in return for share options granted are measured by reference to the fair value of share options granted. The estimate of the fair value of the share option granted is measured based on the Black-Scholes model. The contractual life of the option is used as an input into this model.

	2007	2006
Fair value at measurement date (in RMB)	**12.84**	–
Share price (in HKD)	**31.85**	–
Exercise price (in HKD)	**39.30**	–
Expected volatility	**32%**	–
Option life	**9.83 years**	–
Expected dividends rate	**1.36%**	
Risk-free interest rate	**3.93%**	–

The expected volatility is based on the historic volatility (calculated based on the weighted average remaining life of the share options), adjusted for any expected changes to future volatility based on publicly available information. Expected dividends are based on historical dividends. Changes in the subjective input assumptions could materially affect the fair value estimate.

Share options were granted under a service condition. This condition has not been taken into account in the grant date fair value measurement of the services received. There were no market conditions associated with the share option grants.

(Expressed in millions of Renminbi unless otherwise stated)

29 SHARE CAPITAL

	Group and Bank	
	Registered and issued share capital	
	No. of shares (in million)	**Amount**
At 1 January 2007	**14,703**	**14,703**
Conversion of convertible bonds	**2**	**2**
At 31 December 2007	**14,705**	**14,705**
At 1 January 2006	10,374	10,374
Bonus shares issued	971	971
Conversion of convertible bonds	938	938
H-shares issued	2,420	2,420
At 31 December 2006	14,703	14,703

By type of share:

	Group and Bank	
	No. of shares (in million)	
	2007	2006
Listed shares		
– A-Shares – with trading moratorium	**7,331**	7,331
– A-Shares – without trading moratorium	**4,712**	4,710
– H-Shares	**2,662**	2,662
	14,705	14,703

On 24 February 2006, bonus shares were issued at a ratio of 0.8589 bonus shares for every 10 A-Shares of the Bank by capitalisation of an amount of RMB971 million from the capital reserve. In addition, the Bank issued 938 million A-Shares upon conversion of the convertible bonds of RMB5,169 million during the year ended 31 December 2006, resulting in the increase in share capital and capital reserve of RMB938 million and RMB4,327 million respectively.

On 22 September 2006, a total of 2,200 million H-Shares with a par value of RMB1 each were issued by the Bank at a subscription price of HK$8.55 per share as part of the Initial Public Offering.

On 27 September 2006, a total of 220 million H-Shares with a par value of RMB1 each were issued by the Bank at a subscription price of HK$8.55 per share as a result of the exercise of the over-allotment option.

(Expressed in millions of Renminbi unless otherwise stated)

29 SHARE CAPITAL *(continued)*

As a result of the Initial Public Offering and the exercise of the over-allotment option, a total of 242 million A-Shares, representing 10% of the number of H-Shares issued by the Bank were converted into H-Shares of equivalent value and transferred to Social Security Fund from state-owned shareholders of the Bank at no consideration. These H-Shares were eligible for trading since 5 October 2006.

As a result of the above events in 2006, the Bank's registered and issued capital increased from RMB10,374 million to RMB14,703 million.

The Bank issued 2 million A-Shares upon conversion of the convertible bonds of RMB10 million during the year ended 31 December 2007, resulting in the increase in share capital and capital reserve of RMB2 million and RMB9 million respectively. The Bank's registered and issued capital increased from RMB14,703 million to RMB14,705 million.

All H-Shares are ordinary shares and rank pari passu with the A-Shares.

30 CAPITAL RESERVE

The capital reserve primarily represents share premium and equity component of the convertible bonds issued by the Bank. The capital reserve can be used to issue shares with the shareholders' approval.

The share premium arising from issuing H-Shares in 2006 is as follows:

	Group and Bank
	2006
Gross proceeds upon issue of H-Shares	21,049
Shares at par value	(2,420)
Share premium before costs of issuing shares	18,629
Cost of issuing shares	(544)
Share premium recognised in capital reserve	18,085

31 SURPLUS RESERVE

Surplus reserve includes statutory surplus reserve and statutory public welfare fund.

Statutory surplus reserve is calculated according to the requirements of the Accounting Standards for Business Enterprises (2006) and other relevant regulations issued by the MOF and is provided at 10% of the audited profit after tax, until the reserve balance is equal to 50% of the Bank's registered share capital. Surplus reserve can be used to offset accumulated losses or capitalised as paid-up capital with the approval of shareholders.

The purpose of statutory public welfare fund is to provide staff facilities and other staff benefits. It is not distributable other than in liquidation.

(Expressed in millions of Renminbi unless otherwise stated)

32 INVESTMENT REVALUATION RESERVE

Investment revaluation reserve has been accounted for in accordance with the accounting policies adopted for the measurement of the available-for-sale financial assets at fair value, net of deferred tax.

33 REGULATORY GENERAL RESERVE

Pursuant to the "Administrative Measures on Provisioning for Doubtful Debts by Financial Institutions" (Cai Jin 2005 No. 49) issued by the MOF on 17 May 2005 and other related rules, the Group sets up a regulatory general reserve calculated as a percentage of the total risk assets at the balance sheet date, through a transfer directly from the retained profits, to cover its potential losses that are not yet incurred. The regulatory general reserve forms part of the equity of the Group.

34 PROFIT APPROPRIATIONS

(a) Dividends declared and paid

	2007	2006
Dividends in respect of the previous year, approved, declared and paid during the year of RMB1.2 (2006: RMB0.8) per every 10 shares	**1,764**	983
Special dividend of nil (2006: RMB1.8) per every 10 shares	**–**	2,210
	1,764	3,193

(b) Proposed profit appropriations

	2007	2006
Statutory surplus reserve	**1,524**	711
Dividends of RMB2.8 (2006: RMB1.2) per every 10 shares	**4,117**	1,764
Total	**5,641**	2,475

Notes:

(i) 2007 profit appropriation is proposed in accordance with the resolution passed at the seventeenth meeting of the seventh board of directors held on 18 March 2008 and will be submitted to the 2007 annual general meeting for approval.

(ii) 2006 profit was appropriated in accordance with the resolution passed at the twenty-fourth meeting of the sixth board of directors held on 16 April 2007 and as approved in the annual general meeting held on 15 June 2007.

(Expressed in millions of Renminbi unless otherwise stated)

35 NOTES TO CONSOLIDATED CASH FLOW STATEMENTS

(a) Analysis of the balances of cash and cash equivalents

	2007	2006
Cash	**6,381**	4,622
With original maturity within 3 months:		
– balance with banks and other financial institutions	**9,521**	9,701
– balances with central bank	**37,924**	25,008
– placements with banks and other financial institutions	**109,982**	71,031
– investment securities:		
– at fair value through profit or loss	**–**	247
– available-for-sale	**3,223**	7,637
	167,031	118,246

(b) Significant non-cash transactions

Apart from the non-cash transactions relating to the conversion of convertible bonds to share capital during the years ended 31 December 2007 and 2006 the details of which are included in Note 26(b), there were no other significant non-cash transactions.

36 SEGMENTAL REPORTING

The Group's principal activities are commercial lending and deposits taking. The funding of existing retail and corporate loans are mainly from customer deposits.

Segment information is presented in respect of the Group's business and geographical segments. Business segment information is chosen as the primary reporting format as it is more relevant to the Group's operating activities.

For the purposes of segmental analysis, external net interest income/expense represents the net interest income earned or expenses incurred on banking business originated by these segments. Internal net interest income/expense represents the allocation of revenue to reflect the benefits of funding sources allocated to the business segments by way of internal funds transfer pricing mechanism. The internal funds transfer pricing mechanism has taken into account the structure and market returns of the assets and liabilities portfolio. Cost allocation is based on the direct cost incurred by the respective business segments and apportionment of management overheads. Inter-segment interest income and expenses recognised through the internal funds transfer pricing mechanism are eliminated in the consolidated results of the operations.

(a) Business segments

The Group comprises the following main business segments:

– ***Corporate banking***

The provision of financial services to corporations and institutions includes lending and deposit taking activities, project and structured finance products, syndicated loans, cash management, investment advice and other investment services.

– ***Retail banking***

The provision of financial services to retail customers includes lending and deposit taking activities, credit card facilities and investment services.

– ***Treasury business***

It covers interbank and capital market activities and proprietary trading.

– ***Others and unallocated***

These represent equity investments, and assets, liabilities, income and expenses of the head office that are not directly attributable to a segment or cannot be allocated on a reasonable basis.

(Expressed in millions of Renminbi unless otherwise stated)

36 SEGMENTAL REPORTING *(continued)*

(a) Business segments *(continued)*

	Year ended 31 December 2007				
	Corporate banking	Retail banking	Treasury business	Others and unallocated	Total
External net interest income	18,737	4,051	11,114	–	33,902
Internal net interest (expense)/income	(390)	4,294	(3,904)	–	–
Net interest income	18,347	8,345	7,210	–	33,902
Net fee and commission income	1,621	4,666	–	152	6,439
Other net income/(expense)	666	272	(494)	263	707
Operating income	20,634	13,283	6,716	415	41,048
Operating expenses					
– depreciation	(407)	(581)	(32)	–	(1,020)
– others	(7,320)	(7,612)	(786)	–	(15,718)
	(7,727)	(8,193)	(818)	–	(16,738)
Operating profit before impairment losses	12,907	5,090	5,898	415	24,310
Impairment losses	(2,654)	(351)	(152)	(148)	(3,305)
Share of profits of an associate	–	–	–	38	38
Profit before tax	10,253	4,739	5,746	305	21,043
Capital expenditure (note)	1,187	1,693	95	–	2,975
	31 December 2007				
Segment assets	485,525	177,425	636,731	10,871	1,310,552
Segment liabilities	617,143	326,391	282,684	16,350	1,242,568
Interest in an associate	–	–	–	225	225

(Expressed in millions of Renminbi unless otherwise stated)

36 SEGMENTAL REPORTING *(continued)*

(a) Business segments *(continued)*

	Year ended 31 December 2006				
	Corporate banking	Retail banking	Treasury business	Others and unallocated	Total
External net interest income	14,348	812	6,349	–	21,509
Internal net interest (expense)/income	(814)	4,086	(3,272)	–	–
Net interest income	13,534	4,898	3,077	–	21,509
Net fee and commission income	854	1,531	14	115	2,514
Other net income/(expense)	501	158	357	(173)	843
Operating income/(expense)	14,889	6,587	3,448	(58)	24,866
Operating expenses					
– depreciation	(502)	(378)	(30)	–	(910)
– others	(5,380)	(4,129)	(667)	(5)	(10,181)
	(5,882)	(4,507)	(697)	(5)	(11,091)
Operating profit/(loss) before impairment losses	9,007	2,080	2,751	(63)	13,775
Impairment losses	(3,241)	(533)	83	–	(3,691)
Profit/(loss) before tax	5,766	1,547	2,834	(63)	10,084
Capital expenditure (note)	975	735	58	–	1,768
	31 December 2006				
Segment assets	451,882	105,045	370,578	6,597	934,102
Segment liabilities	461,797	311,960	91,399	13,786	878,942

Notes:

(i) Capital expenditure represents total amount incurred for acquiring assets that are expected to be used for some periods.

