



Bank of Communications Co., Ltd.

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

Stock Code: 3328

The background features a blue sky with a sun, a blue body of water, and a colorful, blurred streak of light at the bottom. Overlaid on this are several white and red circular lines with dots, resembling a network or communication diagram.

Strong Communications
Leads to Promising Future

Interim Report 2007

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1. CORPORATE INFORMATION

Legal name in Chinese:

交通銀行股份有限公司

Legal name in English:

Bank of Communications Co., Ltd.

Legal representative:

JIANG Chaoliang

Secretary of the Board:

ZHANG Jixiang

Authorized Representatives:

PENG Chun
ZHANG Jixiang

Office Address and Investor Relations:

No. 188 Yin Cheng Zhong Lu,
Pudong New District, Shanghai, China
Post code: 200120
Telephone: 8621-58766688
Fax: 8621-58798398
E-mail: investor@bankcomm.com
Website: www.bankcomm.com

Place of Business in Hong Kong:

20 Pedder Street, Central, Hong Kong

Selected Newspapers and Websites for Information Disclosure:

PRC: China Securities Journal,
Shanghai Securities News

Hong Kong: South China Morning Post,
Hong Kong Economic Times

Places where the Interim Report can be obtained:

Headquarters and principal place of business of the Bank

Website designated by CSRC to publish the Interim Report:

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

Website designated by The Stock Exchange of Hong Kong Limited to publish the Interim Report:

<http://www.hkex.com.hk>

Auditors for PRC GAAP Report:

Deloitte Touche Tohmatsu Certified Public Accountants Limited Company

Auditors for IFRS Report:

PricewaterhouseCoopers

Hong Kong Legal Adviser:

Linklaters

China Legal Adviser:

King & Wood PRC Lawyers

Listing information:

Type of shares: A-shares

Stock Code: 601328

Place of Listing: Shanghai Stock Exchange

Type of shares: H-shares

Stock Code: 3328

Place of Listing: The Stock Exchange of Hong Kong Limited

Share Registrars:

A-shares: China Securities Depository and Clearing Corporation Limited, Shanghai Branch 3/F, China Insurance Building, No. 166 Lujiazui Dong Lu, Pudong New District, Shanghai, China

H-shares: Computershare Hong Kong Investor Services Limited
46/F, Hopewell Center, 183 Queen's Road East, Wanchai, Hong Kong

* This report is prepared in Chinese and English, respectively. The English version is for reference only. In case of any inconsistency, the Chinese version shall prevail.

The board of directors of Bank of Communications Co., Ltd. (the “Bank”) is pleased to announce the unaudited consolidated results (the “Interim Results”) for the six months ended 30 June 2007 (the “Period”) of the Bank and its subsidiaries (the “Group”), which have been prepared in accordance with the International Accounting Standards 34 — “Interim Financial Reporting” issued by the International Accounting Standards Board.

2. FINANCIAL HIGHLIGHTS

The interim financial data and indicators of the Group for the six months ended 30 June 2007 prepared under International Financial Reporting Standards (“IFRS”) are as follows:

2.1. Major accounting data and financial indicators

(All amounts expressed in millions of RMB unless otherwise stated.)

	At 30 June 2007	At 31 December 2006	Change (%)
Total assets	2,135,880	1,719,483	24.22
including: loan (less impaired allowances)	1,113,321	910,307	22.30
Total liabilities	2,011,616	1,628,988	23.49
including: customer deposits	1,652,422	1,352,890	22.14
Shareholder’s equity	124,264	90,495	37.32
Shareholder’s equity (eliminate the minority interest)	124,108	90,436	37.23
Net assets per share (eliminate the minority interest, in RMB)	2.533	1.974	28.32
	January to June 2007	January to June 2006	Change (%)
Net interest income	23,536	18,344	28.30
Operating profit before tax	14,155	9,257	52.91
Net profit (eliminate the minority interest)	8,558	6,034	41.83
Diluted earning per share (in RMB)	0.18	0.13	38.46
Net cash flow from operating activities	(5,456)	59,404	(109.18)

	At 30 June 2007	At 31 December 2006	Change (Percentage points)
Return on average total assets (note 1)	0.89%	0.78%	0.11
Return on average shareholder's equity (note 2)	15.96%	14.15%	1.81
Cost to income ratio (note 3)	36.98%	47.66%	(10.68)
Impaired loan ratio (note 4)	2.06%	2.53%	(0.47)
Provision coverage of impaired loans (note 5)	85.34%	72.83%	12.51
Capital adequacy ratio (note 6)	14.17%	10.83%	3.34

Note:

1. This is calculated by dividing annualized net profit of the Period by the average of total assets at the beginning and at the end of the Period.
2. This is calculated by dividing annualized net profit of the Period by the average of shareholder's equity balance at the beginning and at the end of the Period.
3. This is calculated by dividing other operating expenses by the operating income (including net interest income, net fee and commission income, dividend income, gains less losses arising from trading activities, gains less losses arising from de-recognition of investment securities and other operating income).
4. This is calculated by dividing the balance of impaired loans by the balance of loans before provision at the end of the Period.
5. This is calculated by dividing the balance of provision by the balance of impaired loans at the end of the Period.
6. This is calculated in accordance with People's Bank of China ("PBOC") and China Banking Regulatory Commission ("CBRC") guidelines and based on PRC Generally Accepted Accounting Principles ("PRC GAAP").

3. RECONCILIATION OF NET ASSETS AND NET PROFIT FROM PRC GAAP TO IFRS

Under PRC GAAP, the Group has, since 1 January 2007, implemented the new Accounting Standards for Business Enterprises (“ASBE”) issued by Ministry of Finance on 15 February 2006. According to requirements under “ASBE 38 First-time adoption of ASBE”, the Group restated the financial statements under PRC GAAP for the year 2006. The reconciliation of net assets and net profit of the Group from PRC GAAP to IFRS after the restatement is listed as follows:

(in millions of RMB)

	Net Assets		Net Profit	
	30 June 2007	31 December 2006 Restated	Period ended 30 June 2007	Period ended 30 June 2006 Restated
PRC GAAP figures	121,177	87,439	8,981	6,490
Adjustments for accounting standard differences:				
1. Revaluation surplus/deficit from fixed assets	4,500	4,631	(120)	(179)
2. Differences arising from the transfer of the non-performing loans to China Cinda Asset Management Corporation	(504)	(548)	45	94
3. Deferred taxes	(1,039)	(1,188)	(251)	(110)
4. Others	130	161	(34)	(260)
IFRS figures	124,264	90,495	8,621	6,035

Explanation of the adjustments for accounting standard differences:

(1) Revaluation surplus/deficit from fixed assets

In 2006, the Group carried out a further revaluation exercise on land and buildings for the preparation of its IFRS financial statements, which was not a statutory valuation. The valuation surplus/deficit arising from the valuation has been reflected in IFRS financial statements, while it is not recognised in PRC GAAP financial statements. The differences arising from fixed assets revaluation exercise in 2006 has been reflected as an accounting standard difference accordingly. The difference will be depreciated during the remaining beneficiary period.

- (2) Differences arising from the transfer of the non-performing loans to China Cinda Asset Management Corporation

On 27 June 2004, the Group disposed of non-performing loans (the “**Transferred Loans**”) to China Cinda Asset Management Corporation in exchange for the bills issued by the PBOC (the “**Bills**”). The amount of carrying value of the Transferred Loans in excess of the fair value of the Bills, net of tax, was offset against capital surplus in its IFRS financial statements. Under PRC GAAP, the Bills are carried at face value. The discount will be amortized and recorded as interest income from securities during the remaining beneficiary period of the Bills.

- (3) Deferred taxes

In both PRC GAAP and IFRS financial statements prepared by the Group, deferred income tax is provided, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Accordingly, all adjustments on accounting standard differences also gave rise to deferred taxation differences.

- (4) Others

All other differences are adjustments with minor amounts.

4. MANAGEMENT DISCUSSION AND ANALYSIS

China’s economy was active during the first half of 2007. With continued strong macro-economic growth, gross domestic product increased by 11.5% and consumer price index (“**CPI**”) increased by 3.2% compared with the same period of 2006. The People’s Bank of China (“**PBOC**”) has promulgated a series of macro-economic control policies, including raising the mandatory deposit reserve ratio in respect of Renminbi five times, issuing notes to targeted banks twice and raising the benchmark interest rate for deposits and loans in respect of Renminbi twice in the first half of the year. Facing the dynamic market opportunities and economic environment, the Group further enhanced its risk management, deepened the implementation of strategic reform, proactively adjusted its business strategy, created more sources of profit and optimized the business structure. As a result, the Group has achieved fast growth in both assets and liabilities, further improvement in its revenue structure and rapid growth in profitability during the first half year of 2007.

4.1 Operation overview

Fast growth of asset scale and significant increase in profitability. As at the end of the Period, the total assets of the Group exceeded RMB2,000 billion and reached RMB2,135.880 billion, representing an increase of 24.22% as compared to the beginning of the year. Net profit was RMB8.558 billion in the first half of the year, representing an increase of 41.83% compared to the same period of the previous year, and representing an increase of 63.13% if the one-off change in income tax rate is not taken into account. The half year return on total assets was 0.40% and the half year return on shareholder’s equity was 6.90%, which increased by 0.02 percentage points and decreased by 0.27 percentage points as compared to the same period of the previous year, respectively.

Fast growth in net fee and commission income increased their contribution to operating income. Net fee and commission income of the Group earned in the Period was RMB3.101 billion, representing an increase of RMB1.805 billion or 139.27% compared to the same period of the previous year. Net fee and commission income accounted for 11.34% of net operating income, representing an increase of 4.92 percentage points compared to the same period of the previous year.

Sound cost control and risk management resulted in continued decline of the cost to income ratio and impaired loan ratio. During the Period, the cost to income ratio of the Group was 36.98%, representing a decrease of 10.68 percentage points as compared to the previous year. The impaired loan ratio was 2.06%, decreasing by 0.47 percentage points compared to such ratio as at the end of last year.

Orderly capital expansion increased capital adequacy ratio. The Group implemented capital expansion in an orderly manner. In the first half of 2007, the Group issued RMB25 billion subordinated term debt and issued A Shares which raised RMB24.75 billion. The capital adequacy ratio was 14.17% as at 30 June 2007, representing a remarkable increase of 3.34 percentage points compared to the beginning of the year. The core capital adequacy ratio was 10.05%, representing an increase of 1.53 percentage points from the beginning of the year.

4.2 Business review

In corporate business, deposit and loan business maintained healthy growth and new business development has been accelerated. During the Period, the Group's corporate deposit and loan business achieved rapid growth. As at the end of the Period, the outstanding balance of corporate deposits reached RMB1,103.203 billion, representing an increase of RMB281.194 billion or 34.21% from the beginning of the year. The outstanding balance of corporate loans reached RMB986.873 billion, representing an increase of RMB188.176 billion or 23.56% from the beginning of the year. The strengths of cooperation between the Bank and futures companies has been initially formed. As an eligible depository bank of National Futures Security Fund Account, the Bank has entered into contracts with 63 futures companies. The Group is in the pole position amongst its rivals for its progress in preparation of becoming one of the first members of the financial futures special clearance corporation.

In retail business, the Group has defended itself from unfavourable market factors, actively developed its related business and steadily pushed forward its strategic reform. As at the end of the Period, the outstanding balance of the Group's retail deposits reached RMB527.042 billion, representing an increase of RMB17.008 billion or 3.33% from the beginning of the year; retail loan balances reached RMB143.812 billion, representing an increase of RMB17.684 billion or 14.02% from the beginning of the year. The total number of Pacific Credit Cards issued reached 3.01 million and 0.87 million new cards were issued during the first half of the year. The total number of debt cards and quasi-credit cards issued reached 45.77 million, and 4.45 million new cards were issued. New business development has been accelerated, with 58 securities companies having signed contracts with the Bank for custodian business, while contracted customers have reached in excess of 0.6 million. The construction of

our customer service brand was further enhanced. The promotion of “Ward Fortune” (沃德财富) to high-end customers and “BOCOM Fortune” (交銀理財) to middle-class, high-quality customers was accelerated and well developed. Managed personal assets increased by RMB98.4 billion and achieved a total scale of RMB101.9 billion. The number of high-end retail customers experienced fast growth. As at 30 June 2007, the total number of Ward Fortune customers increased by 53.46% from the beginning of the year, representing an increase of 121.95% as compared with the same period of the previous year, and 103.79% of the annual target was reached. The brand “BOCOM Fortune” was promoted throughout the whole Bank commencing from 18 April. As at 30 June 2007, the total number of BOCOM Fortune customers increased quickly in less than three months’ time, and 31.91% of the annual target was reached. Network integration and geographic segregation were further enhanced, while approximately 100 “Ward Fortune Centres” were established and put into function.