(ii) The Group has applied a different method of allocating operating expenses amongst business segments in 2007 for better management. The comparative figures were not restated as the directors considered it impractical.

36 SEGMENTAL REPORTING *(continued)*

(b) Geographical segments

The Group operates principally in the PRC with branches located in major provinces, autonomous regions and municipalities directly under the central government.

In presenting information on the basis of geographical segments, operating income is allocated based on the location of the branches that generated the revenue. Segment assets and capital expenditure are allocated based on the geographical location of the underlying assets.

Geographical segments, as defined for management reporting purposes, are as follows:

– "Eastern China" region refers to the areas serviced by the following branches of the Group: Shanghai Municipality, Jiangsu Province, Zhejiang Province, Shandong Province, Fujian Province and Anhui Province;

– "Southern and Central China" region refers to the Head Office and the areas serviced by the following branches of the Group: Guangdong Province, Hunan Province, Jiangxi Province, Hubei Province and Henan Province;

– "Western China" region refers to the areas serviced by the following branches of the Group: Sichuan Province, Chongqing Municipality, Yunnan Province, Shaanxi Province, Gansu Province and Xinjiang Autonomous Region;

– "Northern China" region refers to the areas serviced by the following branches of the Group: Beijing Municipality, Tianjin Municipality, Liaoning Province, Heilongjiang Province, Shanxi Province and Inner Mongolia Autonomous Region; and

– "Others" refer to operations of Hong Kong branch and the subsidiary.

(Expressed in millions of Renminbi unless otherwise stated)

36 SEGMENTAL REPORTING *(continued)*

(b) Geographical segments *(continued)*

	Year ended 31 December 2007					
	Eastern China	Southern and Central China	Western China	Northern China	Others	Total
Net interest income	**11,768**	**13,578**	**3,248**	**5,247**	**61**	**33,902**
Net fee and commission income	**1,878**	**3,941**	**220**	**356**	**44**	**6,439**
Other net income/(expense)	**464**	**(262)**	**61**	**227**	**217**	**707**
Operating income	**14,110**	**17,257**	**3,529**	**5,830**	**322**	**41,048**
Operating expenses						
– depreciation	**(308)**	**(420)**	**(115)**	**(173)**	**(4)**	**(1,020)**
– others	**(5,824)**	**(5,870)**	**(1,555)**	**(2,401)**	**(68)**	**(15,718)**
	(6,132)	**(6,290)**	**(1,670)**	**(2,574)**	**(72)**	**(16,738)**
Operating profit before impairment losses	**7,978**	**10,967**	**1,859**	**3,256**	**250**	**24,310**
Impairment losses	**(1,718)**	**(478)**	**(480)**	**(549)**	**(80)**	**(3,305)**
Share of profits of an associate	**–**	**38**	**–**	**–**	**–**	**38**
Profit before tax	**6,260**	**10,527**	**1,379**	**2,707**	**170**	**21,043**
Capital expenditure (note)	**793**	**1,678**	**210**	**288**	**6**	**2,975**
	31 December 2007					
Segment assets	**326,857**	**717,382**	**90,644**	**156,281**	**19,388**	**1,310,552**
Of which: gross loans and advances to customers	**275,956**	**197,324**	**71,898**	**121,474**	**6,515**	**673,167**
Segment liabilities	**334,084**	**612,478**	**93,978**	**182,800**	**19,228**	**1,242,568**
Interest in an associate	**–**	**225**	**–**	**–**	**–**	**225**

(Expressed in millions of Renminbi unless otherwise stated)

36 SEGMENTAL REPORTING *(continued)*

(b) Geographical segments *(continued)*

	Year ended 31 December 2006					
	Eastern China	Southern and Central China	Western China	Northern China	Others	Total
Net interest income	7,850	6,942	2,325	4,314	78	21,509
Net fee and commission income	1,001	1,137	122	228	26	2,514
Other net income	247	335	40	180	41	843
Operating income	9,098	8,414	2,487	4,722	145	24,866
Operating expenses						
– depreciation	(274)	(374)	(108)	(153)	(1)	(910)
– others	(3,506)	(3,999)	(1,040)	(1,574)	(62)	(10,181)
	(3,780)	(4,373)	(1,148)	(1,727)	(63)	(11,091)
Operating profit before impairment losses	5,318	4,041	1,339	2,995	82	13,775
Impairment losses	(1,178)	(1,037)	(945)	(474)	(57)	(3,691)
Profit before tax	4,140	3,004	394	2,521	25	10,084
Capital expenditure (note)	509	898	123	233	5	1,768
	31 December 2006					
Segment assets	234,884	481,722	68,741	122,700	26,055	934,102
Of which: gross loans and advances to customers	212,829	177,092	63,327	108,986	3,468	565,702
Segment liabilities	232,176	433,823	68,609	118,287	26,047	878,942

Note: Capital expenditure represents total amount incurred for acquiring assets that are expected to be used for some periods.

(Expressed in millions of Renminbi unless otherwise stated)

37 ASSETS PLEDGED AS SECURITY

The following assets have been pledged as collateral for liabilities under repurchase arrangements:

	2007	2006
Secured liabilities	**41,048**	6,237
Assets pledged		
– Available-for-sale financial assets	**20,232**	1,372
– Held-to-maturity debt securities	**19,095**	1,545
– Other assets	**1,636**	3,386
	40,963	6,303

These transactions are conducted under terms that are usual and customary to standard lending and securities borrowing and lending activities.

38 CONTINGENT LIABILITIES AND COMMITMENTS

(a) Credit commitments

At any given time the Group has outstanding commitments to extend credit. These commitments take the form of approved loans and credit card limits. The Group provides financial guarantees and letters of credit to guarantee the performance of customers to third parties. Acceptances comprise undertakings by the Group to pay bills of exchange drawn on customers. The Group expects most acceptances to be settled simultaneously with the reimbursement from the customers.

The contractual amounts of commitments and contingent liabilities are set out in the following table by category. The amounts reflected in the table for commitments assume that amounts are fully advanced. The amount reflected in the table for guarantees and letters of credit represents the maximum potential loss that would be recognised at the balance sheet date if counterparties failed completely to perform as contracted.

(Expressed in millions of Renminbi unless otherwise stated)

38 CONTINGENT LIABILITIES AND COMMITMENTS *(continued)*

(a) Credit commitments *(continued)*

	2007	2006
Contractual amount		
Irrevocable guarantees	**55,263**	37,063
Irrevocable letters of credit	**23,937**	28,323
Bills of acceptances	**180,002**	166,513
Irrevocable loan commitments		
– with an original maturity of under one year	**1,210**	1,371
– with an original maturity of one year or over	**8,620**	5,172
Credit card commitments	**50,881**	31,694
Shipping guarantees	**12**	–
	319,925	270,136

Irrevocable loan commitments only include credit limits granted to offshore customers, and onshore and offshore syndicated loans. The Directors are of the opinion that the Group will not assume any risks on the unused credit limits for other loan customers as such limits are revocable and subject to the loan approval process. As a result, such balances are not included in the above contingent liabilities and commitments.

Apart from the irrevocable loan commitments, the Group had loan commitments of RMB 454,490 million at 31 December 2007 (2006: RMB 359,731 million) which are unconditionally cancellable by the Group or automatically cancellable due to deterioration in the creditworthiness of the borrower as stipulated in respective loan agreements.

These commitments and contingent liabilities have off-balance sheet credit risk. Before the commitments are fulfilled or expire, management assesses and makes allowances for any probable losses accordingly. As the facilities may expire without being drawn upon, the total of the contractual amounts is not representative of expected future cash outflows.

	2007	2006
Credit risk weighted amounts of contingent liabilities and commitments		
Contingent liabilities and commitments	**94,321**	86,444

The credit risk weighted amount refers to the amount as computed in accordance with the rules set out by the CBRC and depends on the status of the counterparty and the maturity characteristics. The risk weights used range from 0% to 100% of contingent liabilities and commitments.

(Expressed in millions of Renminbi unless otherwise stated)

38 CONTINGENT LIABILITIES AND COMMITMENTS *(continued)*

(a) Credit commitments *(continued)*

There are no relevant standards prescribed by IFRSs in calculating the above credit risk weighted amounts.

The credit risk weighted amounts stated above have taken into account the effects of bilateral netting arrangements.

(b) Capital commitments

Authorised capital commitments not provided for were as follows:

	2007	2006
For purchase of fixed assets:		
– Contracted for	**801**	126

(c) Operating lease commitments

Total future minimum lease payments under non-cancellable operating leases of properties are payable as follows:

	2007	2006
Within 1 year	**816**	739
After 1 year but within 5 years	**2,241**	1,852
After 5 years	**649**	696
	3,706	3,287

The Group and the Bank lease a number of properties under operating leases. The leases typically run for an initial period of 1 to 20 years. Lease payments are usually increased every 1 to 10 years to reflect market rental. None of the lease include contingent rental.

(d) Outstanding litigations

At 31 December 2007, the Group was a defendant in certain pending litigations with gross claims of RMB246 million (2006: RMB118 million) arising from its banking activities. Many of these proceedings are in relation to steps taken by the Bank to collect delinquent loans and enforce rights in collateral securing such loans. The Directors consider that no material losses would be incurred by the Group as a result of these pending litigations and therefore no provision has been made in the financial statements.

(Expressed in millions of Renminbi unless otherwise stated)

38 CONTINGENT LIABILITIES AND COMMITMENTS *(continued)*

(e) Redemption obligations

As an underwriting agent of PRC government bonds, the Group has the responsibility to buy back those bonds sold by it should the holders decide to early redeem the bonds held. The redemption price for the bonds at any time before their maturity date is based on the coupon value plus any interest unpaid and accrued up to the redemption date. Accrued interest payables to the bond holders are calculated in accordance with relevant rules of the MOF and the PBOC. The redemption price may be different from the fair value of similar instruments traded at the redemption date.

The redemption obligations below represent the nominal value of government bonds underwritten and sold by the Group, but not yet matured at the balance sheet date:

	2007	2006
Redemption obligations	**7,488**	11,621

The Group expects that the amount of redemption before the maturity date of these government bonds through the Group will not be material.

39 TRANSACTIONS ON BEHALF OF CUSTOMERS

(a) Entrusted lending business

The Group provides entrusted lending business services to corporations and individuals. All entrusted loans are made under the instruction or at the direction of these entities or individuals and are funded by entrusted funds from them.

For entrusted assets and liabilities and entrusted provident housing fund mortgage business, the Group generally does not take on credit risk in relation to these transactions. The Group acts as an agent to hold and manage these assets and liabilities at the direction of the entrustor and receives fee income for the services provided.

Trust assets are not assets of the Group and are not recognised in the balance sheet. Surplus funding is accounted for as deposits from customers. Income received and receivable for providing these services is included in the income statement as fee income.

At the balance sheet date, the entrusted assets and liabilities were as follows:

	2007	2006
Entrusted loans	**67,824**	45,627
Entrusted funds	**67,824**	45,627

39 TRANSACTIONS ON BEHALF OF CUSTOMERS *(continued)*

(b) Wealth management services

The Group's wealth management services to customers mainly represent sales of wealth management products to corporate and personal banking customers. The funds obtained from wealth management services are invested in investment products, including government bonds, PBOC bills, notes issued by policy banks, short-dated corporate notes, entrusted loans and IPO shares. The credit risk, liquidity risk and interest rate risk associated with these products are borne by the customers who invest in these products. The Group only earns commission which represents the charges on customers in relation to the provision of custody, sales and management services. The income is recognised in the income statement as commission income.

The wealth management products and funds obtained are not assets and liabilities of the Group and are not recognised in the balance sheet. The funds obtained from wealth management services that have not yet been invested are recorded under deposits from customers.

At the balance sheet date, funds received from customers under wealth management services were as follows:

	2007	2006
Funds received from customers under wealth management services	**69,111**	4,174

40 RISK MANAGEMENT

(a) Credit risk

Credit risk represents the potential loss that may arise from the failure of a debtor to meet its obligation or commitment to the Group. Credit risk increases when all counterparties are concentrated in a single industry or a geographical region, as different counterparties in the same region or industry may be affected by the same economic development, which may eventually affect their repayment abilities.

The Group has designed its organisation framework, credit policies and processes with an objective to identify, evaluate and manage its credit risk effectively. The Risk Management and Internal Control Committee is set up and is appointed by the board to be responsible for supervising and evaluating the set-up, organisational structure, work process and effectiveness of various risk management functions. To mitigate risk, the Group may obtain collateral and guarantees where appropriate.

With respect to daily operations, the Risk Management Department, as directed by the Risk Management and Internal Control Committee, monitors and coordinates the work of other risk management functions, including the Corporate Banking Department and the Legal and Compliance Department.

In respect of the loan portfolio, the Group adopts a risk based loan classification methodology. Currently, the Group classifies loans into seven categories: excellent, good, general mention, special mention, substandard, doubtful and loss. The last three categories are considered as impaired loans and advances for which objective evidence of impairment exists based on a loss event or several events and which bear significant impairment losses. The allowances for impairment losses for the impaired loans and advances are assessed collectively or individually as appropriate.

(Expressed in millions of Renminbi unless otherwise stated)

40 RISK MANAGEMENT *(continued)*

(a) Credit risk *(continued)*

The risks involved in credit-related commitments and contingencies are essentially the same as the credit risk involved in extending loan facilities to customers. These transactions are, therefore, subject to the same credit application, portfolio maintenance and collateral requirements as for customers applying for loans.

Concentration of credit risk: when certain number of customers are in the same business, located in the same geographical region or their industries share similar economic characteristics, their ability to meet their obligations may be affected by the same economic changes. The level of concentration of credit risk reflects the sensitivity of the Group's operating result to a specific industry or geographical region.

Analyses of loans and advances by industry, customer type, nature and geographical location are stated in Notes 17 and 36(b).

The Group's credit risk management policy for financial derivatives is the same as that for other transactions. In order to mitigate the credit risk arising from the financial derivatives, the Group has signed netting agreements with certain counterparties.

(i) Maximum exposure

The maximum exposure to credit risk at the balance sheet date without taking into consideration of any collateral held or other credit enhancements is represented by the carrying amount of each financial assets in the balance sheet after deducting any impairment allowance. A summary of the maximum exposure is as follows:

	2007	2006
Cash and balances with banks and other financial institutions	**20,276**	20,861
Balances with central bank	**146,266**	82,372
Placements with banks and other financial institutions	**225,669**	88,171
Loans and advances to customers	**654,417**	549,420
Investments	**244,123**	178,885
Interest in an associate	**225**	–
Other assets	**8,581**	4,737
Financial guarantees and other credit related contingent liabilities	**259,214**	231,899
Loan commitments and other credit related commitments	**515,201**	397,968
	2,073,972	1,554,313

(Expressed in millions of Renminbi unless otherwise stated)

40 RISK MANAGEMENT *(continued)*

(a) Credit risk *(continued)*

(ii) The credit quality of loans and advances to customers can be analysed as follows:

	2007	2006
Impaired loans and advances to customers		
For which impairment losses are individually assessed		
Gross amount	**9,585**	11,449
Less: impairment allowances	**(7,685)**	(7,873)
Carrying amount	**1,900**	3,576
For which impairment losses are collectively assessed		
Gross amount	**809**	557
Less: impairment allowances	**(631)**	(404)
Carrying amount	**178**	153
Overdue but not impaired		
Within which		
– Less than 3 months	**3,928**	2,022
– 6 months or less but over 3 months	**316**	374
– 1 year or less but over 6 months	**32**	93
– over 1 year	**–**	2
Gross amount	**4,276**	2,491
Less: impairment allowances – collectively assessed	**(603)**	(88)
Carrying amount	**3,673**	2,403
Neither past due nor impaired		
Grade 1 and 2: Excellent and good	**647,111**	542,277
Grade 3 and 4: General mention and special mention	**11,386**	8,928
Gross amount	**658,497**	551,205
Less: impairment allowances – collectively assessed	**(9,831)**	(7,917)
Carrying amount	**648,666**	543,288
Total carrying amount	**654,417**	549,420

Loans and advances that would be past due or impaired had the terms not been renegotiated amounted to RMB1,790 million as at 31 December 2007 (2006: RMB2,486 million).

(Expressed in millions of Renminbi unless otherwise stated)

40 RISK MANAGEMENT *(continued)*

(a) Credit risk *(continued)*

(iii) Credit quality of debt investments

At the balance sheet date, the credit quality of debt investments analysed by designation of external credit assessment institution, Standard & Poors, is as follows:

	2007	2006
AAA	**4,985**	6,286
AA- to AA+	**5,716**	3,759
A- to A+ (note)	**188,587**	127,413
Lower than A-	**718**	1,345
	200,006	138,803
Unrated	**40,635**	39,831
Total	**240,641**	178,634

Note: Included bonds issued by the PRC Government, PBOC and PRC Policy Banks amounted to RMB187,474 million (2006: RMB134,069 million).

(iv) Collateral and other credit enhancements

An estimate of the fair value of collateral and other credit enhancements held against financial assets that are overdue but not impaired is as follows:

	2007	2006
Estimate of the fair value of collateral and other credit enhancements held against		
– Loans and advances to customers	**1,113**	3,334
– Amounts due from banks and other financial institutions	**–**	–
	1,113	3,334

40 RISK MANAGEMENT *(continued)*

(b) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices and market risk comprises currency risk, interest rate risk and other price risk. The Group is exposed to market risk primarily through its proprietary trading activities. The Group considers that any market risk arising from its proprietary trading book is not material.

The Asset and Liability Management Committee ("ALCO") of the Group is responsible for formulating market risk management policies, supervising implementation of the policies and performing independent assessments of the risk status. The Risk Management Department is responsible for managing the risks arising from the day to day operation of the Treasury division.

The use of derivatives for proprietary trading and their sale to customers as risk management products is an integral part of the Group's business activities. These instruments are also used to manage the Group's own exposures to market risk as part of its asset and liability management process. The principal derivative instruments used by the Group are interest and foreign exchange rate related contracts, which are primarily over-the-counter derivatives.