In treasury business, the Bank has made a positive response to PBOC’s frequent adjustment of monetary policy, as well as the challenge from an active capital market and continuously improved its capital utilization efficiency. In the first half year, there were many IPOs in the domestic market, resulting in bigger fluctuation of market positions. In response to this, the Group secured its liquidity position and strengthened capital operations by applying funds flexibly. The volume of transactions achieved was RMB3,200 billion, representing an increase of RMB1,400 billion or 77.78% as compared with the same period of the previous year. This consolidates our market presence as a highly active bank.

In international business, the bank has realized rapid growth in international settlement business with targeted businesses developing quickly, and favorable progress in the establishment of overseas branches. By the end of the Period, domestic branches of the Group realized USD73.5 billion from international settlements, representing a 28% increase compared to the same period of the previous year and stood at nearly 5 percentage points higher in the rate of growth of import and export trading. The volume of trade financing business reached USD6.1 billion, and that of corporate foreign currency financial management reached USD942 million. Preparation work to establish new branches in Frankfurt and Macao went well. The establishment of the Frankfurt branch has been approved by local banking authorities.

In fee-based business, revenue has increased significantly through steady development of bank card business, active expansion of fund trustee and consignment sales, short-term bond underwriting and wealth management business. Fee and commission income reached RMB3.638 billion during the Period, representing an increase of 133.35% over the same period of the previous year. Net fee and commission income reached RMB3.101 billion, representing an increase of 139.27% over the same period of the previous year and accounted for 11.34% of net operation income, representing an increase of 4.92 percentage points over the same period of the previous year. As at the end of the Period, the bank card business realized income of RMB912 million, which increased by 95.29% compared to the same period of the previous year and accounted for 25.07% of total fee and commission income. The scale of the custodian asset business reached RMB177.2 billion, achieving a growth of 52% from the beginning of the year. Custodian business realized

income of RMB180 million, representing an increase of 172.73% compared to the same period of the previous year. As a new profit growth-point, commission income from sales of funds realized RMB1.017 billion. The E-banking business ran well, and the cumulative value of transaction made through E-banking reached RMB8,100 billion. E-channel is now playing an increasingly significant role in traditional business. The proportion of volume of transaction made through E-channel in corporate settlement and personal funds transfer reached 29% and 41.7%, respectively.

The Group's diversified operation is making positive progress, with investment in the reconstruction of Hubei International Trust Investment Company Limited, application for setting up BOCOM Financial Leasing Company Limited and the establishment of BOCOM International Holding Company Limited getting underway. Pursuant to the approval of the board of directors, the Group has acquired and restructured Hubei International Trust and planned to rename it as BOCOM International Trust Company Limited. The required procedures are in progress. In accordance with the "Administration Rules of Financial Leasing Companies" issued by the CBRC, the Group has submitted the application for setting up BOCOM International Financial Leasing Company Limited. Based on the restructuring and integration of the original business of BOCOM Securities Company Limited, four entities were established in Hong Kong in May 2007, namely BOCOM International Holding Company Limited ("**BOCOM International**") and its subsidiaries BOCOM International Asia Limited, BOCOM International Securities Limited and BOCOM International Asset Management Limited. BOCOM International is qualified to act as a sole sponsor to Hong Kong listing projects and a financial advisor on M&A matters in Hong Kong.

Product innovation has resulted in favorable performance and an upgrade in service quality. The Group continued its acceleration of product innovation, enriching a variety of products as a core measure to meet customer needs and improve service quality. In the first half year, further steps have been taken to increase efforts in new product development and system optimization. As for corporate business, new services like foreign currency cash pool, mutual benefits corporation account and electronic notes are added to its high-end product "Ying Tong Zhang Hu" (盈通賬戶). In respect of retail business, there was a good market response to the "Forex Kit Seven Colors Series" (得利寶 — 七彩系列) financing products, the Olympic Games Liu Xiang VISA cards, "Home Easy" (家易通) and a number of personal financial management products. The "Su Hui Jin" (速滙金) business has realized multi-functional currency remittances. The development of product innovation and pricing system built upon Shibor continues to accelerate while the brand image of being innovative in developing Shibor products has been initially established.

Risk management processes were refined, and the ability to mitigate risks has been enhanced. The Group is committed to continuous improvement, strengthening systems and work processes and optimizing measures to enhance risk management and internal control through various methods. Firstly, risk management functions were enhanced. The Group established an assets and liabilities management department which centrally manages market risk and established a credit risk measurement department in both the credit authorization department and the retail loan department, with the responsibility for developing credit risk measurement tools. Secondly, risk management technology was improved with the promotion of the Assets Risk Management System (ARMS) which enables the standardization of risk monitoring, timely provision assessment, automated migration analysis and integrated asset supervision. Thirdly, management over key risk points was strengthened. Risk management over the Group and its related entities was consolidated with related specific measures being intensified and the risk management system over the Group's customers and related entities was enhanced. The Group also reinforced the risk prevention strategy and procedures of the retail loan business, closely monitored operational risks of its mortgage loans, and strictly prevented the funds from retail loans from flowing into the stock market. Fourthly, the Group continuously strengthened its efforts in non-performing loan collection, enhanced non-performing assets recovery processes, increased the proportion of cash in non-performing loan collection, and achieved success in a number of asset preservation projects, and as a result, the risks are further controlled.

4.3 Financial results

(1) Operating profit before tax

For the period ended 30 June 2007, operating profit before tax was RMB14.155 billion, representing an increase of RMB4.898 billion or 52.91% over the same period of the previous year. The operating profit before tax derived mainly from net interest income and net fee and commission income.

The table below shows certain information of the Group's operating profit before tax for the periods indicated:

(in millions of RMB)

	As of 30 June	
	2007	2006
Net interest income	23,536	18,344
Net fee and commission income	3,101	1,296
Impairment losses on loans and advances	(3,077)	(1,971)
Operating profit before tax	14,155	9,257

(2) Net interest income

For the period ended 30 June 2007, the Group realized a net interest income of RMB23.536 billion, representing an increase of RMB5.192 billion or 28.30% as compared with the same period of the previous year.

The table shows the major components of the Group's interest income, interest expense and associated net interest margin and interest spread for the periods indicated:

(in millions of RMB, except percentages)

	January to June 2007	January to December 2006
Interest income		
Balances with central banks	1,465	2,096
Due from other banks and financial institutions	3,130	6,141
Loans and advances to customers	28,677	45,321
Investment securities	6,433	10,855
Others	115	130
Total interest income	39,820	64,543
Interest expense		
Due to other banks and financial institutions	(4,372)	(5,425)
Due to customers	(11,912)	(19,315)
Total interest expense	(16,284)	(24,740)
Net interest income	23,536	39,803
Net interest spread ⁽¹⁾	2.68% ⁽³⁾	2.70% ⁽³⁾
Net interest margin ⁽²⁾	2.73% ⁽³⁾	2.75% ⁽³⁾

(1) This ratio represents the difference between the average yield on total average interest-earning assets and the average cost of total average interest-bearing liabilities of the Group.

(2) This ratio represents the net interest income to average interest-earning assets.

(3) Annualized ratio. This eliminates the impact of wealth management products.

During the Period, net interest spread and net interest margin of the Group were 2.68% and 2.73%, respectively, which represented slightly decreases compared with figure from the previous year but increases by 0.08 percentage points and 0.07 percentage points as compared with the first quarter of 2007. Yield on interest-earning assets was 4.58%, representing an increase of 0.16 percentage points as compared to previous year. Cost of interest-bearing liabilities was 1.90%, increased by 0.18 percentage points as compared to the previous year.

The table below shows the average daily balance and interest rate of the Group's interest-earning assets and interest-bearing liabilities for the periods indicated:

(in millions of RMB, except percentages)

	2007/1-6			2007/1-3			2006/1-12		
	Average balance ⁽¹⁾	Interest income (expense)	Average yield (cost) ratio ⁽²⁾	Average balance ⁽¹⁾	Interest income (expense)	Average yield (cost) ratio ⁽²⁾	Average balance ⁽¹⁾	Interest income (expense)	Average yield (cost) ratio
Assets									
Cash and balances									
with central banks	199,154	1,465	1.47%	194,189	701	1.44%	146,190	2,096	1.43%
Due from other banks									
and financial institutions	139,770	3,130	4.48%	141,194	1,640	4.65%	142,158	6,141	4.32%
Loans and advances									
to customers	977,273	28,677	5.87%	934,404	13,348	5.71%	818,166	45,321	5.54%
Investment in securities									
and others	418,569	6,548	3.13%	396,456	3,152	3.18%	351,993	10,985	3.12%
Interest-earning assets	1,722,088 ⁽²⁾	39,436 ⁽²⁾	4.58%	1,652,994 ⁽²⁾	18,664 ⁽²⁾	4.51%	1,446,109 ⁽²⁾	64,005 ⁽²⁾	4.42%
Non interest-earning assets	69,781			69,565			71,814		
Total assets	1,791,869 ⁽²⁾			1,722,559 ⁽²⁾			1,517,923 ⁽²⁾		
Liabilities and shareholder's equity									
Due to customers ⁽⁴⁾	1,403,832	11,912	1.70%	1,370,449	5,812	1.70%	1,248,240	19,315	1.55%
Due to other banks and									
financial institutions ⁽⁴⁾	252,121	3,770	2.99%	225,606	1,824	3.23%	155,499	4,851	3.12%
Subordinated term debts	28,127	602	4.28%	18,685	207	4.43%	12,000	574	4.78%
Interest-bearing liabilities	1,671,402 ⁽²⁾	15,900 ⁽²⁾	1.90%	1,601,491 ⁽²⁾	7,666 ⁽²⁾	1.91%	1,403,341 ⁽²⁾	24,202 ⁽²⁾	1.72%
Shareholder's equity and									
non interest-bearing liabilities	120,467			121,068			114,582		
Total liabilities and									
shareholder's equity	1,791,869 ⁽²⁾			1,722,559 ⁽²⁾			1,517,923 ⁽²⁾		

- (1) Daily average balance calculated in accordance with PRC GAAP and adjusted in accordance with IFRS.
- (2) This eliminates the impact of wealth management products.
- (3) Annualized ratios.
- (4) In accordance with PRC GAAP, the deposits from companies such as insurance, finance, fund management, trust and securities were re-classified from due to customers to due to other banks and financial institutions and related interest expenses were adjusted.

The table below presents changes in the Group's interest income and interest expense due to the changes in transaction volume and interest rate. Transaction volume and interest rate variances have been calculated based on movements in average balances and changes in interest rates on interest-earning assets and interest-bearing liabilities over those periods:

(in millions of RMB)

	January — June 2007 vs. January — December 2006 increase/(decrease) due to:			2006 vs. 2005 increase/(decrease) due to:		
	Volume	Interest rate	Net increase/ (decrease)	Volume	Interest rate	Net increase/ (decrease)
Interest-earning Assets						
Cash and balances with central banks	757	77	834	305	(24)	281
Due from other banks and financial institutions	(103)	222	119	879	1,887	2,766
Loans and advances to customer	8,815	3,218	12,033	6,434	2,582	9,016
Investment in securities and others	2,077	34	2,111	2,651	149	2,800
Changes in interest income	11,546	3,551	15,097	10,269	4,594	14,863
Interest-bearing Liabilities						
Due to customers	2,412	2,097	4,509	2,760	1,550	4,310
Due to other banks and financial institutions	3,015	(326)	2,689	1,695	629	2,324
Subordinated term bonds	771	(141)	630	(10)	27	17
Changes in interest expense	6,198	1,630	7,828	4,445	2,206	6,651

(3) Net fee and commission income

Benefiting from the active capital market, rapid growth in the volume of bank cards issued and consumption per card, and sound development of custodian and fund agent business, as well as the support from the policies such as incentive schemes and resource deployment, net fee and commission income experienced robust growth in the first half of the year.

The table below set forth the components and structure of the Group's fee and commission income:

(in millions of RMB)

	As of 30 June	
	2007	2006
Settlement and agent service commission income	558	511
Bank card annuity fee and commission income	912	467
Guarantee and commitment commission income	188	179
Custodian commission income	180	66
Funds sales commission income	1,017	16
Funds management commission income	248	—
Other commission income	535	320
	3,638	1,559

(4) Other operating expense

For the period ended 30 June 2007, other operating expenses of the Group amounted to RMB10.11 billion, representing an increase of RMB1.158 billion or 12.94% compared to the same period of the previous year.