Sensitivity analysis and gap analysis are the key methods used by the Group to measure and monitor the market risk of its business with Value-at-Risk ("VaR") as a supplementary method. Gap analysis is a technique to project future cash flows in order to quantify the differences, for a range of future dates, between assets and liabilities. It is the key method used by the Group to monitor the market risk of its non-trading business.

VaR is a technique that estimates the potential losses that could occur on risk positions as a result of movements in market rates and prices over a specified time horizon and to a given level of confidence. Effective from October 2007, the Group's ALCO calculates interest rate VaR using historical movement in market rates and prices, at 99% confidence level, with a 10-day holding period on its foreign currency denominated investments.

(c) Currency risk

The Group's foreign exchange exposure mainly comprises foreign exchange dealing by Treasury and is mitigated primarily by matching spot and forward foreign exchange contracts with foreign currency borrowings.

The Group's functional currency is RMB. Foreign currency transactions are mainly in US dollar and HK dollar. The Group's assets and liabilities are mainly denominated in RMB, with the rest being mainly in US dollar and HK dollar.

The Group monitors daily foreign currency transactions and positions closely. The following tables show the Group's assets and liabilities by major currencies as at each balance sheet date.

(Expressed in millions of Renminbi unless otherwise stated)

40 RISK MANAGEMENT *(continued)*

(c) Currency risk *(continued)*

The PBOC, with the approval of State Council, has made the announcements regarding reforming the RMB exchange rate regime. Starting from 21 July 2005, China has reformed the exchange rate regime by moving into a managed floating exchange rate regime based on market supply and demand with reference to a basket of currencies. The Group has reviewed the exposures and has taken appropriate measures to mitigate currency risks.

Assets and liabilities by original currency are shown as follows:

	2007			
		Equivalent in RMB' million		
	RMB	US dollar	Others	Total
Assets				
Cash and balances with central bank	148,890	2,860	897	152,647
Amounts due from banks and other financial institutions	207,333	21,012	11,219	239,564
Loans and advances to customers	609,162	38,600	6,655	654,417
Investments	209,367	30,426	4,330	244,123
Other assets	18,437	1,031	333	19,801
	1,193,189	93,929	23,434	1,310,552
Liabilities				
Amounts due to banks and other financial institutions	254,901	9,272	950	265,123
Deposits from customers	858,447	58,338	26,749	943,534
Financial liabilities at fair value through profit or loss	351	528	2,066	2,945
Certificates of deposit issued	–	1,095	–	1,095
Convertible bonds issued	13	–	–	13
Other debts issued	9,992	–	–	9,992
Subordinated notes issued	3,500	–	–	3,500
Other liabilities	15,195	981	190	16,366
	1,142,399	70,214	29,955	1,242,568
Net on-balance sheet position	50,790	23,715	(6,521)	67,984
Off-balance sheet position:				
Credit commitments (note)	185,796	39,543	7,776	233,115
Derivatives:				
– forward purchase	78,051	71,978	12,371	162,400
– forward sales	(68,902)	(89,465)	(3,398)	(161,765)
– net option position	–	(61)	61	–

(Expressed in millions of Renminbi unless otherwise stated)

40 RISK MANAGEMENT *(continued)*

(c) Currency risk *(continued)*

Assets and liabilities by original currency are shown as follows: *(continued)*

	2006			
		Equivalent in RMB' million		
	RMB	US dollar	Others	Total
Assets				
Cash and balances with central bank	83,768	2,317	909	86,994
Amounts due from banks and other financial institutions	51,126	33,252	20,032	104,410
Loans and advances to customers	525,464	18,899	5,057	549,420
Investments	141,264	34,272	3,349	178,885
Other assets	13,379	480	534	14,393
	815,001	89,220	29,881	934,102
Liabilities				
Amounts due to banks and other financial institutions	72,972	3,238	393	76,603
Deposits from customers	687,357	49,641	36,759	773,757
Financial liabilities at fair value through profit or loss	13	60	33	106
Certificates of deposit issued	–	1,170	–	1,170
Convertible bonds issued	22	–	–	22
Other debts issued	9,987	–	–	9,987
Subordinated notes issued	3,500	–	–	3,500
Other liabilities	11,094	1,905	798	13,797
	784,945	56,014	37,983	878,942
Net on-balance sheet position	30,056	33,206	(8,102)	55,160
Off-balance sheet position:				
Credit commitments (note)	131,590	27,083	4,020	162,693
Derivatives:				
– forward purchase	27,585	8,913	12,816	49,314
– forward sales	(7,626)	(40,801)	(1,285)	(49,712)
– net option position	–	115	(115)	–

Note: Credit commitments generally expire before they are drawn; therefore the above net position (net of pledged deposits) does not represent the cash flows need.

(Expressed in millions of Renminbi unless otherwise stated)

40 RISK MANAGEMENT *(continued)*

(c) Currency risk *(continued)*

Under the existing managed floating exchange rate regime, the Group uses sensitivity analysis to measure the potential effect of changes in foreign currency exchange rates on the Group's net profit and loss. The following table sets forth, as at 31 December 2007 and 31 December 2006, the results of the Group's currency risk sensitivity analysis on the assets and liabilities at the same date.

	2007		2006	
	Change in foreign currency exchange rate (in basis point)		Change in foreign currency exchange rate (in basis point)	
	100	**(100)**	100	(100)
(Decrease)/increase in annualised net profit	**(87)**	**87**	(47)	47

This sensitivity analysis is based on a static foreign exchange exposure profile of assets and liabilities. In view of the nature of the RMB exchange rate regime, the analysis is based on the following assumptions: (i) the foreign exchange sensitivity is the gain and loss recognised as a result of a standard 100 basis point fluctuation in the foreign currency exchange rates against RMB, (ii) the exchange rates against RMB for all foreign currencies change in the same direction simultaneously, and (iii) the foreign exchange exposures calculated include both spot foreign exchange exposures, forward foreign exchange exposures and options. Actual changes in the Group's net foreign exchange gain and loss resulting from increases or decreases in foreign exchange rates may differ from the results of this sensitivity analysis.

(d) Interest rate risk

The Group's interest rate exposures comprise primarily those arising from mismatches in durations and structures of assets and liabilities in its banking operations and from positions undertaken for trading purposes.

Interest rate risk in banking operations is inherent in many business segments of the Group, and arises from factors such as differences in timing between contractual maturities or repricing of assets and liabilities. Similar risk in trading positions arises mainly from investment portfolio undertaken by treasury operation.

The ALCO regularly monitors such interest rate risk positions. The Group regularly performs interest rate sensitivity analysis on these interest rate positions for the purpose of measuring and managing the risk in order to limit potential adverse impacts of movements in interest rate on net interest income.

As the reference interest rates for RMB loans and deposits are determined by the PBOC, the Group follows the interest rates set by the PBOC when carrying out lending and deposit taking activities. The Group's monetary assets and liabilities are mainly in RMB.

(Expressed in millions of Renminbi unless otherwise stated)

40 RISK MANAGEMENT *(continued)*

(d) Interest rate risk *(continued)*

The following table indicates the effective interest rates and the expected next repricing dates (or maturity dates whichever are earlier) for interest bearing assets and liabilities at the balance sheet date.

	2007						
	Effective interest rate (note (i))	Total	3 months or less (include overdue)	Over 3 months to 1 year	Over 1 year to 5 years	Over 5 years	Non-interest bearing
Assets							
Cash and balances with central bank	0.00%-1.89%	152,647	146,266	–	–	–	6,381
Amounts due from banks and other financial institutions	0.00%-9.74%	239,564	201,927	37,592	45	–	–
Loans and advances to customers (note (ii))	1.29%-18.00%	654,417	453,826	188,030	10,831	1,730	–
Investments	1.93%-12.93%	244,123	60,690	107,564	55,459	16,928	3,482
Other assets	–	19,801	–	–	–	–	19,801
Total assets		1,310,552	862,709	333,186	66,335	18,658	29,664
Liabilities							
Amounts due to banks and other financial institutions	0.00%-6.73%	265,123	259,690	5,408	–	25	–
Deposits from customers	0.00%-6.43%	943,534	764,522	158,093	19,952	967	–
Financial liabilities at fair value through profit or loss	–	2,945	–	–	–	–	2,945
Certificates of deposit issued	5.06%	1,095	1,095	–	–	–	–
Convertible bonds issued	6.39%	13	–	–	13	–	–
Other debts issued	2.34%	9,992	–	4,998	4,994	–	–
Subordinated notes issued	4.74%	3,500	–	–	3,500	–	–
Other liabilities	–	16,366	–	–	–	–	16,366
Total liabilities		1,242,568	1,025,307	168,499	28,459	992	19,311
Asset-liability gap		67,984	(162,598)	164,687	37,876	17,666	10,353

(Expressed in millions of Renminbi unless otherwise stated)

40 RISK MANAGEMENT *(continued)*

(d) Interest rate risk *(continued)*

	2006						
	Effective interest rate (note (i))	Total	3 months or less (include overdue)	Over 3 months to 1 year	Over 1 year to 5 years	Over 5 years	Non-interest bearing
Assets							
Cash and balances with central bank	0.00%-1.89%	86,994	82,372	–	–	–	4,622
Amounts due from banks and other financial institutions	0.41%-6.22%	104,410	97,752	5,583	1,075	–	–
Loans and advances to customers (note (ii))	0.00%-18.00%	549,420	332,397	202,096	12,559	2,368	–
Investments	1.75%-9.05%	178,885	45,668	86,730	35,008	11,228	251
Other assets	–	14,393	–	–	–	–	14,393
Total assets		934,102	558,189	294,409	48,642	13,596	19,266
Liabilities							
Amounts due to banks and other financial institutions	0.00%-6.20%	76,603	73,563	3,040	–	–	–
Deposits from customers	0.00%-7.00%	773,757	616,189	131,932	25,199	437	–
Financial liabilities at fair value through profit or loss	–	106	–	–	–	–	106
Certificates of deposit issued	5.72%	1,170	1,170	–	–	–	–
Convertible bonds issued	6.39%	22	–	–	22	–	–
Other debts issued	2.34%	9,987	–	–	9,987	–	–
Subordinated notes issued	4.74%	3,500	–	–	3,500	–	–
Other liabilities	–	13,797	–	–	–	–	13,797
Total liabilities		878,942	690,922	134,972	38,708	437	13,903
Asset-liability gap		55,160	(132,733)	159,437	9,934	13,159	5,363

Notes:

(i) Effective interest rates are that carried by respective interest bearing assets/liabilities as at the year end.

(ii) For loans and advances to customers, the above "3 months or less" category includes overdue amounts (net of allowances for impairment losses) of RMB5,238 million as at 31 December 2007 (2006: RMB3,065 million). Overdue amounts represent loans of which the whole or part of the principals was overdue.

(Expressed in millions of Renminbi unless otherwise stated)

40 RISK MANAGEMENT *(continued)*

(d) Interest rate risk *(continued)*

The Group uses sensitivity analysis to measure the potential effect of changes in interest rates on the Group's net interest income. The following table sets forth, as at 31 December 2007 and 31 December 2006, the results of the Group's interest rate sensitivity analysis on the assets and liabilities at the same date.

	2007		2006	
	Change in interest rates (in basis point)		Change in interest rates (in basis point)	
	100	**(100)**	100	(100)
(Decrease)/increase in annualised net interest income	**(1,101)**	**1,101**	(750)	750

This sensitivity analysis is based on a static interest rate risk profile of assets and liabilities. The analysis measures only the impact of changes in the interest rates within a year, as reflected by the repricing of the Group's assets and liabilities within a year, on annualised interest income. The analysis is based on the following assumptions: (i) all assets and liabilities that reprice or are due within one year reprice or are due at the beginning of the respective periods, (ii) there is a parallel shift in the yield curve and in interest rates, and (iii) there are no other changes to the portfolio. Actual changes in the Group's net interest income resulting from increase or decrease in interest rates may differ from the results of this sensitivity analysis.

(e) Liquidity risk

Liquidity risk is the risk that funds will not be available to meet liabilities as they fall due, and it results from amount and maturity mismatches of assets and liabilities. The Group's liquidity is managed by the ALCO. The ALCO is responsible for managing liquidity on a prudent basis to meet regulatory requirement. The day to day monitoring of future cash flows and the maintenance of suitable levels of liquefiable assets by business units are the responsibility of the head office.

A substantial portion of the Group's assets is funded by customer deposits made up of corporate and retail savings accounts and term deposits as well as deposit of banks. These customer deposits, which have been growing in recent years, are widely diversified by type and maturity and represent a stable source of funds.

The Group's loans-to-deposits ratio is maintained within 75%.

(Expressed in millions of Renminbi unless otherwise stated)

40 RISK MANAGEMENT *(continued)*

(e) Liquidity risk *(continued)*

Analysis of the Group's assets and liabilities by remaining maturity is as follows:

	2007								
	Repayable on demand	Within 1 month	After 1 month but within 3 months	After 3 months but within 1 year	After 1 year but within 5 years	After 5 years	Undated	Overdue	Total
Cash and balances with central bank (note (i))	42,902	–	–	–	–	–	109,745	–	152,647
Amounts due from banks and other financial institutions	8,994	138,018	54,889	37,593	70	–	–	–	239,564
Loans and advances to customers (note (ii))	–	51,577	107,653	276,036	117,932	95,981	–	5,238	654,417
Investments (note (iii))	–	8,780	20,907	65,852	113,114	31,988	3,482	–	244,123
– at fair value through profit or loss	–	324	738	2,992	2,260	1,223	3,301	–	10,838
– available-for-sale	–	8,383	19,240	48,478	51,062	14,772	181	–	142,116
– held-to-maturity	–	–	194	12,292	46,346	15,800	–	–	74,632
– receivables	–	73	735	2,090	13,446	193	–	–	16,537
Other assets	4,353	1,179	1,053	1,997	37	28	11,109	45	19,801
Total assets	56,249	199,554	184,502	381,478	231,153	127,997	124,336	5,283	1,310,552
Amounts due to banks and other financial institutions	207,845	43,545	4,280	9,428	–	25	–	–	265,123
Deposits from customers (note (iv))	610,629	58,231	89,705	161,536	22,466	967	–	–	943,534
Financial liabilities at fair value through profit or loss	–	–	–	–	–	–	2,945	–	2,945
Certificates of deposit issued	–	–	–	1,095	–	–	–	–	1,095
Convertible bonds issued	–	–	–	–	13	–	–	–	13
Other debts issued	–	–	–	4,998	4,994	–	–	–	9,992
Subordinated notes issued	–	–	–	–	3,500	–	–	–	3,500
Other liabilities	13,663	535	789	1,057	301	21	–	–	16,366
Total liabilities	832,137	102,311	94,774	178,114	31,274	1,013	2,945	–	1,242,568
Long/(short) position	(775,888)	97,243	89,728	203,364	199,879	126,984	121,391	5,283	67,984

(Expressed in millions of Renminbi unless otherwise stated)

40 RISK MANAGEMENT *(continued)*

(e) Liquidity risk *(continued)*

Analysis of the Group's assets and liabilities by remaining maturity is as follows: *(continued)*

	2006								
	Repayable on demand	Within 1 month	After 1 month but within 3 months	After 3 months but within 1 year	After 1 year but within 5 years	After 5 years	Undated	Overdue	Total
Cash and balances with central bank (note (i))	29,324	–	–	–	–	–	57,670	–	86,994
Amounts due from banks and other financial institutions	13,282	58,826	15,104	15,568	1,591	39	–	–	104,410
Loans and advances to customers (note (ii))	–	49,314	93,463	228,092	66,783	108,718	–	3,050	549,420
Investments (note (iii))	6,914	10,843	12,698	59,374	69,726	19,079	251	–	178,885
– at fair value through profit or loss	–	306	741	2,939	3,176	595	203	–	7,960
– available-for-sale	6,914	10,255	10,134	48,928	26,761	6,436	48	–	109,476
– held-to-maturity	–	76	1,400	5,575	35,684	11,330	–	–	54,065
– receivables	–	206	423	1,932	4,105	718	–	–	7,384
Other assets	3,679	302	326	174	243	9	9,636	24	14,393
Total assets	53,199	119,285	121,591	303,208	138,343	127,845	67,557	3,074	934,102
Amounts due to banks and other financial institutions	53,405	4,704	4,530	7,359	6,605	–	–	–	76,603
Deposits from customers (note (iv))	489,451	46,856	66,385	141,802	27,610	1,653	–	–	773,757
Financial liabilities at fair value through profit or loss	–	–	–	–	–	–	106	–	106
Certificates of deposit issued	–	–	–	1,170	–	–	–	–	1,170
Convertible bonds issued	–	–	–	–	22	–	–	–	22
Other debts issued	–	–	–	–	9,987	–	–	–	9,987
Subordinated notes issued	–	–	–	–	3,500	–	–	–	3,500
Other liabilities	10,242	532	1,841	881	228	73	–	–	13,797
Total liabilities	553,098	52,092	72,756	151,212	47,952	1,726	106	–	878,942
Long/(short) position	(499,899)	67,193	48,835	151,996	90,391	126,119	67,451	3,074	55,160

Notes:

(i) For balances with central bank, undated amount represents statutory deposit reserve funds and fiscal balances maintained with the PBOC.

(ii) For loans and advances to customers, overdue amounts represent loans of which the whole or part of the principals was overdue. The overdue amounts are stated net of appropriate allowances for impairment losses.

(iii) The remaining maturities of trading assets and assets designated at fair value through profit or loss included in investments do not represent the Group's intention to hold them to maturity.

(iv) Included in the deposits from customers that are repayable on demand were RMB68,981 million time deposits matured and awaiting for customers' instructions (2006: RMB79,767 million).

(Expressed in millions of Renminbi unless otherwise stated)

40 RISK MANAGEMENT *(continued)*

(e) Liquidity risk *(continued)*

Analysis of the residual contractual maturities of non-derivative financial liabilities and gross loan commitments of the Group at the balance sheet date is as follows. The amounts disclosed below are the contractual undiscounted cash flow:

	2007							
	Carrying amount	**Total**	**Repayable on demand**	**Within 1 month**	**After 1 month but Within 3 months**	**After 3 months but within 1 year**	**After 1 year but within 5 years**	**After 5 years**
Non-derivative financial liabilities								
Amounts due to banks and other financial institutions	**265,123**	**266,104**	**207,845**	**43,643**	**4,461**	**10,120**	**–**	**35**
Deposits from customers	**943,534**	**953,390**	**610,629**	**58,723**	**90,946**	**166,683**	**25,434**	**975**
Certificates of deposit issued	**1,095**	**1,136**	**–**	**–**	**14**	**1,122**	**–**	**–**
Convertible bonds issued	**13**	**15**	**–**	**–**	**–**	**–**	**15**	**–**
Other debts issued	**9,992**	**10,491**	**–**	**–**	**–**	**5,235**	**5,256**	**–**
Subordinated notes issued	**3,500**	**3,717**	**–**	**–**	**–**	**–**	**3,717**	**–**
Other liabilities	**5,298**	**5,298**	**5,298**	**–**	**–**	**–**	**–**	**–**
	1,228,555	**1,240,151**	**823,772**	**102,366**	**95,421**	**183,160**	**34,422**	**1,010**
Gross loan commitments		**60,711**	**60,711**	**–**	**–**	**–**	**–**	**–**

	2006							
	Carrying amount	Total	Repayable on demand	Within 1 month	After 1 month but Within 3 months	After 3 months but within 1 year	After 1 year but within 5 years	After 5 years
Non-derivative financial liabilities								
Amounts due to banks and other financial institutions	76,603	78,112	53,405	4,728	4,736	8,087	7,156	–
Deposits from customers	773,757	810,999	518,704	47,281	67,346	144,698	31,309	1,661
Certificates of deposit issued	1,170	1,204	–	–	17	1,187	–	–
Convertible bonds issued	22	28	–	–	–	–	28	–
Other debts issued	9,987	10,725	–	–	–	234	10,491	–
Subordinated notes issued	3,500	3,883	–	–	–	–	3,883	–
Other liabilities	5,111	5,111	5,111	–	–	–	–	–
	870,150	910,062	577,220	52,009	72,099	154,206	52,867	1,661
Gross loan commitments		38,237	38,237	–	–	–	–	–

40 RISK MANAGEMENT *(continued)*

(f) Operational risk

Operational risk includes the risk of direct or indirect loss due to an event or action causing failure of technology, processes, infrastructure and personnel, and other risks having an operational impact.