The cost-to-income ratio of the Group continued its descending trend by decreasing from 47.66% in the previous year to 36.98% as of the end of the Period, representing a decrease of 10.68 percentage points. The decrease was mainly due to a substantial increase in net operating income, while the increase in operating costs as compared with the same period of the previous year was less than that of net operating income.

(5) Impairment losses on loans and advances

The Group's impairment losses on loans and advances consisted of impairment losses on impaired loans and advances to customers (less recovery of loans previously written off) and the provision for balances due from other banks and financial institutions as well as securities purchased under resale agreements.

Impairment losses on loans and advances increased from RMB1.971 billion in the same period of the previous year to RMB3.077 billion in the Period. The credit cost ratio reached 0.27% in the first half year, representing an increase of 0.05 percentage points from the same period of the previous year.

(6) Income tax

The table below shows a breakdown of the Group's current tax and deferred tax for the periods indicated:

(in millions of RMB)

	As of 30 June	
	2007	2006
Current tax	3,844	3,520
Deferred tax	1,690	(298)

For the period ended 30 June 2007, the Group and its subsidiaries which were established in Mainland China were subject to the PRC statutory tax rate of 33%. The Group's Hong Kong branch or subsidiaries in Hong Kong were subject to a tax rate of 17.5% for the period ended 30 June 2007. The Group's other overseas branches were subject to the income tax rates prevailing in the countries in which they operate.

On 16 March 2007, the National People's Congress approved the Corporate Income Tax Law of the People's Republic of China (the "**New CIT Law**"), which is effective from 1 January 2008. Under the New CIT Law, the corporate income tax rate applicable to the Bank from 1 January 2008 will be decreased from 33% to 25%. According to the International Accounting Standards No. 12, the deferred tax assets and deferred tax liabilities shall be measured at the tax rates that are expected to apply to the Period when the asset is realized or the liability is settled. As a result of the change in the applicable tax rate, the Group shall suffer from a one-time increase in income tax of RMB1.285 billion for the period ended 30 June 2007.

4.4 Assets

As of 30 June 2007, the Group's total assets amounted to RMB2,135.880 billion, achieving an increase of RMB416.397 billion or 24.22% from the end of the previous year. The four principal components of our assets were loans and advances to customers, investment in securities, due from other banks and financial institutions, and cash and balances with central banks, representing 52.12%, 21.65%, 13.01% and 10.72% of the Group's total assets, respectively.

(1) Loan business

The Group maintained healthy growth in its loan business, optimized its loan portfolio structure and made significant effort to increase substantive loans. As of 30 June 2007, the Group's total outstanding loans and advances to customers (before provision and after interest, similarly hereinafter unless otherwise stated) amounted to RMB1,133.232 billion, representing an increase of RMB205.827 billion or 22.19% from the beginning of the year. Loans to deposits ratio (excluding any interest receivable and interest payable) reached

68.85%, achieving an increase of 0.05 percentage points from the beginning of the year. Customers loans other than discounted bills (excluding any interest receivable) became the major component contributing to the surge of loans and advances to customers. Such loans increased by RMB189.975 billion or 22.30% from the beginning of the year and accounted for 92% of the increase in the total loans and advances to customers. The balance of discounted bills increased by RMB15.885 billion or 21.82% from the beginning of the year, contributing to 8% of the increase in the total loans and advances to customers.

(ii) Loan concentration by industries

The Group has adopted vigorous measures to adjust the loan structure in order to optimize the industry concentration, and has made great efforts to maintain and develop high-quality reputable clients in major regions and key industries. The Group has continuously supported high-quality clients in industries such as transportation, petroleum, petro-chemistry, electric power, equipment and machinery manufacturing and telecommunications, and also closely monitored the impact caused by the national macro-economic policies on real estate, steel, textile and education industries with a view to keeping a reasonable credit volume and gradually reducing the relevant proportion in the total industry concentration. Meanwhile, in compliance with the new governmental guidance of enhancing environmental protection and controlling loan advanced to high pollution and high energy-consuming industries, the management announced several new policies, such as “The opinion on supporting energy saving and strengthening the development quality”. The Group considered the energy-consumption standards and environmental impact as a necessary assessment criteria in loan approving procedures. In accordance with the government’s guidance on industrial development, the Group has tried to develop high quality clients in encouraged industries, approved loan applications for legally-compliant environment-friendly projects and made efforts to manage and reduce the credit risk by means of tightening, reducing or restructuring the credit facilities granted to restricted industries, prohibited industries or industries that do not attain the required standards in relation to energy consumption or environmental impact. Additional guarantee were required from clients of these industries.

Distribution of corporate loans of the Group by industry for the periods indicated is as follows:

(in millions of RMB, except percentages)

	30 June 2007	%	31 December 2006	%
Corporate loans				
Manufacturing				
— Petroleum and chemical	47,698	4	41,227	4
— Electronics	31,165	3	26,917	3
— Steel	28,595	3	26,448	3
— Machinery	38,372	3	25,592	3
— Textile	22,342	2	20,420	2
— Other manufacturing	114,213	10	100,141	11
Transportation	110,298	10	93,035	10
Trading	94,832	8	81,945	9
Services	95,879	9	79,630	9
Real estate	74,142	7	65,962	7
Utilities	79,527	7	63,289	7
Construction	38,773	3	35,961	4
Educations and scientific research	28,192	2	25,521	3
Post and telecommunications	10,783	1	11,456	1
Agriculture	2,336	—	2,440	—
Non-banking financial institutions	69,067	6	13,020	1
Others	11,969	1	12,888	1
Corporate loans total	898,183	79	725,892	78
Mortgage loans	97,760	9	88,224	10
Medium-term and long-term working capital loans	20,243	2	17,626	2
Short-term working capital loans	10,029	1	10,321	1
Car loans	4,207	—	3,932	1
Credit card advances	3,210	—	2,731	—
Loans secured by deposits	2,761	—	1,284	—
Others	5,602	1	2,010	—
Individual loans total	143,812	13	126,128	14
Discounted bills	88,690	8	72,805	8
Interest receivables	2,547	—	2,580	—
	91,237	8	75,385	8
Gross amount of loans and advances before allowance for impairment	1,133,232	100	927,405	100

(ii) Borrowers concentration

Under the prevailing PRC banking regulations, the total outstanding credit exposure to a single group customer must not exceed 15% of the net regulatory capital of a bank whereas the total outstanding loans to a single borrower shall not exceed 10% of the net regulatory capital of a bank. The Group currently complies with these regulatory requirements.

(iii) Loan concentration by geographical locations

The Group's loans and advances to customers are concentrated in the Yangtze River Delta, the Bohai Rim Economic Zone and the Pearl River Delta regions. Loans to borrowers from the above regions accounted for 62.12% of the total loans and advances to customers outstanding (excluding interest receivable) as at 30 June 2007.

(iv) Loan Quality

The Group continued to enhance asset risk management to maintain stable loan quality. As at 30 June 2007, the impaired loan ratio was 2.06%, representing a decrease of 0.47 percentage points compared to the end of the previous year and the provision coverage of impaired loans has increased from 72.83% at the end of last year to 85.34%, representing an increase of 12.51 percentage points. Taking into account the statutory and general reserves of RMB4.428 billion, the Group's provision coverage for impaired loans was 104.32%, representing an increase of 12.63 percentage points compared to the end of the previous year.

Impaired loan is a concept defined under IFRS. A loan is impaired if there is objective evidence that not all amounts due would be recovered under the original contract terms of such loan.

The table below shows certain information of the Group's individually identified impaired loans and loans overdue by 90 days or more as of the dates indicated:

(in millions of RMB, except percentage)

	30 June 2007	31 December 2006
Individually identified impaired loans	23,331	23,477
Loans overdue by 90 days or more	20,172	18,369
Loans with impairment to gross loans balance (percentage)	2.06%	2.53%

(v) Borrowers' Structure

The Group targeted prominent enterprises in quality industries located in key regions to optimize its borrower structure. Meanwhile, the Group targeted to broaden its customer base and establish relationships with small and medium enterprises with good development potential. It has maintained risk within a reasonable range while at the same time increasing yields and improved overall bargaining ability. As of 30 June 2007, corporate customers of the Group's domestic institutions were classified based on the 10-class credit rating system. Compared to the beginning of the year, loans to class 1 to class 5 high quality customers amounted to 73.70% of the total outstanding loan balance, representing an increase of 1.8 percentage points while loans to class 6 to class 7 customers amounted to 19.78% of the total outstanding loan balance, representing a decrease of 0.82 percentage points, and loans to class 8 to class 10 high risk customers amounted to 1.97%, representing a decrease of 0.23 percentage points.

(2) Treasury operation

The Group strengthened its fund management business. It deployed non-credit assets, taking into consideration the operational efficiency of these assets. In addition, the Group carried out innovations in treasury products and improved its yield in the treasury operation.

As of 30 June 2007, the Group's average balance of investment securities amounted to RMB418.569 billion, representing an increase of RMB66.576 billion or 18.91% from the previous year. The yield rate of investment securities reached 3.13%, representing an increase of 0.01 percentage points as compared with the previous year, thereby enhancing the overall yield on the Group's interest-earning assets.

The Group believes in prudent investment and has a sound portfolio which is able to withstand risk. Securities issued by the central government and central bank account for 55.53% of the Bank's investment portfolio, representing an increase of 6.59 percentage points as compared to the end of 2006. The Bank does not have any investment in US subprime mortgage bonds.

4.5 LIABILITIES

As of 30 June 2007, the total liabilities of the Group amounted to RMB2,011.616 billion, representing an increase of RMB382.628 billion or 23.49% from the beginning of the year. The amount due to customers represented 82.14% of the Group's total liabilities. The principal sources of funds were from corporate and individual deposits. As at the end of the Period, corporate deposits amounted to RMB1,103.203 billion, representing an increase of RMB281.194 billion or 34.21% from the beginning of the year, and accounted for 66.76% of total deposits. The individual deposits amounted to RMB527.042 billion, representing an increase of RMB17.008 billion or 3.33% from the beginning of the year, and accounted for 31.90% of total deposits, thereby providing a stable funding source for loan and investment business.

In accordance with PRC GAAP, the deposits from companies such as insurance, finance, fund management, trust and securities were re-classified from due to customers to due to other banks and financial institutions. The table below shows the Group's corporate and individual deposits structure as of the dates indicated:

(in millions of RMB)

	30 June 2007	31 December 2006
Corporate deposits	1,103,203	822,009
in which: Corporate current deposits	689,748	512,030
Corporate savings deposits	7,011	6,151
Corporate time deposits	406,444	303,828
Individual deposits	527,042	510,034
in which: Individual current deposits	202,957	188,299
Individual savings deposits	13,397	14,183
Individual time deposits	310,688	307,552

4.6 GEOGRAPHICAL SEGMENTS

(1) Segmental operating results by geographical segments

A geographical segment refers to a specific economic environment under which the Group operates and which gives rise to risks and returns that are different from other economic environments in which the Group operates.

The table below shows the net profit and total revenue from each of the Group's geographical segments as of the dates indicated:

(in millions of RMB)

	As at 30 June		2006	
	2007	2007	2006	2006
	Net profit/ (loss)	Total revenue ⁽¹⁾	Net profit/ (loss)	Total revenue ⁽¹⁾
Northern China ⁽²⁾	1,491	7,267	1,244	5,217
Northeastern China ⁽³⁾	156	2,772	(343)	2,333
Eastern China ⁽⁴⁾	3,036	23,910	2,702	17,270
Central and Southern China ⁽⁵⁾	2,177	8,122	1,538	5,799
Western China ⁽⁶⁾	1,015	3,745	658	2,586
Overseas ⁽⁷⁾	781	4,203	236	2,907
Eliminations	(35)	(5,856)	—	(4,412)
Total ⁽⁸⁾	8,621	44,163	6,035	31,700

Notes:

- (1) Including interest income, fee and commission income, dividend income, gains less losses arising from trading activities, gains less losses arising from de-recognition of investment securities and other operating income.
- (2) Including Beijing Municipality, Tianjin Municipality, Hebei Province, Shanxi Province and Inner Mongolia Autonomous Region.
- (3) Including Liaoning Province, Jilin Province and Heilongjiang Province.
- (4) Including the head office and Shanghai Municipality, Jiangsu Province, Zhejiang Province, Anhui Province, Fujian Province, Jiangxi Province and Shandong Province.
- (5) Including Henan Province, Hunan Province, Hubei Province, Guangdong Province, Guangxi Autonomous Region and Hainan Province.
- (6) Including Chongqing Municipality, Sichuan Province, Guizhou Province, Yunnan Province, Tibet Autonomous Region, Shaanxi Province, Gansu Province, Qinghai Province, Ningxia Autonomous Region and Xinjiang Autonomous Region.