The Group manages this risk through a controls-based environment by establishing a framework of policies and procedures to identify, assess, control, manage and report risks. The framework covers all business functions ranging from finance, credit, accounting, settlement, savings, treasury, intermediary business, computer applications and management, asset recovery and legal affairs. This has allowed the Group to identify and address the operational risk inherent in key products, activities, processes and systems.

(g) Capital management

The Group's capital management comprises the management of the capital adequacy ratio, capital financing, and economic capital, of which the prime focus is capital adequacy ratio management.

The Group calculates capital adequacy ratio in accordance with the guidelines issued by the CBRC. These guidelines may differ significantly from the relevant requirements in Hong Kong or other jurisdictions. The capital of the Group is analysed into core capital and supplementary capital. The core capital mainly includes paid-up share capital of ordinary shares, capital reserve, surplus reserve, retained earnings, and minority interest, after the deductions of 100% of goodwill and 50% of unconsolidated equity investments. Supplementary capital includes general provisions and long-term subordinated bonds. According to a notice issued by the CBRC (Amendment to "Regulation Governing Capital Adequacy of Commercial Banks") on 3 July 2007, supplementary capital should include reserves arising from changes in the fair value of available-for-sale debt securities. The amounts were included in core capital for the capital adequacy ratio calculation as at 31 December 2006.

The CBRC requires that the capital adequacy ratio and core capital adequacy ratio for commercial banks shall not fall below 8% and 4% respectively. For commercial banks, supplementary capital shall not exceed 100% of core capital while long-term subordinated liabilities included in the supplementary capital shall not exceed 50% of the core capital. When total positions of trading accounts exceed 10% of the on-and off-balance sheet total assets, or RMB8.5 billion, commercial banks must provide for market risk capital. At present, the Group is fully compliant with legal and regulatory requirements.

Capital adequacy ratio management is a core issue of capital management. The capital adequacy ratio reflects the Group's sound operations and risk management capability. The Group's capital adequacy ratio management objectives are to meet the legal and regulatory requirements and to prudently determine the capital adequacy ratio under realistic exposures with reference to the capital adequacy ratio levels of leading global banks and the Group's operating situations.

The Group predicts, plans, and manages the capital adequacy ratio by using scenario models and stress tests based on its strategic development plans, business expansion needs, and risk exposure trends.

(Expressed in millions of Renminbi unless otherwise stated)

40 RISK MANAGEMENT *(continued)*

(h) Use of derivatives

Derivatives are off-balance sheet financial instruments which include forward, swap and option transactions undertaken by the Group in the foreign exchange and interest rate markets.

The Group enters into financial derivative transactions for treasury business and its assets and liabilities management purpose. For accounting purpose, all derivatives are classified as held for trading.

Treasury business includes the formation and sale of financial derivatives to enable customers to transfer, change or mitigate existing or anticipated risks.

When there are mismatches in the interest rates of assets and liabilities, the Group will use interest rate swaps to swap fixed interest rates into floating interest rates.

For assets and liabilities denominated in foreign currencies, the Group will be exposed to risks due to the fluctuations of exchange rates. The Group will use currency swaps and forward contracts to mitigate these risks.

The following tables provide an analysis of the notional amounts of derivatives of the Group by maturity groupings based on the remaining periods to settlement and the corresponding fair values at the balance sheet date. The notional amounts of the derivatives indicate the transaction volume outstanding at the balance sheet date; they do not represent amounts at risk.

	2007						
	Notional amounts with remaining life of					Fair values	
	Less than 3 months	Between 3 months and 1 year	Between 1 year and 5 years	More than 5 years	Total	Assets	Liabilities
Interest rate derivatives							
Interest rate swaps	**811**	**25,115**	**7,088**	**497**	**33,511**	**16**	**(31)**
Currency derivatives							
Spot	**6,360**	**–**	**–**	**–**	**6,360**	**3**	**–**
Forwards	**32,864**	**79,661**	**5,572**	**–**	**118,097**	**2,651**	**(2,481)**
Foreign exchange swaps	**11,531**	**9,661**	**–**	**–**	**21,192**	**249**	**(62)**
Currency options	**41,790**	**4,093**	**37**	**–**	**45,920**	**374**	**(371)**
	92,545	**93,415**	**5,609**	**–**	**191,569**	**3,277**	**(2,914)**
Total						**3,293**	**(2,945)**
						(Note 18(a))	(Note 18(e))

(Expressed in millions of Renminbi unless otherwise stated)

40 RISK MANAGEMENT *(continued)*

(h) Use of derivatives *(continued)*

	2006						
	Notional amounts with remaining life of					Fair values	
	Less than 3 months	Between 3 months and 1 year	Between 1 year and 5 years	More than 5 years	Total	Assets	Liabilities
Interest rate derivatives							
Interest rate swaps	5,023	6,740	6,243	1,006	19,012	108	(53)
Currency derivatives							
Spot	15,717	–	–	–	15,717	10	(9)
Forwards	1,803	2,526	470	–	4,799	17	(13)
Foreign exchange swaps	11,976	17,063	156	–	29,195	41	(1)
Currency options	22,950	176	–	–	23,126	27	(30)
	52,446	19,765	626	–	72,837	95	(53)
Total						203	(106)
						(Note 18(a))	(Note 18(e))

The credit risk weighted amounts in respect of these derivatives are as follows. These amounts take into account the effects of bilateral netting arrangements.

Credit risk weighted amounts

	2007	2006
Interest rate derivatives	**18**	100
Currency derivatives	**429**	107
	447	207

The credit risk weighted amount refers to the amount as computed in accordance with the rules set out by the CBRC and depends on the status of the counterparty and the maturity characteristics.

(Expressed in millions of Renminbi unless otherwise stated)

40 RISK MANAGEMENT *(continued)*

(i) Fair value information

(i) Financial assets

The Group's financial assets mainly include cash, deposits and placements with the central banks, banks and other financial institutions, loans and advances to customers and investments.

Except for loans and advances and held-to-maturity investments, most of the financial assets mature within 1 year or are already stated at fair value, and therefore their carrying values approximate their fair values.

Loans and advances are stated at amortised costs less allowances for impairment loss (Note 17). The interest rate of loans and advances will be adjusted in accordance with the PBOC rates, and impairment allowance is made to reduce the carrying amount of impaired loans to estimated recoverable amount. Accordingly, the carrying values of loans and advances are close to the fair values.

Held-to-maturity debt securities investments are stated at amortised costs less impairment, and the fair values are disclosed in Note 18(c).

(ii) Financial liabilities

Financial liabilities mainly include customer deposits, deposits and placements from banks and other financial institutions, and debts issued by the Bank. The carrying values of financial liabilities approximate their fair values at the balance sheet date of the year presented, except the financial liabilities set out below:

Carrying value

	2007	2006
Convertible bonds issued	**13**	22
Subordinated notes issued	**3,500**	3,500
	3,513	3,522

Fair value

	2007	2006
Convertible bonds issued	**13**	26
Subordinated notes issued	**3,470**	3,563
	3,483	3,589

41 SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

In determining the carrying amounts of some assets and liabilities, the Group makes assumptions for the effects of uncertain future events on those assets and liabilities at the balance sheet date. These estimates involve assumptions about such items as cash flows and discount rates used. The Group's estimates and assumptions are based on historical experience and expectations of future events and are reviewed periodically. In addition to assumptions and estimations of future events, judgements are also made during the process of applying the Group's accounting policies.

(a) Impairment losses on loans and advances

Loan portfolios are assessed periodically to assess whether impairment losses exist and if they exist, the amounts of impairment losses. Objective evidence for impairment includes observable data indicating that there is a measurable decrease in the estimated future cash flows from an individual loan. Objective evidence for impairment is described in accounting policy 2(m). The impairment loss for a loan that is individually evaluated for impairment is the decrease in the estimated future cash flow of that loan. When loans and advances are collectively evaluated for impairment, the estimate is based on historical loss experience for assets with credit risk characteristics similar to the loans and advances. Historical loss experience is adjusted on the basis of the relevant observable data that reflect current economic conditions. Management reviews the methodology and assumptions used in estimating future cash flows regularly to reduce any difference between loss estimates and actual loss experience.

(b) Impairment of available-for-sale financial assets

For available-for-sale financial assets, a significant or prolonged decline in fair value below cost is considered to be objective evidence of impairment. Judgement is required when determining whether a decline in fair value has been significant or prolonged. In making this judgement, historical data on market volatility as well as in the share price of the specific equity investment are taken into account. The Group also takes into account other factors, such as industry and sector performance and financial information regarding the invested.