(7) Including overseas subsidiaries and branches in Hong Kong, New York, Singapore, Tokyo and Seoul.

(8) Including minority interests.

(2) Segmental deposit/loan results by geographical segments

The table below sets forth the deposit balance and loan balance from each of the Group's geographical segments as of the dates indicated:

(in millions of RMB)

	30 June 2007		31 December 2006	
	Deposit Balance⁽¹⁾	Loan Balance⁽²⁾	Deposit Balance ⁽¹⁾	Loan Balance ⁽²⁾
Northern China	252,249	191,535	224,698	164,116
Northeastern China	126,028	65,945	126,292	58,739
Eastern China	578,864	447,797	507,232	381,356
Central and Southern China	322,799	219,112	284,003	182,059
Western China	144,774	91,369	132,305	81,658
Overseas	217,507	114,927	69,647	56,897
Total	1,642,221	1,130,685	1,344,177	924,825

Notes:

(1) Deposit balance excludes interest payable.

(2) Loan balance excludes interest receivable.

(3) Segmental operating results by business segments

The Group's business is mainly divided into four business segments: corporate banking, retail banking, treasury and others. Corporate banking segment remained the primary source of profit for the Group and net interest income from corporate banking segment accounted for 73.35% of the Bank's total net interest income.

The table below shows the amount of the net interest income from each of the Group's major business segments as of the period indicated:

(in millions of RMB)

The Group	January to June 2007				
	Corporate banking	Retail banking	Treasury	Others	Total
External net interest income/(expense)	15,454	(694)	9,479	(703)	23,536
Internal net interest income/(expense)	1,810	5,603	(9,296)	1,883	—
Net interest income	17,264	4,909	183	1,180	23,536

4.7 Risk Management

The objective of risk management of the Group is to continuously improve the risk management system through effective internal control, to gradually implement comprehensive risk management and ensure the Group operates in a secure and stable manner.

(1) Organization structure

The board of directors of the Bank has established a risk management committee and audit committee, whose responsibility is to monitor and evaluate the Group's risk management and internal control system. The management has established a risk management committee, an asset and liability management committee, a credit policy committee and a credit authorization committee, whose responsibilities are to support the senior management to formulate and optimize the Group's risk management strategy and credit policy guidance. The Bank's risk management framework comprises credit authorization department, risk monitoring department, asset preservation department, retail credit department and legal and compliance department. The credit authorization department has established five regional credit authorization centers including Northern China, Eastern China, Southern China, Central China and Western China, and has implemented a hierarchical, independent and professional credit authorization system.

(2) Risk Factors

Credit risk

Credit risk arises when the counterparty fails to repay all the debts on due date. Credit risk will be increased when counterparties are concentrated in the same industries or geographical regions. The majority of the Group's operation is located within China. Different regions in China have their unique characteristics in economic development. Therefore, each region in China could present different credit risks. The Group structures the levels of credit risk it undertakes according to the ceiling risk amount of each borrower. Such risks are monitored on a regular basis and subject to review.

In addition, the Group has issued credit related commitments including guarantees and letters of credit. Such instruments are irrevocable guarantees that the Bank will perform payment when a related third party fail to perform its obligation. These instruments carry similar credit risk as loans, so the Group manages such credit risk together with loan portfolio.

Market risk

Market risk arises from open positions in interest rate and currency products, which are exposed to general and specific market movements. The Group principally operates in the PRC, in which the interest rate is set by mirroring with PBOC suggested interest rates. The Group manages its interest rate risks by maintaining a minimum level of net interest spread between interest-earning assets and interest-bearing liabilities. China has reformed its foreign exchange rate management by moving into a managed floating exchange rate regime based on market supply and demand with reference to a basket of currencies. The change of exchange regime leads to an increase in volatility, therefore, the board of directors of the Bank sets limits on the level of exposure by currency to monitor the Group's currency risk.

Foreign exchange risk

The Group's exchange rate risk includes transaction risk, exchange risk and operating risk. Generally, the assets and liabilities in foreign currency account for a limited proportion of the Group's total assets and liabilities, and risk exposure is not significant. Foreign currency assets are primarily denominated in USD and in HKD. Considering the HKD is pegged exchange rate, therefore, exchange rate risk is mainly concentrated in the RMB and USD exchange rate risk. The Group has utilized various transactions, such as currency swap, currency option and currency forward to defuse the foreign exchange risks.

Interest rate risk

The Group operates its business predominantly in Mainland China under the interest rate scheme regulated by the PBOC. According to the PBOC regulations, there is no ceiling for loan interest rates, whilst the floor for loan interest rates is 10% below the stipulated rates. It is normal practice for the interest rates of both interest-earning assets and interest-bearing liabilities to move in the same direction. The Group conducts most of its domestic businesses including loans and deposits as well as the majority of financial guarantees and credit related commitments based upon basic interest rates as promulgated by the PBOC. Consequently, the Group is less vulnerable to interest rate risk. However, there is no guarantee that the PBOC will continue this practice in future.

Liquidity risk

The Group is exposed to daily calls on its available cash resources from overnight deposits, current accounts, matured deposits, loan drawdowns, guarantees and from margin and other calls on cash settled derivatives. The board of directors of the Bank set limits on the minimum proportion of funds to be made available to meet such calls and on the minimum level of interbank and other borrowing facilities that should be in place to cover different levels of unexpected withdrawals. In addition, the Group limits its loan to deposit ratio at below 75% as required by the PBOC.

(3) Internal Control

The Bank's risk management committee and audit committee under the board of directors periodically analyze and evaluate the status of the Bank's internal control and risk management, and oblige the senior management to take remedial measures to address identified weakness.

Learning from the international experience, the Group has implemented the philosophy of "Combination of multi-business line" and gradually established an advanced risk management and internal control system in which, independent front, middle and back office business was designed with policies in place for checks and balances. In addition, the Group focuses on effective internal control across business and management activities, and if necessary, continually updates and optimizes the systematic and comprehensive internal control framework covering credit authorization business, treasury business, international business, fee-based business, accounting management, financial budget, anti-money laundering, information system management and overseas branch business management.

In the first half year of 2007, following the latest requirements under the macro-economic adjustments, the Group has strengthened its overall risk management, continually adjusted the design of the framework for retail finance, and timely introduced industrial orientation guidance. Furthermore, the Group accelerated the implementation of new Basel Capital Agreement, intensified the review of several hot financial issues such as credit origination, anti-money laundering and the risk management of group or related customers, and timely introduced and modified corresponding measures, which further enhanced the comprehensiveness, reasonableness and effectiveness of the Group's internal control system.

4.8 Closer Cooperation with HSBC

The Bank and HSBC have renewed the three-year Technical Support and Assistance (“TSA”) Agreement. The new TSA cooperation will be renamed as “Technical Cooperation and Exchange”, changing from a one-way technical support to a two-way exchange. The cooperation content and scope is further enriched and is performed under the principle of “If there is a request from one party, and the other party has the resources and capabilities, then both parties shall cooperate with each other”. Implementing the new TSA Agreement will further enhance the management level of the Bank and help HSBC better understand the local market. It will also further promote communications between the parties and deepen the cooperation.

4.9 Outlook

China’s economy has maintained consecutive years of rapid growth and yet a fast and sound development pattern has been formed. Looking into the second half of 2007, China’s general economy will maintain a favorable situation, which will create a good external environment for the Bank’s operation. While at the same time, the Bank has noted that macro-economic policies will be further strengthened, financial reform will be further deepened and opening-up policies will be further extended, leading the Bank to face additional pressure and challenges. First of all, the macro-economic policies will put pressure on the Bank in terms of new development and risk management. Secondly, the gradually maturing multi-layered capital market will put pressure on the Bank in terms of funding and customer diversification. Thirdly, foreign banks’ full access to the Chinese market will bring about keener competition for the Bank. Fourthly, the accelerated construction of pilot test of universal banking will bring the Bank with pressure for transformation.

The Group will make its best endeavours to respond to these new pressure and challenges by transforming them into incentives and opportunities in the second half of the year. The Group’s overall competitiveness will be further enhanced by the following measures: firstly, it will study the prospective changes of macro-economic policies and economic environment and develop responding measures and new business strategies. This will defuse the pressure and seize the opportunity on a timely basis. Secondly, it will control the pace of loan origination, adjust credit structure, raise loan bargaining ability and yield, optimize non-credit asset structure, boost return on capital operation and further raise interest spreads. Thirdly, it will increase marketing efforts for corporate business, consolidate customer base, and optimize its customer structure so that opportunities are captured in the rapidly changing market. Relationships with major players in the capital market will be deepened through rapid expansion of third-party depository business, investment banking business and cooperation between banks and futures companies. Fourthly, resources will be centralized to rapidly boost strategic reform, strive for breakthrough in retail business, fee-based business, SME business and comprehensive business, and further optimize the revenue structure and profit model. Fifthly, to further improve the risk management and monitoring processes, the Group will proceed with the work to develop the work plan on compliance of the Basel standards and a comprehensive risk management framework over the next three years, provide solid support to the new development and reform and build a comprehensive retail credit risk control system, address asset preservation, timely risk prevention and promptly risk migration, and further enhance the quality of assets.

5. DETAILS OF CHANGES IN SHARE CAPITAL AND SHAREHOLDING OF SUBSTANTIAL SHAREHOLDERS

As at 30 June 2007, the Bank had a total of 453,391 shareholders, of which 400,590 of them were holders of A Shares and 52,801 of them were holders of H Shares.

5.1 Details of Changes in Share Capital

	1 January 2007		Increase/decrease as a result of the change (+,-)					30 June 2007	
	Number of Shares	Percentage (%)	Shares Issued	Bonus Shares	Shares transferred from the Surplus Reserve	Others	Sub-total	Number of Shares	Percentage (%)
I. Shares subject to restrictions on sales									
1. State-owned shares	13,181,997,864	28.78						13,181,997,864	26.91
2. Share held by state-owned entities	7,329,448,924	16.00						7,329,448,924	14.96
3. Shares held by other domestic investors									
Comprising:									
Shares held by domestic legal persons	2,204,427,331	4.81	1,595,176,487				1,595,176,487	3,799,603,818	7.75
Shares held by domestic natural persons									
4. Shares held by foreign investors									
Comprising:									
Shares held by foreign legal persons	9,138,693,541	19.95						9,138,693,541	18.65
Shares held by foreign natural persons									
II. Shares not subject to restrictions on sales									
1. RMB-denominated ordinary shares			1,595,174,000				1,595,174,000	1,595,174,000	3.26
2. Domestic listed foreign shares									
3. Overseas listed foreign shares	13,949,465,556	30.46						13,949,465,556	28.47
4. Others									
III. Total	45,804,033,216	100	3,190,350,487				3,190,350,487	48,994,383,703	100

The Bank completed a successful initial public offering of 3,190,350,487 A Shares in April 2007 and these A Shares were listed on the Shanghai Stock Exchange on 15 May 2007, as approved by the China Securities Regulatory Commission (“CSRC”) and Shanghai Stock Exchange. Upon completion of the A share offering as at 30 June 2007, the Bank had a total of 48,994,383,703 Shares in issue, comprising 25,929,915,567 A Shares and 23,064,468,136 H Shares.

5.2 Dates on which Shares Subject to Restrictions on Sales Become Tradable

Date	Number of shares tradable at the expiry of lock-up period	Outstanding number of shares subject to restrictions on sales	Outstanding number of shares not subject to restrictions on sales	Remarks
16 August 2007	638,071,341	23,696,670,226	2,233,245,341	
16 May 2008	13,243,135,005	10,453,535,221	15,476,380,346	
16 November 2008	478,552,573	9,974,982,648	15,954,932,919	
16 May 2010	9,974,982,648	0	25,929,915,567	

5.3 Particulars of Shareholding and Restrictions of the Top 10 Holders of A Shares Subject to Restrictions On Sales as at 30 June 2007

No.	Name of holders of shares	Shares subject to restrictions on sales	Date on which shares become tradable	Number of tradable shares	Restrictions on sales
1	Ministry of Finance of People's Republic of China	9,974,982,648	16 May 2010	9,974,982,648	Commitment
2	Capital Airports Holding (Group) Company	985,447,500	16 May 2008	985,447,500	Lock-up period
3	State Grid Corp of China	451,445,193	16 May 2008	451,445,193	Lock-up period
4	Shanghai Tobacco (Group) Corp.	378,328,046	16 May 2008	378,328,046	Lock-up period
5	Yunnan Hongta Group Co. Ltd.	346,787,979	16 May 2008	346,787,979	Lock-up period
6	Sinopec Finance Company Limited	304,320,800	16 May 2008	304,320,800	Lock-up period
7	Huaneng Capital Services Corporation Ltd.	268,501,276	16 May 2008	251,001,276	Lock-up period
			16 November 2008	17,500,000	Lock-up period
8	Daqing Petroleum Administration Bureau	233,151,118	16 May 2008	233,151,118	Lock-up period
9	China National Cereals, Oils and Foodstuffs Corp.	213,106,024	16 May 2008	195,606,024	Lock-up period
			16 November 2008	17,500,000	Lock-up period
10	China Life Insurance (Group) Company	194,382,275	16 August 2007	13,446,850	Lock-up period
			16 May 2008	130,935,425	Lock-up period
			16 November 2008	50,000,000	Lock-up period

5.4 Particulars of Top 10 Shareholders and Top 10 Shareholders Not Subject to Restrictions On Sales as at 30 June 2007

Particulars of shareholding of the top 10 shareholders

Name of shareholder	Nature of Shareholder	Shareholding percentage (%)	Total number of shares held	Number of shares subject to restrictions on sales	Number of pledged or frozen shares (Note)
Ministry of Finance of the People's Republic of China	State	20.36%	9,974,982,648	9,974,982,648	—
The Hongkong and Shanghai Banking Corporation Limited	Foreign	18.60%	9,115,002,580	9,115,002,580	—
National Council for Social Security Fund	State	11.34%	5,555,555,556	—	—
HKSCC Nominees Limited	Foreign	10.63%	5,210,399,509	—	—
China SAFE Investments Limited	State	6.12%	3,000,000,000	—	—
Capital Airports Holding (Group) Company	State-owned	2.01%	985,447,500	985,447,500	—
State Grid Corp of China	State-owned	0.92%	451,445,193	451,445,193	—
Shanghai Tobacco (Group) Corp.	State-owned	0.77%	378,328,046	378,328,046	—
Yunnan Hongta Group Co. Ltd.	State-owned	0.71%	346,787,979	346,787,979	—
Sinopec Finance Company Limited	State-owned	0.62%	304,320,800	304,320,800	—

Note: The Bank is not aware of whether the shares held by the above shareholders have been pledged or frozen, nor the existence of any connections between the above shareholders.

Particulars of Shareholding of the Top 10 Shareholders Not Subject to Restrictions on Sales

Name of shareholder	Number of shares held	Approximate shareholding percentage (%)	Type of shares
National Council for Social Security Fund	5,555,555,556	11.34%	H Share
HKSCC Nominees Limited	5,210,399,509	10.63%	H Share
China SAFE Investments Limited	3,000,000,000	6.12%	H Share
Ping An Life Insurance Company of China — universal life insurance — individual	15,663,000	0.03%	A Share
CNOOC Finance Company Limited	12,461,000	0.03%	A Share
China Construction Bank — Boserá FTSE/ Xinhua A200 Securities Investment Fund	9,999,916	0.02%	A Share
IFC — Standard Chartered — CITIGROUP GLOBAL MARKETS LIMITED	6,967,423	0.01%	A Share
Sinochem Corporation	6,863,000	0.01%	A Share
Bank of China — Harvest Shanghai/Shenzhen 300 Index Securities Investment Fund	4,773,708	0.01%	A Share
Agricultural Bank of China — Dacheng Shanghai/Shenzhen 300 Index Securities Investment Fund	4,613,250	0.01%	A Share
Connections or concerted actions between the above shareholders:	The Bank is not aware of any connections between the above shareholders or whether they are parties acting in concert.		

5.5 Substantial Shareholders

As at 30 June 2007, the shareholders and other persons (other than the Bank's directors, supervisors and chief executive) who had interests or short positions in the shares or underlying shares of the Bank as recorded in the register required to be kept pursuant to Section 336 of the Hong Kong Securities and Futures Ordinance (the "SFO") are as follows:

Name of Substantial Shareholder	Capacity	Number of A Shares	Nature of Interest (Note 1)	Approximate Percentage of Issued A Shares (%)	Approximate Percentage of Total Issued Shares (%)
Ministry of Finance of the People's Republic of China	Beneficial owner	9,974,982,648	Long position	38.47	20.36

Name of Substantial Shareholder	Capacity	Number of H Shares	Nature of Interest (Note 1)	Approximate Percentage of Issued H Shares (%)	Approximate Percentage of Total Issued Shares (%)
National Council for Social Security Fund	Beneficial owner	5,555,555,556	Long position	24.09	11.34
China SAFE Investments Limited	Beneficial owner	3,000,000,000	Long position	13.01	6.12
The Hongkong and Shanghai Banking Corporation Limited	Beneficial owner	9,115,002,580	Long position	39.52	18.60
HSBC Asia Holdings BV	Interest of controlled corporations (Note 2)	9,115,002,580	Long position	39.52	18.60
HSBC Asia Holdings (UK)	Interest of controlled corporations (Note 3)	9,115,002,580	Long position	39.52	18.60
HSBC Holdings BV	Interest of controlled corporations (Note 4)	9,115,002,580	Long position	39.52	18.60
HSBC Finance (Netherlands)	Interest of controlled corporations (Note 5)	9,115,002,580	Long position	39.52	18.60
HSBC Holdings plc	Interest of controlled corporations (Note 6)	9,115,002,580	Long position	39.52	18.60

Note 1: Long positions held other than through equity derivatives.

Note 2: HSBC Asia Holdings BV holds 88.86% equity of The Hongkong and Shanghai Banking Corporation Limited. Pursuant to the SFO, HSBC Asia Holdings BV is considered to own the 9,115,002,580 H shares of the Bank which are held by The Hongkong and Shanghai Banking Corporation Limited.

Note 3: HSBC Asia Holdings BV is wholly-owned by HSBC Asia Holdings (UK). Pursuant to Note (2) and the SFO, HSBC Asia Holdings (UK) is considered to own the 9,115,002,580 H shares of the Bank which are held by The Hongkong and Shanghai Banking Corporation Limited.

Note 4: HSBC Asia Holdings (UK) is wholly-owned by HSBC Holdings BV. Pursuant to Note (2), (3) and the SFO, HSBC Holdings BV is considered to own the 9,115,002,580 H shares of the Bank which are held by The Hongkong and Shanghai Banking Corporation Limited.

Note 5: HSBC Holdings BV is wholly-owned by HSBC Finance (Netherlands), which also directly holds 8.53% equity of The Hongkong and Shanghai Banking Corporation Limited. Pursuant to Note (2) to (4) and the SFO, HSBC Finance (Netherlands) is considered to own the 9,115,002,580 H shares of the Bank which are held by The Hongkong and Shanghai Banking Corporation Limited.

Note 6: HSBC Finance (Netherlands) is wholly-owned by HSBC Holdings plc, which also directly holds 2.61% equity of The Hongkong and Shanghai Banking Corporation Limited. Pursuant to Note (2) to (5) and the SFO, HSBC Holdings plc is considered to own the 9,115,002,580 H shares of the Bank which are held by The Hongkong and Shanghai Banking Corporation Limited.

Save as disclosed above, as at 30 June 2007, no person or corporation was recorded in the register required to be kept under section 336 of the SFO as holding any interests or short positions in the shares or underlying shares of the Bank that would fall to be disclosed to the Bank and The Stock Exchange of Hong Kong Limited (the “**Hong Kong Stock Exchange**”) under Divisions 2 and 3 of Part XV of the SFO.

6. DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND STAFF

6.1 Board of Directors

Name	Position	Name	Position
Jiang Chaoliang	Chairman of the Board	Gao Shiqing	Non-executive Director
Li Jun	Vice Chairman of the Board and President	Shen Weiming	Non-executive Director
Peng Chun	Executive Director and Vice President	Li Guanglin	Non-executive Director
Zhang Jixiang	Executive Director and Secretary of the Board	Qian Ping	Non-executive Director
Hu Huating	Non-executive Director	Xie Qingjian	Independent Non-executive Director
Wong Tung Shun, Peter	Non-executive Director	Ian Ramsay Wilson	Independent Non-executive Director
Laura M Cha	Non-executive Director	Thomas Joseph Manning	Independent Non-executive Director
Li Keping	Non-executive Director	Chen Qingtai	Independent Non-executive Director
Li Zexing	Non-executive Director	Li Ka-cheung, Eric	Independent Non-executive Director

6.2 Board of Supervisors

Name	Position	Name	Position
Cui Leiping	Chairman of the Board of Supervisors	Chen Zheng	External Supervisor
Ning Jinbiao	Supervisor	Liu Sha	Employee Supervisor
Teng Tiejqi	Supervisor	Chen Qing	Employee Supervisor
Ji Keliang	Supervisor	Li Jun	Employee Supervisor
Liu Qiang	External Supervisor		

6.3 Senior Management

Name	Position	Name	Position
Li Jun	President	Shou Meisheng	Secretary of Party Discipline Committee
Peng Chun	Vice President	Dicky Peter Yip	Vice President
Qian Wenhui	Vice President	Hou Weidong	Chief Information Officer
Wang Bin	Vice President	Yang Dongping	Chief Risk Management Officer
Yu Yali	Vice President and Chief Financial Officer		

6.4 Changes of Directors and Senior Management

Mr. Herbert Hui Ho Ming tendered his resignation as Independent Non-executive Director of the Bank due to personal reasons on 8 January 2007. It was approved at the first extraordinary general meeting in 2007 on 9 January to appoint Mr. Li Ka-cheung, Eric as an Independent Non-Executive Director.

On 27 June 2007, the board of directors of the Bank announced to appoint Ms. Yu Yali as a Vice President and Mr. Yang Dongping as Chief Risk Management Officer. These appointments are subject to the approval from the China Banking Regulatory Commission (“CBRC”).

6.5 Human Resources Management

(1) Number of Staff

As at 30 June 2007, the Bank had 63,455 employees.

(2) Current Remuneration Policy

The remuneration policy of the Bank was established on the principles that (1) ranking shall be determined with reference to job duties; (2) remuneration shall be determined with reference to position; and (3) bonus shall be determined with reference to performance. The system follows the following principles: firstly, it is based on job duties, secondly, it considers internal fairness and market competitiveness; thirdly, it gives priority to efficiency; fourthly, it emphasizes the importance of both individual performance and team performance; finally, it standardizes the system and maintains consistency.

The Bank’s remuneration policy is in line with market practice. The Bank sets a reasonable range of the amount of emoluments with reference to market rate and adopts such range in a flexible manner. Every year, the Bank makes adjustments to its remuneration package and salary levels with reference to prevailing market conditions. Employees’ income is linked to the performance of the Bank. Annual salary increase is determined with reference to a number of factors such as market target rate, market competitiveness of the staff’s remuneration, and performance evaluation. Performance of the Bank, branch, department/sub-branch, team and individual as well as the competitiveness will be taken into account in granting bonus. The system encourages department chiefs to participate in the compensational aspect of his/her direct employees. In addition, the system will provide customized welfare package. It will also focus on employees’ growth and development.

7. CORPORATE GOVERNANCE

7.1 Basic Information of corporate governance

During the Period, the Bank strictly complied with the “PRC Company Law”, “PRC Commercial Banking Law” and relevant regulations promulgated by regulatory authorities. Upon the listing of the Bank’s A Shares, the Bank enhanced its rules, procedures and systems of corporate governance and continued its effort to improve the management quality in order to better protect the interests of both domestic and overseas shareholders.

(1) Shareholders’ General Meetings

During the Period, shareholders’ general meeting was held once. During this meeting, shareholders reviewed and approved proposals relating to the offering and listing of A Shares, the issue of subordinated term debts and in light of the listing of A Shares, the approval of the amendments to the Articles of Association, the procedural rules of the shareholders’ general meeting, board of directors and board of supervisors.

(2) Directors and Board of Directors

There are three meetings of the board of directors during the period. During these meetings, the board of directors reviewed and approved the proposals including: periodical reports, profit distribution plan, appointment of vice president and chief risk management officer, investment in a trust company and a financial leasing company, the trial measures for the delegation of authority to the board of directors by the shareholders’ general meeting, and nomination of candidates for the fifth board of directors, among others. In addition, the special committees of the board of directors held seven general meetings. All directors attended the board meetings and special committee meetings with full dedication and the board’s strategic decision-making mechanism functioned effectively.