(c) Fair value of financial instruments

For a number of financial instruments, no quoted prices in an active market exist. The fair values for these financial instruments are established by using valuation techniques. These techniques include using recent arm's length market transactions, reference to the current fair value of similar instruments and discounted cash flow analysis and option pricing models. The Group has established a process to ensure that valuation techniques are constructed by qualified personnel and are validated and reviewed by personnel independent of the area that constructed the valuation techniques. Valuation techniques are certified before being implemented for valuation and are calibrated to ensure that outputs reflect actual market conditions. Valuation models established by the Group make the maximum use of market inputs and rely as little as possible on the Group's specific data. However, it should be noted that some inputs, such as credit and counterparty risk and risk correlations, require management estimates. Management estimates and assumptions are reviewed periodically and are adjusted if necessary.

(Expressed in millions of Renminbi unless otherwise stated)

41 SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS *(continued)*

(d) Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity investments if the Group has the intention and ability to hold them until maturity. In evaluating whether the requirements to classify a financial asset as held-to-maturity are met, management makes significant judgements. Failure in correctly assessing the Group's intention and ability to hold specific investments until maturity may result in reclassification of the whole portfolio as available-for-sale.

(e) Income taxes

Determining income tax provisions involves judgement on the future tax treatment of certain transactions. The Group carefully evaluates tax implications of transactions and tax provisions are set up accordingly. The tax treatment of such transactions is reconsidered periodically to take into account all changes in tax legislations. Deferred tax assets are recognised for tax losses not yet used and temporary deductible differences. As those deferred tax assets can only be recognised to the extent that it is probable that future taxable profit will be available against which the unused tax credits can be utilised, management's judgement is required to assess the probability of future taxable profits. Management's assessment is constantly reviewed and additional deferred tax assets are recognised if it becomes probable that future taxable profits will allow the deferred tax asset to be recovered.

42 MATERIAL RELATED-PARTY TRANSACTIONS

(a) Transaction terms and conditions

During the year, the Group entered into transactions with related parties in the ordinary course of its banking business including lending, investment, deposit, securities trading, agency services, trust services, and off-balance sheet transactions. The Directors are of the opinion that the Group's material related-party transactions were all entered into on normal commercial terms. The banking transactions were priced at the relevant market rates prevailing at the time of each transaction. Interest rates on loans and deposits are required to be set in accordance with the following benchmark rates set by the PBOC:

	2007	2006
Short-term loans	**5.58% to 7.47% p.a.**	5.22% to 6.12% p.a.
Medium to long-term loans	**6.30% to 7.83% p.a.**	5.76% to 6.84% p.a.
Saving deposits	**0.72% p.a.**	0.72% p.a.
Time deposits	**1.80% to 5.85% p.a.**	1.71% to 4.14% p.a.

There were no individually assessed allowances for impairment losses made against loans and advances granted to related parties during the year.

(Expressed in millions of Renminbi unless otherwise stated)

42 MATERIAL RELATED-PARTY TRANSACTIONS *(continued)*

(b) Shareholders and their related companies

As the Bank's largest shareholder China Merchants Steam Navigation Company Limited ("CMSNCL") and its related companies hold 17.64% (12.11% (2006: 12.10%) held directly by CMSNCL) of the Bank's shares as at 31 December 2007 (2006: 17.63%), the Directors consider that CMSNCL is not a controlling shareholder of the Bank but can exercise significant influence over the financial and operating decisions of the Bank. The Group's transactions and balances with CMSNCL and its related companies are disclosed as follows:

	2007	2006
On balance sheet:		
– Loans and advances	**3,620**	2,581
– Investments	**406**	156
– Deposits from customers	**57,616**	13,196
Off-balance sheet:		
– Irrevocable guarantee	**1,112**	357
– Irrevocable letters of credit	**80**	102
– Bills of acceptances	**296**	370
Average balance of loans and advances	**2,811**	1,613
Interest income	**156**	105
Interest expense	**728**	123
Fees and commission	**942**	174

(c) Companies controlled by directors other than those under Note 42(b) above

	2007	2006
On balance sheet:		
– Loans and advances	**110**	637
– Investments	**1,343**	–
– Deposits from customers	**5,862**	1,030
Average balance of loans and advances	**461**	728
Interest income	**26**	46
Interest expense	**92**	7
Fees and commission	**8**	17

(Expressed in millions of Renminbi unless otherwise stated)

42 MATERIAL RELATED-PARTY TRANSACTIONS *(continued)*

(d) Key management personnel

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including Directors, Supervisors and Executive Officers.

Remuneration for key management personnel, including amounts paid to the Bank's Directors and Supervisors as disclosed in Note 8 and certain highest paid employees as disclosed in Note 9 during the year is as follows:

	2007 **RMB'000**	2006 RMB'000
Salaries and other emoluments	**17,936**	16,796
Discretionary bonuses	**20,298**	13,499
Share-based payment	**828**	–
Contributions to defined contribution retirement schemes	**4,018**	3,177
	43,080	33,472

43 COMPARATIVE FIGURES

As stated in note 2(b), that as a result of adopting IFRS 7, Financial instruments: Disclosures, the amendments to IAS 1, Presentation of financial statements: Capital disclosures, and complying with the Banking (Disclosure) Rules as well as minimising the presentation differences from the statutory financial statements, certain comparative figures have been adjusted to conform with changes in disclosures in the current year and to show separately comparative amounts in respect of items disclosed for the first time in 2007.

44 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2007

Up to the date of issue of the financial statements, the IASB has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended 31 December 2007 and which have not been adopted in the financial statements.

The Group has assessed the impact of these amendments, new standards and new interpretations and concluded that they would only affect the level of details in the disclosure of the consolidated financial statements, and would not have an impact on the Group's results or the state of affairs of the Group or the Bank.

In addition, IFRS 8, Operating segments, which is effective for annual periods beginning on or after 1 January 2009, may result in new or amended disclosures in the financial statements.

45 EVENTS OCCURRED AFTER THE BALANCE SHEET DATE

As at the date of this report, the Group had no material post balance sheet date events for disclosure.

(Expressed in millions of Renminbi unless otherwise stated)

(A) CAPITAL ADEQUACY RATIO

The capital adequacy ratio is prepared on a solo basis in accordance with the guideline "Regulation Governing Capital Adequacy of Commercial Banks" [Order (2007) No. 11] issued by the CBRC (the "CBRC guideline") in July 2007, which may differ significantly from the relevant requirements in Hong Kong or other countries.

The capital adequacy ratios and related components of the Bank as at 31 December 2007 and 2006 calculated based on PRC GAAP, were as follows:

	31 December	
	2007	2006 (restated)
Core capital adequacy ratio	**9.02%**	9.58%
Capital adequacy ratio	**10.67%**	11.39%
Components of capital base		
Core capital:		
– Paid up ordinary share capital	**14,705**	14,703
– Reserves	**49,009**	38,422
– Total core capital	**63,714**	53,125
Supplementary capital:		
– General provisions for doubtful debts	**10,434**	8,005
– Term subordinated bonds	**1,400**	2,100
– Convertible bonds	**13**	22
– Other supplementary capital	**147**	98
– Total supplementary capital	**11,994**	10,225
Total capital base before deductions	**75,708**	63,350
Deductions:		
– Investments in unconsolidated subsidiary and other long-term investments	**619**	125
– Investment in commercial real estate	**363**	406
Total capital base after deductions	**74,726**	62,819
Risk weighted assets	**700,588**	551,503

for the year ended 31 December 2007

(Expressed in millions of Renminbi unless otherwise stated)

(B) LIQUIDITY RATIOS

	2007	2006
Liquidity ratios		
RMB current assets to RMB current liabilities	**41.7%**	51.1%
Foreign currency current assets to foreign currency current liabilities	**95.0%**	166.0%

The above liquidity ratios are calculated in accordance with the formula promulgated by the People's Bank of China (the "PBOC") and the CBRC and based on PRC GAAP.

(C) CURRENCY CONCENTRATIONS OTHER THAN RMB

	2007			
	US Dollars	**HK Dollars**	**Others**	**Total**
		(in millions of RMB)		
Non-structural position				
Spot assets	**96,468**	**18,355**	**6,035**	**120,858**
Spot liabilities	**(75,651)**	**(23,898)**	**(9,955)**	**(109,504)**
Forward purchases	**71,982**	**6,210**	**6,161**	**84,353**
Forward sales	**(89,474)**	**(1,177)**	**(2,222)**	**(92,873)**
Net option position	**(61)**	**–**	**61**	**–**
Net long/(short) position	**3,264**	**(510)**	**80**	**2,834**
Net structural position	**–**	**51**	**–**	**51**

	2006			
	US Dollars	HK Dollars	Others	Total
		(in millions of RMB)		
Non-structural position				
Spot assets	92,152	22,979	7,281	122,412
Spot liabilities	(61,884)	(34,157)	(7,151)	(103,192)
Forward purchases	9,017	12,067	751	21,835
Forward sales	(40,845)	(615)	(676)	(42,136)
Net option position	115	–	(115)	–
Net long/(short) position	(1,445)	274	90	(1,081)
Net structural position	–	51	–	51

(Expressed in millions of Renminbi unless otherwise stated)

(C) CURRENCY CONCENTRATIONS OTHER THAN RMB *(continued)*

The net option position is calculated using the delta equivalent approach required by the Hong Kong Monetary Authority (the "HKMA"). The net structural position of the Group includes the structural positions of the Bank's branches substantially involved in foreign exchange. Structural assets and liabilities include:

– Investments in fixed assets and premises, net of depreciation charges;

– Capital and statutory reserves of Hong Kong branch; and

– Investment in a subsidiary in Hong Kong.

(D) CROSS-BORDER CLAIMS

The Group is principally engaged in business operations within the Mainland China, and regards all claims on third parties outside the Mainland China as cross-border claims.

Cross-border claims include loans and advances, balances and placements with banks and other financial institutions, holdings of trade bills and certificates of deposit and investment securities.

Cross-border claims have been disclosed by different country or geographical areas. A country or geographical areas is reported where it constitutes 10% or more of the aggregate amount of cross-border claims, after taking into account any risk transfers. Risk transfers are only made if the claims are guaranteed by a party in country which is different from that of the counterparty or if the claims are on an overseas branch of a bank whose head office is located in another country.

	2007			
	Banks and other financial institutions	**Public sector entities**	**Others**	**Total**
Asia Pacific excluding the PRC	**10,093**	**–**	**6,123**	**16,216**
– of which attributed to Hong Kong	**3,526**	**–**	**5,990**	**9,516**
Europe	**21,069**	**–**	**439**	**21,508**
North and South America	**9,254**	**3,018**	**5,454**	**17,726**
	40,416	**3,018**	**12,016**	**55,450**

	2006			
	Banks and other financial institutions	Public sector entities	Others	Total
Asia Pacific excluding the PRC	20,813	1,684	5,701	28,198
– of which attributed to Hong Kong	4,999	1,684	4,643	11,326
Europe	32,536	1,180	635	34,351
North and South America	13,181	5,227	1,396	19,804
	66,530	8,091	7,732	82,353

(Expressed in millions of Renminbi unless otherwise stated)

(E) FURTHER ANALYSIS ON LOANS AND ADVANCES TO CUSTOMERS ANALYSED BY INDUSTRY SECTOR

	Group			
	2007		2006 (restated)	
	Total	**% of gross loans and advances covered by collateral or other security**	Total	% of gross loans and advances covered by collateral or other security
Manufacturing and processing	**132,652**	**25**	103,870	19
Transportation, storage and postal services	**75,827**	**20**	77,181	17
Wholesale and retail	**58,441**	**48**	31,003	37
Production and supply of electric power, gas and water	**40,901**	**8**	38,260	6
Property development	**43,181**	**54**	26,686	45
Leasing and commercial services	**29,789**	**24**	27,646	26
Construction	**17,145**	**17**	12,668	17
Mining	**10,310**	**4**	9,594	1
Telecommunications, computer services and software	**7,145**	**20**	7,182	13
Financial services	**6,952**	**2**	4,115	4
Others	**23,522**	**16**	21,678	22
Corporate loans	**445,865**	**27**	359,883	21
Discounted bills	**52,276**	**100**	103,836	100
Credit cards	**21,324**	**–**	10,146	–
Mortgages	**131,138**	**100**	81,383	100
Others	**22,564**	**93**	10,454	61
Retail loans	**175,026**	**87**	101,983	86
Gross loans and advances to customers	**673,167**	**48**	565,702	47

(Expressed in millions of Renminbi unless otherwise stated)

(E) FURTHER ANALYSIS ON LOANS AND ADVANCES TO CUSTOMERS ANALYSED BY INDUSTRY SECTOR *(continued)*

Overdue loans, impaired loans and advances and the individual and collective assessment allowances, impairment losses charged to consolidated income statement and impaired loans and advances written off during the year of the following industry sectors which constitute not less than 10% of total loans and advances to customers are:

	Group					
	2007					
	Overdue loans and advances	**Impaired loans and advances**	**Individually assessed impairment allowance**	**Collectively assessed impairment allowance**	**Impairment losses charged to consolidated income statement during the year**	**Impaired loans and advances written off during the year**
Manufacturing and processing	**3,058**	**3,227**	**2,267**	**2,544**	**1,181**	**49**
Transportation, storage and postal services	**783**	**637**	**557**	**1,436**	**389**	**10**
Mortgages	**2,788**	**335**	**–**	**1,502**	**–**	**–**

	Group					
	2006					
	Overdue loans and advances	Impaired loans and advances	Individually assessed impairment allowance	Collectively assessed impairment allowance	Impairment losses charged to consolidated income statement during the year	Impaired loans and advances written off during the year
Manufacturing and processing	2,936	3,074	1,881	1,743	693	23
Transportation, storage and postal services	223	387	267	1,328	64	11
Mortgages	2,523	322	–	1,615	498	7

(Expressed in millions of Renminbi unless otherwise stated)

(F) OVERDUE LOANS AND ADVANCES TO CUSTOMERS

(i) By geographical segments

	2007	2006
Eastern China	**1,414**	1,105
Southern and Central China	**4,831**	5,961
Western China	**1,762**	2,245
Northern China	**981**	839
Others	**110**	105
	9,098	10,255

(ii) By overdue period

	2007	2006
Gross loans and advances to customers which have been overdue with respect to either principal or interest for periods of:		
– between 3 and 6 months	**800**	904
– between 6 and 12 months	**635**	847
– over 12 months	**7,663**	8,504
Total	**9,098**	10,255
As a percentage of total gross loans and advances:		
– between 3 and 6 months	**0.12%**	0.16%
– between 6 and 12 months	**0.09%**	0.15%
– over 12 months	**1.14%**	1.50%
Total	**1.35%**	1.81%

(iii) Collateral information

	2007	2006
Secured portion of overdue loans and advances	**1,401**	1,928
Unsecured portion of overdue loans and advances	**7,697**	8,327
Value of collaterals held against overdue loans and advances	**1,151**	1,958
Provision of overdue loans and advances for which impairment losses are individually assessed	**6,835**	7,088

(G) OVERDUE LOANS AND ADVANCES TO FINANCIAL INSTITUTIONS

(i) By geographical segments

	2007	2006
Northern China	**1**	–

(ii) By overdue period

	2007	2006
Gross loans and advances to financial institutions which have been overdue with respect to either principal or interest for period of		
– between 3 and 6 months	**1**	–
As a percentage of total gross loans and advances		
– between 3 and 6 months	**–**	–

(iii) Collateral information

	2007	2006
Secured portion of overdue loans and advances	**–**	–
Unsecured portion of overdue loans and advances	**1**	–
Value of collaterals held against overdue loans and advances	**–**	–
Provision of overdue loans and advances for which impairment losses are individually assessed	**–**	–

Note: The above analysis, (F) and (G), includes loans and advances overdue for more than 90 days as required and defined by the HKMA.

Loans and advances with a specific repayment date are classified as overdue when the principal or interest is overdue.

For loans and advances repayable by regular instalments, if part of the instalments is overdue, the whole amount of these loans would be classified as overdue.

Loans and advances repayable on demand are classified as overdue when a demand for repayment has been served on the borrower but repayment has not been made in accordance with the instructions. If the loans and advances repayable on demand are outside the approved limit that was advised to the borrower, they were also considered as overdue.

The collaterals of the Bank included cash deposit, shares, land use right, property, motor vehicles and equipment, etc. The fair value of collaterals was estimated by management based on the latest available external valuations adjusted by taking into account the current realisation experience as well as market situation. Where collateral values are greater than gross advances, only the amount of collateral up to the gross advance had been included in the "secured portion of overdue loans and advances" as set out in the above tables.

(Expressed in millions of Renminbi unless otherwise stated)

(H) RESCHEDULED LOANS AND ADVANCES TO CUSTOMERS

	2007	**% of total loans and advances**	2006	% of total loans and advances
Rescheduled loans and advances to customers	**1,790**	**0.27%**	2,486	0.44%
Less:				
– rescheduled loans and advances but overdue more than 90 days	**1,332**	**0.20%**	1,581	0.28%
Rescheduled loans and advances overdue less than 90 days	**458**	**0.07%**	905	0.16%

There were no rescheduled loans and advances to financial institutions as at 31 December 2007 and 2006.

(I) NON-BANK MAINLAND EXPOSURES

The Bank is a commercial bank incorporated in the Mainland with its banking business primarily conducted in the Mainland. As of 31 December 2007 and 31 December 2006, over 90% of the Bank's exposures arose from businesses with Mainland entities or individuals. Analyses of various types of exposure by counterparty have been disclosed in the notes to the financial report.

(J) CORPORATE GOVERNANCE

Board committees

The board of directors has established five committees including the Executive Committee, Audit and Related Party Transactions Control Committee, Risk Management Committee, Remuneration and Appraisal Committee and Nomination Committee.

(i) Executive Committee

Main authorities and duties of the Executive Committee are:

- to examine and supervise implementation of board resolutions;
- to regularly review the work report of the president's team in relation to the operation and management of the Bank;
- to examine the material matters of the Bank, including changes in senior management, changes in organisations above the branch level, and significant investments etc.;
- to determine the basis for distribution of president incentive fund;
- to put forward proposals and plans for important issues to be discussed and decided by the board; and
- to analyse the medium to long term development strategies and material investment decisions of the Bank and provide recommendations.

(ii) Audit and Related Party Transactions Control Committee

Main authorities and duties of the Audit and Related Party Transactions Control Committee are:

- to propose the appointment or replacement of external auditors;
- to monitor the internal audit system of the Bank and its implementation;
- to coordinate communication between internal auditors and external auditors;
- to review the financial information of the Bank and its disclosure;
- to examine the internal control system of the Bank; and
- to examine the material connected transactions of the Bank.

(J) CORPORATE GOVERNANCE *(continued)*

Board committees *(continued)*

(iii) Risk Management Committee

Main authorities and duties of the Risk Management Committee are:

– to monitor the risk management of the Bank's exposures to credit risks, market risks and operational risks, etc. by senior management;

– to conduct regular assessment of the risk position of the Bank; and

– to put forward proposals on the improvement of the risk management and internal control of the Bank.

(iv) Remuneration and Appraisal Committee

Main authorities and duties of the Remuneration and Appraisal Committee are:

– to study and propose standards for appraising directors and senior management, conduct appraisals and provide advices based on the actual situation of the Bank; and

– to study and formulate the remuneration policy and plans for directors and senior management.

(v) Nomination Committees

Main authorities and duties of the Nomination Committee are:

– to put forward proposals to the board on the size and composition of the board according to the business operations, asset scale and shareholding structure of the Bank;

– to study the standards and procedures for the election of directors and senior management, and propose the same to the board;

– to conduct extensive searches for qualified candidates as directors and senior management; and

– to make preliminary examination on the qualifications of the candidates for directors and senior management and put forward proposals.

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