In accordance with the requirements of the “Administrative Measures regarding Information Disclosures of Listed Companies” promulgated by the CSRC and the “Notice of Guidance of Shanghai Stock Exchange on the Principles of the Administration of Disclosure of Listed Companies” promulgated by Shanghai Stock Exchange in January 2007, the Bank revised its administrative measures for information disclosure, which has been implemented upon the approval by the board of directors.

(3) Supervisors and Board of Supervisors

During the Period, the board of supervisors held three general meetings. At these meetings, the board of supervisors reviewed and approved the nomination of the fifth board of supervisors, amendment to work procedures for the board of supervisors and special committees. Through various measures, including the review of periodic reports, inquiries of directors and senior management personnel by means of questionnaires and inquiries of significant events in operations, the board of supervisors further strengthened its supervision over the Bank’s operations and financial conditions as well as better protected shareholders’ interests.

(4) Senior Management

The bank's senior management team consists of nine persons, including the president, vice president, secretary of party disciplinary committee, chief financial officer, chief information officer, and chief risk management officer. Pursuant to the laws and regulation, Articles of Association and the authorization of the board of directors, the senior management of the bank executed the resolutions of the board of directors and led the Bank to carry out its operating activities with full diligence and integrity.

7.2 Special Activities of Corporate Governance

During the Period, the Bank performed comprehensive self examination and prepared examination report as well as remedial plans pursuant to the requirement of the "Notice on the Matters concerning Carrying out a Special Campaign to Strengthen the Corporate Governance of Listed Companies (Zheng Jian Gong Si Zi [2007] No.28)" promulgated by the CSRC, "PRC Company Law", "PRC Securities Law", "PRC Commercial Banking Law", "Guidance to Corporate Governance of State-owned Commercial Banks and the Relevant Supervision" and relevant regulations promulgated by regulatory authorities, as well as Articles of Association of the Bank and procedural rules of the shareholders' general meeting, board of directors and board of supervisors. The report of self examination and remedial plans have been approved by the 20th extraordinary meeting of the 4th board of directors. Through the self examination and remedial measures, the Bank further enhanced its corporate governance.

7.3 Compliance with the Code of Corporate Governance Practices to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited

The Group endeavoured to establish a high standard of corporate governance. The Group believes that effective corporate governance is crucial to maximizing the value for shareholders. In order to maintain a high standard of corporate governance, the Bank established a responsible, professional and accountable board of directors and board of supervisors with an experienced senior management team. The members of the Bank's board of directors and board of supervisors, except employee supervisors, are elected by the shareholders at the shareholders' general meeting. The Bank has established four special committees under the board of directors, including the strategy committee, the audit committee, the risk management committee, and the personnel and compensation committee. None of the Bank's directors is aware of any information that would reasonably indicate that the Bank had not, for any time of the period ended 30 June 2007, been in compliance with the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules.

8. SIGNIFICANT EVENTS

8.1 Profit Distribution

According to the resolutions of the 15th session of the 4th board of directors of the Bank, the board proposed a final dividend of RMB0.10 per share, amounting to RMB4.580 billion, for the financial year ended 31 December 2006. Dividends will be paid to those holders of H Shares whose names appear on the register of members of the Bank on 28 August 2007 maintained by Computershare Hong Kong Investor Services Limited and to those holders of unlisted tradable shares whose names appear on the register of members of the Bank prior to the completion of the initial public offering of A Shares by the Bank in accordance with the shareholders' resolutions passed at the first extraordinary general meeting on 9 January 2007. Those shareholders are entitled to dividends calculated based on their shareholdings. This distribution plan is subject to the approval by shareholders at the 2006 Annual General Meeting to be held on 28 August 2007. The Bank does not declare any interim dividend for the six months ended 30 June 2007. No interim dividend was distributed for the six months ended 30 June 2006, either.

8.2 Use of proceeds from fund raising activities

1. Use of Proceeds from previous fund raising

In 2005, the Bank conducted an initial public offering overseas and issued 6,733.97 million H shares (including the issue of 878.34 million H shares under the over-allotment option). The net proceeds after deducting issuance costs amounted to RMB17,290 million, which has been fully utilized to strengthen the Bank's capital base.

2. Use of proceeds from the fund raising during the reporting period

The issue of not more than 4.5 billion A shares and authorisation to management to issue subordinated bonds in the amount of RMB25 billion were approved by the resolutions of the Bank's first extraordinary general meeting in 2007 in order to further strengthen the capital base of the Bank.

Pursuant to the approval from the China Securities Regulatory Commission (Zheng Jian Fa Zi [2007] No.91) in April 2007, the Bank issued a total of 3,190,350,487 A Shares, representing 6.51% of the total share capital as enlarged after the issuance, among which, 957,105,146 shares were offered to strategic investors, representing 30% of the total number of shares under the offering; 638,071,341 shares were offered to public investors through offline subscription (after clawback), representing 20% of the total number of shares under the offering; 1,595,174,000 shares were offered to public investors through on-line subscription (after clawback), representing 50% of the total number of shares under the offering. The offer price was RMB7.9 per share and the total proceeds from offering amounted to RMB25.204 billion. After deducting relevant expenses, the net proceeds amounted to RMB24.75 billion. Pursuant to the approval from the Shanghai Stock Exchange (Shang Zheng Zi [2007] No.92), A shares of the Bank were listed on the Shanghai Stock Exchange on 15th May 2007.

Pursuant to the approvals issued by the PBOC (Yin Shi Chang Xu Zhun Yu Zi [2007] No.6) and by the CBRC (Yin Jian Fu [2007] No.38), on 6 March 2007, the Bank successfully issued to members of the national inter-bank bond market subordinated bonds in an aggregate principal amount of RMB25 billion, out of which RMB16 billion of bonds have a maturity of 10 years plus 5 years (the Bank has right of redemption from the end of the first 10 years) and a fixed interest rate of 4.13% for the first 10 years and 7.13% for the remaining 5 years. The remaining RMB9 billion of subordinated bonds have a maturity of 5 years plus 5 years (the Bank has right of redemption from the end of the first 5 years) and a fixed interest rate of 3.73% for the first 5 years and 6.73% for the remaining 5 years. The bonds have been accredited a credit rating of AAA by Da Gong Global Credit Rating Co., Ltd..

The proceeds from the issue of subordinated bonds are mainly used to replenish the Bank's capital.

8.3 Share Appreciation Rights Plan

In accordance with the resolutions of the 10th session of the 4th board of directors held in November 2005, the Bank resolved to grant share appreciation rights ("SARs") under its long term incentive plan for the first time. Pursuant to the resolution, the Bank initially granted SARs to full-time senior salaried executives as at 23 June 2005, including chairman of the board of directors, president, chairman of the board of supervisors, vice president, chief financial officer, chief information officer and secretary of the board of directors, among others.

The exercise price of the initial granted SARs was HKD2.5, being the issue price of the H Shares at the time of its initial public offering. When the rights are exercised by an executive whose salary is paid in RMB, the cash payment shall be settled in RMB at the exchange rate of HKD to RMB stipulated by the PBOC on the exercising date.

The amount of the initial grant of the SARs was 7.558 million shares. The SARs will be valid for a period of ten years from 23 June 2005, with a two-year vesting period. The ceiling percentage to exercise the rights every year in the third year, fourth year, fifth year and sixth year should be no more than 25%, 50%, 75% and 100% of the total granted amount.

Authorized by the board of directors, the personnel and compensation committee of the 4th board of directors approved the grant of the second batch of SARs under the long term incentive scheme in the 8th session held on 3 November 2006. Pursuant to the resolution, the Bank granted SARs to full-time senior salaried executives as at 3 November 2006. The exercise price of the second batch of SARs was set at HKD6.13, with a total amount of 2.724 million shares. The valid and vesting period was the same with that of the initial grant, and the valid period started from 3 November 2006.

The Group adopted the Binomial Option Pricing model to measure the fair value of the SARs. In the process of measurement, the Group has made appropriate adjustments according to the best estimates, the impact of non-transferability and the exercise restrictions and procedures.

As at 30 June 2007, there was no changes to the unexercised amount of the SARs. The board of directors of the Group considered that there were no significant changes to the fair value of the SARs in the Period.

8.4 Material Litigation and Arbitration

During the Period, save as otherwise disclosed, there was no material litigation and arbitration that might have significant adverse impact on the operation of the Bank. The Bank has been involved in certain litigation and arbitration cases in its ordinary course of business. The management of the Bank is of the view that these litigation and arbitration cases will not have any significant impact on the financial position of the Bank.

8.5 Explanation and Analysis of other Significant Events with its Impact and Solution

1. Holding of shares issued by other listed companies and securities investment

No.	Stock Code	Simplified Stock Name	Shares Held	Shareholding Percentage	Initial Investment Cost (RMB)	Term-end Book Value (RMB)	Accounting Items
1	600068	Gezhouba	58,166,000	5.54%	250,890,000.00	250,890,000.00	Foreclosed assets
2	600173	S*ST Danjiang	26,415,095	11.48%	57,294,341.00	9,086,792.68	Foreclosed assets
3	600800	S*ST Cika	2,050,000	0.37%	34,486,985.95	15,957,200.00	Foreclosed assets
4	600539	Shitougufen	4,178,789	1.82%	14,295,690.00	14,295,690.00	Foreclosed assets
5	000979	ST Keyuan	10,960,000	8.84%	12,494,400.00	4,329,200.00	Foreclosed assets
6	600642	Shennenggufen	5,750,000	0.27%	10,283,333.33	73,447,500.00	AFS Securities
7	000534	Shandianli A	4,840,000	1.90%	10,000,000.00	30,898,560.00	AFS Securities
8	000875	Jidiangufen	3,000,000	0.39%	9,000,000.00	13,545,000.00	AFS Securities
9	600774	Hanshangjituan	7,023,877	4.02%	8,400,000.00	24,803,064.95	AFS Securities
10	600643	S Aijian	2,083,388	0.45%	7,000,000.00	30,509,133.87	AFS Securities
Other					60,339,140.74	558,890,540.91	
Total					474,483,891.02	1,026,652,682.41	

Notes:

1. This table sets out the top ten stocks in other listed companies held by the Bank in descending order of initial amount of investment, and such holdings are included in long-term equity investment, AFS securities and trading assets in the Bank's accounts.
2. Other securities investment means the investment made in any securities other than the said top ten stocks, including without limitation stocks, bonds (including convertible bonds), funds (including open-ended funds), and warrants.
3. This is calculated in accordance with PRC GAAP.

2. Holding of shares issued by non-public financial institutions and companies to be listed

Name of Issuer	Initial Investment Cost (RMB)	Number of Shares Held	Shareholding Percentage	Term-end Book Value (RMB)
China Union Pay Co., Ltd.	90,000,000.00	90,000,000.00	5.45%	90,000,000.00
Hainan Development Bank Co., Ltd.	4,000,000.00	4,000,000.00	6.67%	—
Yueyang City Commercial Bank Co., Ltd.	3,000,000.00	3,000,000.00	3.00%	3,000,000.00
Subtotal	97,000,000.00	97,000,000.00	—	93,000,000.00

Notes:

1. This is calculated in accordance with PRC GAAP.
2. Financial institutions include commercial banks, securities companies, insurance companies, trust corporations and futures companies, among others.
3. Term-end book value excludes provision for impairment loss.

8.6 Material Related Party Transactions

The terms and prices of the transactions between the Group and the related parties are all dealt with as the Group's ordinary and usual business. For details, please refer to the condensed financial statements and Note 37 to the condensed consolidated interim financial information headed "Related Party Transactions".

8.7 Guarantee and Commitment

Guarantee and commitment business is one of the Bank's off-balance sheet items in its ordinary course of business. The Bank operates its external guarantee business in a prudent manner and manages risk according to the five-category loan classification to monitor the asset quality of its guarantee business. During the Period, the Bank has not held on trust to a material extent or entered into any material sub-contract or lease arrangement in respect of assets of other corporations and no other corporation has held on trust to a material extent or entered into any material sub-contract or lease agreement in respect of the Bank's assets.

8.8 The audit committee

The Group has established an audit committee in accordance with the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules. The primary duties of the audit committee are to review the Bank's internal and external audit work, examine and approve financial reports, and oversee the implementation of the internal control policies as well as the efficiency and compliance thereof. The committee comprises five members, three of whom are independent non-executive directors namely Li Ka-cheung, Eric, Xie Qingjian, and Chen Qingtai; and two are non-executive directors namely Wong Tung Shun, Peter and Li Zexing. Mr. Li Ka-cheung, Eric is the chairman. The committee, together with the senior management, has reviewed the accounting policies and practices adopted by the Bank, and discussed affairs regarding internal controls and financial reporting, including reviewing the Interim Results.

8.9 Interests of Directors, Supervisors and Chief Executive

On 15 May 2007, Mr Li Jun, a supervisor of the Bank, applied for A Shares of the Bank through online subscription and obtained 3,000 A Shares, which are subject to lock-up.

Save as disclosed above, as at 30 June 2007, none of the Bank's directors, supervisors, chief executive had or was deemed to have any interest or short position in the shares, underlying shares or debentures of the Bank or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Bank and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were deemed or taken to have under such provisions of the SFO), or which had to be entered in the register required to be kept pursuant to Section 352 of the SFO, or which were required to be notified to the Bank and the Hong Kong Stock Exchange pursuant to Model Code for Securities Transactions by Directors of Listed Issuers as set out in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**").

8.10 Purchase, Sale or Redemption of the Shares of the Bank

During the Period, neither the Bank nor any of its subsidiaries purchased, sold or redeemed any shares of the Bank.

8.11 Compliance with the Model Code for Securities Transactions by Directors of Listed Issuers

The Group adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Listing Rules. The Bank made specific enquiries with all the directors and supervisors and each of them confirmed that they had complied with the required standards of the Model Code during the Period.

9. LIST OF BRANCHES

No.	Branch Name	Address	Number of sub-branches	Employees
1	Head office	188 Yin Cheng Zhong Lu, Pudong New District, Shanghai	1	4,409
2	Beijing Branch	33 Jin Rong Jie, Xi Cheng District, Beijing	87	2,982
3	Tianjin Branch	35 Nanjing Lu, He Xi District, Tianjin	66	1,368
4	Shijiazhuang Branch	22 Zi Qiang Lu, Shijiazhuang, Hebei	29	787
5	Tangshan Branch	103 Xin Hua Dong Dao, Tangshan, Hebei	20	472
6	Qinhuangdao Branch	174 Wen Hua Lu, Hai Gang District, Qinhuangdao, Hebei	23	442
7	Taiyuan Branch	BOCOM Tower, 35 Jie Fang Lu, Yingze District, Taiyuan, Shanxi	26	621
8	Jincheng Branch	878 Huang Hua Jie, Jincheng, Shanxi	6	116
9	Huhhot Branch	110 West Daxue Lu, Sai Han District, Huhhot	1	94
10	Baotou Branch	24 Gang Tie Da Jie, Qing Shan District, Baotou Inner Mongolia Autonomous Region	10	225
11	Shenyang Branch	100 Shi Yi Wei Lu, Shen He District, Shenyang, Liaoning	46	1,081
12	Anshan Branch	38 Er Yi Jiu Lu, Tie Dong District, Anshan, Liaoning	32	544
13	Fushun Branch	2-1 Xi Yi Lu, Xin Fu District, Fushun, Liaoning	23	512
14	Dandong Branch	68 Jin Shan Da Jie, Dandong, Liaoning	24	353
15	Jinzhou Branch	42 Yun Fei Jie, Er Duan, Jinzhou, Liaoning	21	374
16	Yingkou Branch	21 Bo Hai Da Jie Xi, Yingkou, Liaoning	26	566
17	Liaoyang Branch	114 Xin Yun Da Jie, Liaoyang, Liaoning	6	122
18	Changchun Branch	502 Tong Zhi Jie, Changchun, Jilin	33	977
19	Jilin Branch	4 Song Jiang Dong Lu, Jilin	25	535
20	Yanbian Branch	172 Guang Ming Jie, Yanji, Jilin	14	293
21	Harbin Branch	428 You Yi Lu, Dao Li District, Harbin	44	1,076
22	Qiqihar Branch	205 Bu Kui Da Jie, Jian Hua District, Qiqihar, Heilongjiang	20	422
23	Daqing Branch	2 Re Yuan Jie Dong Feng Lu, Dong Feng Xin Cun, Daqing, Heilongjiang	23	680
24	Shanghai Branch	99 Zhong Shan Nan Lu, Shanghai	109	3,575
25	Nanjing Branch	124 Zhong Shan Bei Lu, Nanjing, Jiangsu	76	1,662
26	Xuzhou Branch	56 Zhong Shan Nan Lu, Xuzhou, Jiangsu	23	440
27	Lianyungang Branch	141 Hai Lian Zhong Lu, Xin Pu District, Lianyungang, Jiangsu	24	375
28	Yangzhou Branch	2 Wen He Bei Lu, Yangzhou, Jiangsu	21	432
29	Taizhou Branch	151 Qing Nian Bei Lu, Taizhou, Jiangsu	15	259
30	Nantong Branch	27 Ren Min Zhong Lu, Nantong, Jiangsu	19	370
31	Zhenjiang Branch	229 Jie Fang Lu, Zhenjiang, Jiangsu	28	480
32	Changzhou Branch	171 Yan Ling Xi Lu, Changzhou, Jiangsu	36	658
33	Yancheng Branch (in progress)	68 Jian Jun Dong Lu, Yancheng	—	44
34	Hangzhou Branch	173 Qing Chun Lu, Hangzhou, Zhejiang	39	989
35	Wenzhou Branch	BOCOM Plaza, Che Zhan Da Dao, Wenzhou, Zhejiang	19	484
36	Jiaxing Branch	1086 Zhong Shan Dong Lu, Jiaxing, Zhejiang	10	263
37	Huzhou Branch	299 Ren Min Lu, Huzhou, Zhejiang	10	210
38	Shaoxing Branch	283 Ren Min Zhong Lu, Shaoxing, Zhejiang	38	737

No.	Branch Name	Address	Number of sub-branches	Employees
39	Taizhou Branch	298 Dong Huan Da Dao, Economic Development Zone, Taizhou	1	84
40	Jinhua Branch	191 Shuang Xi Xi Lu, Jinhua	1	62
41	Hefei Branch	38 Hua Yuan Jie, Hefei, Anhui	26	629
42	Wuhu Branch	BOCOM Tower, Bei Jing Xi Lu, Wuhu, Anhui	19	348
43	Bengbu Branch	88 Nan Shan Lu, Bengbu, Anhui	19	321
44	Huainan Branch	95 Chao Yang Zhong Lu, Huainan, Anhui	18	285
45	Anqing Branch	99 Long Shan Lu, Anqing, Anhui	13	295
46	Maanshan Branch	156 Hu Dong Nan Lu, Maanshan	1	40
47	Fuzhou Branch	116 Hu Dong Road, Fuzhou, Fujian	24	760
48	Quanzhou Branch (in progress)	552 Fengze Lu, Feng Ze District, Quanzhou	—	61
49	Nanchang Branch	21 Yong Shu Lu, Nanchang, Jiangxi	28	574
50	Jingdezhen Branch	1 Chang Nan Da Dao, Jingdezhen, Jiangxi	12	209
51	Xinyu Branch	98 Bei Hu Xi Lu, Xinyu, Jiangxi	11	169
52	Jiujiang Branch	139 Xun Yang Lu, Jiujiang, Jiangxi	11	176
53	Jinan Branch	98 Gong Qing Tuan Lu, Jinan, Shandong	32	687
54	Zibo Branch	100 Zhong Xin Lu, Zhang Dian District, Zibo, Shandong	33	590
55	Weifang Branch	358 Dong Feng Dong Jie, Weifang, Shandong	22	501
56	Yantai Branch	222 Nan Da Jie, Yantai, Shandong	26	452
57	Weihai Branch	34 Hai Bin Bei Lu, Weihai, Shandong	13	302
58	Jining Branch	36 Hong Xing Zhong Lu, Jining, Shandong	16	320
59	Taian Branch	55 Dong Yue Da Jie, Taian, Shandong	12	251
60	Zhengzhou Branch	11 Zheng Hua Lu, Zhengzhou, Henan	69	1,305
61	Luoyang Branch	60 Kai Xuan Dong Lu, Luoyang, Henan	16	479
62	Wuhan Branch	Rui Tong Square, 847 Jian She Avenue, Wuhan, Hubei	55	1,082
63	Huangshi Branch	380 Yi Yang Lu, Huangshi, Hubei	13	240
64	Yichang Branch	22 Sheng li Si Lu, Yichang, Hubei	10	210
65	Changsha Branch	37 Shao Shan Zhong Lu, Changsha, Hunan	26	639
66	Yueyang Branch	Yin Du Mansion, Nan Hu Da Dao, Yueyang, Hunan	15	254
67	Guangzhou Branch	123 Jie Fang Nan Lu, Guangzhou, Guangdong	81	1,725
68	Zhuhai Branch	BOCOM Tower, 1227 Ji Da Jiu Zhou Da Dao Dong, Zhuhai, Guangdong	20	516
69	Shantou Branch	83 Jin Sha Lu, Shantou, Guangdong	30	653
70	Dongguan Branch	190 Qi Feng Lu, Dongguan, Guangdong	5	145
71	Zhongshan Branch	30 Yue Lai Nan Lu, Shi Qi, Zhongshan, Guangdong	17	429
72	Foshan Branch	1-1 Ti Yu Lu, Chan Cheng District Foshan, Guangdong	24	462
73	Jieyang Branch	6 Bei Huan Cheng Lu, Rong Cheng District, Jieyang, Guangdong	10	197
74	Huizhou Branch	BOCOM Tower, 8 Yunshan Xi Lu, Jiang Bei, Hui Cheng District Huizhou	1	47
75	Nanning Branch	228 Ren Min Dong Lu, Nanning, Guangxi Autonomous Region	37	706
76	Liuzhou Branch	32 Yue Jin Lu, Liuzhou, Guangxi Autonomous Region	30	500

No.	Branch Name	Address	Number of sub-branches	Employees
77	Guilin Branch	8 Nan Huan Lu, Guilin, Guangxi Autonomous Region	17	355
78	Wuzhou Branch	47 Da Zhong Lu, Wuzhou, Guangxi Autonomous Region	7	182
79	Beihai Branch	BOCOM Tower, 25 Yun Nan Lu, Beihai, Guangxi Autonomous Region	4	128
80	Hainan Branch	45 Guo Mao Lu, Finance and Trade Zone, Haikou, Hainan	16	388
81	Chongqing Branch	158 Zhong Shan San Lu, Yu Zhong District, Chongqing	76	1,264
82	Chengdu Branch	211 Xi Yu Long Jie, Chengdu, Sichuan	78	1,459
83	Zigong Branch	108 Wu Xing Jie, Zi Liu Jing District, Zigong, Sichuan	13	193
84	Panzhuhua Branch	21 Xinhua Jie, Easten District, Panzhihua, Sichuan	13	195
85	Guiyang Branch	4 Sheng Fu Lu, Guiyang, Guizhou	28	442
86	Zunyi Branch	108 Zhong Hua Lu, Hong Hua Gang District, Zunyi, Guizhou	17	292
87	Kunming Branch	67 Hu Guo Lu, Kunming, Yunnan	29	826
88	Qujing Branch	Qi iin Nan Lu and Wen Chang Street Crossing, Qujing, Yunnan	6	109
89	Yuxi Branch	61 Yu Xin Lu, Hong Ta District, Yuxi, Yunnan	5	94
90	Chuxiong Branch	96 Bei Pu Lu, Chuxiong, Yunnan	5	96
91	Xian Branch	88 Xi Xin Jie, Xián, Shannxi	51	1,046
92	Lanzhou Branch	129 Qing Yang Lu, Lanzhou, Gansu	27	545
93	Yinchuan Branch (in progress)	296 Min Zu Bei Jie, Xingqing District, Yinchuan	—	54
94	Urumuqi Branch	3 Dong Feng Lu, Urumqi, Xinjiang	25	587
95	Dalian Branch	6 Zhong Shan Square, Zhong Shan District, Dalian, Liaoning	59	1,313
96	Ningbo Branch	55 Zhong Shan Dong Lu, Ningbo, Zhejiang	38	857
97	Xiamen Branch	9 Hu Bin Zhong Lu, Xiamen, Fujian	19	466
98	Qingdao Branch	6 Zhong Shan Lu, Qingdao, Shandong	58	1,113
99	Shenzhen Branch	2066 Shen Nan Zhong Lu, Shenzhen, Guangdong	45	1,275
100	Wuxi Branch	198 Ren Min Zhong Lu, Wuxi, Jiangsu	51	1,052
101	Suzhou Branch	77 Nan Yuan Bei Lu, Suzhou, Jiangsu	57	1,020
102	Hong Kong Branch	20 Pedder Street, Central Hong Kong	40	1,246
103	New York Branch	ONE EXCHANGE PLAZA, 55 BROADWAY, NEW YORK, NY 1006-3008, USA	1	38
104	Tokyo Branch	3-5-1,TORANOMON MINATO-KU TOKYO 105, JAPAN	1	34
105	Singapore Branch	50 RAFFLES PLACE #26-04 SINGAPARE LAND TOWER 048623 SINGAPORE	1	25
106	Seoul Branch	6th SAMSUNG FIRE & MARING BUILDING, #87, EULJIRO 1-GA, JUNG-GU SEOUL 100-782, KOREA	1	24
107	Frankfurt Branch (in progress)	BOCKENHEIMER LANDSTR 42 60323 FRANKFURT AM MATN GERMANY	1	2
108	London Representative Office	3rd FLOOR, 145 LEADENHALL STREET, LONDON EC3V 4QT UNITED KINGDOM	1	1

10. AUDITOR'S REPORT



羅兵咸永道會計師事務所

PricewaterhouseCoopers

22/F, Prince's Building
Central, Hong Kong
Telephone (852) 2289 8888
Facsimile (852) 2810 9888
www.pwchk.com

REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION TO THE BOARD OF DIRECTORS OF BANK OF COMMUNICATIONS CO., LTD.

(incorporated in the People's Republic of China with limited liability)

Introduction

We have reviewed the interim financial information set out on pages 47 to 106, which comprises the condensed consolidated balance sheet of the Bank of Communications Co., Ltd. (the "Bank") and its subsidiaries (together, the "Group") as at 30 June 2007 and the related condensed consolidated profit and loss account, condensed consolidated statement of changes in shareholders' equity and condensed consolidated statement of cash flows for the six-month period then ended. The Rules Governing the Listing of Securities on the Main Board of the Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 "Interim Financial Reporting" issued by the International Accounting Standard Board and the relevant provisions thereof. The directors of the Bank are responsible for the preparation and presentation of this interim financial information in accordance with International Accounting Standard 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on this interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of Review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with International Accounting Standard 34 “Interim Financial Reporting”.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 16 August 2007

11. UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

Unaudited Condensed Consolidated Profit and Loss Account

(All amounts expressed in millions of RMB unless otherwise stated.)

	Note	Three months ended 30 June		Half-year ended 30 June	
		2007	2006	2007	2006
Interest income		20,979	15,263	39,820	29,601
Interest expense		(8,441)	(5,706)	(16,284)	(11,257)
Net interest income	4	12,538	9,557	23,536	18,344
Fee and commission income	5	2,056	796	3,638	1,559
Fee and commission expense		(294)	(121)	(537)	(263)
Net fee and commission income		1,762	675	3,101	1,296
Dividend income	6	43	26	44	27
Gains less losses arising from trading activities	7	(245)	61	(84)	150
Gains less losses arising from de-recognition of investment securities	20	430	2	553	19
Other operating income	8	18	212	192	344
Impairment losses on loans and advances	9	(1,826)	(919)	(3,077)	(1,971)
Other operating expenses	10	(5,765)	(4,543)	(10,110)	(8,952)
Operating profit before tax		6,955	5,071	14,155	9,257
Income tax	13	(2,156)	(1,937)	(5,534)	(3,222)
Net profit for the period		4,799	3,134	8,621	6,035
Attributable to:					
Shareholders of the Bank		4,758	3,133	8,558	6,034
Minority interest		41	1	63	1
		4,799	3,134	8,621	6,035
Basic and diluted earnings per share (in RMB)	14	0.10	0.07	0.18	0.13

The accompanying notes presented on pages 52 to 106 form an integral part of this condensed consolidated interim financial information.

Unaudited Condensed Consolidated Balance Sheet

(All amounts expressed in millions of RMB unless otherwise stated.)

	Note	30 June 2007	31 December 2006
ASSETS			
Cash and balances with central banks	15	229,042	253,941
Due from other banks and financial institutions	16	277,905	118,623
Financial assets held for trading	17	15,235	12,995
Loans and advances to customers	19	1,113,321	910,307
Investment securities - loans and receivables	20	56,861	48,050
Investment securities - available-for-sale ("AFS")	20	150,481	339,823
Investment securities - held-to-maturity ("HTM")	20	255,110	—
Property and equipment	21	26,443	26,284
Deferred tax assets	27	2,264	3,520
Other assets	22	9,218	5,940
Total assets		2,135,880	1,719,483
LIABILITIES			
Due to other banks and financial institutions	23	284,519	236,107
Financial liabilities held for trading	24	6,202	8,724
Due to customers	25	1,652,422	1,352,890
Other liabilities	26	27,908	16,151
Current taxes		2,848	2,501
Deferred tax liabilities	27	324	323
Subordinated term debts	29	37,393	12,292
Total liabilities		2,011,616	1,628,988
EQUITY			
Capital and reserves attributable to the Bank's shareholders			
Share capital	30	48,994	45,804
Capital surplus	30	43,100	21,540
Other reserves		10,728	10,364
Retained earnings	31	21,286	12,728
		124,108	90,436
Minority Interest		156	59
Total equity		124,264	90,495
Total equity and liabilities		2,135,880	1,719,483

This condensed consolidated interim financial information was approved for issue by the Board of Directors on 16 August 2007 and signed on its behalf by:

Chairman of Board: Jiang ChaoLiang

Chief Financial Officer: Yu YaLi

The accompanying notes presented on pages 52 to 106 form an integral part of this condensed consolidated interim financial information.

Unaudited Condensed Consolidated Statement of Changes in Shareholders' Equity

(All amounts expressed in millions of RMB unless otherwise stated.)

	Share capital	Capital surplus	Other reserves				Retained earnings	Minority interest	Total	
			Statutory reserve	Statutory general reserve	Revaluation reserve for AFS securities	Revaluation reserve for properties				Translation reserve on foreign operations
	Note 30	Note 30	Note 31	Note 31						
Balance at 1 January 2006	45,804	21,540	—	—	2,603	4,040	(88)	9,183	64	83,146
Losses from changes in fair value of AFS securities, net of tax	—	—	—	—	(1,295)	—	—	—	—	(1,295)
Transfer to net profit on disposal of AFS securities, net of tax	—	—	—	—	(6)	—	—	—	—	(6)
Translation difference on foreign operations	—	—	—	—	—	—	26	—	—	26
Revaluation reserve realization upon disposals	—	—	—	—	—	(255)	—	255	—	—
Net income/ (expense) recognized directly in equity	45,804	21,540	—	—	1,302	3,785	(62)	9,438	64	81,871
Net profit	—	—	—	—	—	—	—	6,034	1	6,035
Dividends	—	—	—	—	—	—	—	(3,664)	—	(3,664)
Transfer to reserves	—	—	899	4,428	—	—	—	(5,327)	—	—
Balance at 30 June 2006	45,804	21,540	899	4,428	1,302	3,785	(62)	6,481	65	84,242
Balance at 1 January 2007	45,804	21,540	899	4,428	867	4,383	(213)	12,728	59	90,495
Gains from changes in fair value of AFS securities, net of tax	—	—	—	—	454	—	—	—	34	488
Transfer to net profit on disposal of AFS securities, net of tax	—	—	—	—	(399)	—	—	—	—	(399)
Translation difference on foreign operations	—	—	—	—	—	—	(153)	—	—	(153)
Tax rate change impact (Note 2)	—	—	—	—	93	369	—	—	—	462
Net income/ (expense) recognized directly in equity	45,804	21,540	899	4,428	1,015	4,752	(366)	12,728	93	90,893
Net profit	—	—	—	—	—	—	—	8,558	63	8,621
Issue of shares	3,190	21,560	—	—	—	—	—	—	—	24,750
Balance at 30 June 2007	48,994	43,100	899	4,428	1,015	4,752	(366)	21,286	156	124,264

The accompanying notes presented on pages 52 to 106 form an integral part of this condensed consolidated interim financial information.

Unaudited Condensed Consolidated Statement of Cash Flows

(All amounts expressed in millions of RMB unless otherwise stated.)

	Six months ended	
	2007	2006
	30 June	
Cash flows from operating activities:		
Net profit before taxation:	14,155	9,257
Adjustments for:		
Impairment of loans and advances to customers	2,926	2,042
Write-back of due from banks and financial institutions	(164)	(52)
Impairment of other receivables	17	422
Depreciation of property and equipment	1,279	1,240
Amortization of prepaid staff housing subsidies	10	99
Amortization of prepaid rental expenses	57	93
Amortization of land use rights	1	2
Amortization of intangible assets	51	60
Net gains on investment securities	(553)	(19)
Gains on disposal of fixed assets	(14)	(47)
Amortization of fair value re-measurement on AFS to HTM	(58)	—
Losses on disposal of investment property	—	10
Revaluation gain on investment property	(3)	—
Interest expense on subordinated term debt	602	281
Net increase in due from central banks	(48,709)	(6,889)
Net (increase)/ decrease in due from other banks and financial institutions	(117,158)	26,967
Net increase in financial assets held for trading	(2,240)	(1,313)
Net increase in loans and advances to customers	(205,940)	(130,125)
Net increase in other assets	(3,445)	(413)
Net decrease in due to other banks and financial institutions	115,853	30,420
Net increase/(decrease) in trading liability	(2,523)	1,167
Net increase in due to customers	232,091	126,159
Net increase in other liabilities	11,425	1,389
Net increase in business tax payable	381	211
Income tax paid	(3,497)	(1,557)
Net cash (used in) /from operating activities	(5,456)	59,404

(All amounts expressed in millions of RMB unless otherwise stated.)

	Six months ended 30 June	
	2007	2006
Cash flows from investing activities:		
Purchase of investment securities	(244,842)	(278,055)
Disposal or redemption of investment securities	171,027	226,705
Purchase of intangible assets	(21)	(26)
Disposal of computer software	—	1
Prepaid rental expenses	(27)	(90)
Disposal of land use rights	—	6
Purchase of property and equipment	(1,451)	(918)
Disposal of property and equipment	100	253
Disposal of investment property	—	561
Net cash used in investing activities	(75,214)	(51,563)
Cash flows from financing activities:		
Shares issued	24,750	—
Subordinated debt issued	25,000	—
Interest paid on issued bonds	(501)	(496)
Dividends paid	(5)	(1)
Net cash from/(used in) in financing activities	49,244	(497)
Effect of exchange rate changes on cash and cash equivalents	(221)	26
Net decrease/(increase) in cash and cash equivalents	(31,647)	7,370
Cash and cash equivalents at the beginning of the period	185,722	101,305
Cash and cash equivalents at the end of the period (Note 36)	154,075	108,675
Major non-cash transactions		
Transfer from fixed assets to other assets	—	6
Capitalization of translation difference on foreign operations	(153)	26
Supplementary Information		
Interest received	39,062	29,317
Interest paid	(14,796)	(10,853)

The accompanying notes presented on pages 52 to 106 form an integral part of this condensed consolidated interim financial information.

Notes to the Unaudited Condensed Consolidated Interim Financial Information

FOR THE PERIOD ENDED 30 JUNE 2007

(All amounts expressed in millions of RMB unless otherwise stated.)

1 GENERAL

Bank of Communications Co., Ltd. (the “Bank”) is a commercial and retail bank providing banking services mainly in the People’s Republic of China (“PRC”). The Bank was reorganised as a joint stock national commercial bank on 1 April 1987, in accordance with the approval notice (Guo Fa (1986) No. 81) issued by the State Council of the PRC and the approval notice (Yin Fa (1987) No. 40) issued by the People’s Bank of China (“PBOC”). Headquartered in Shanghai, the Bank operates 100 branches of city level or above in the PRC. In addition, the Bank has branches in Hong Kong SAR, New York, Tokyo, Singapore, Seoul and Frankfurt.

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES

A Basis of preparation and accounting policies

This unaudited condensed consolidated financial information has been prepared in accordance with International Accounting Standard (“IAS”) 34 “Interim Financial Reporting” issued by the International Accounting Standard Board.

This unaudited condensed consolidated financial information of the Bank and its subsidiaries (collectively “the Group”) should be read in conjunction with the 2006 annual financial statements.

Following standards and amendments were effective for annual periods beginning on or after 1 January 2007:

- IFRS 7 Financial instruments: Disclosure;
- Amendments to IAS 1: Capital Disclosure;

The Group will make disclosures in accordance with above standards and amendments in the annual financial statement for the year ended 31 December 2007. The application of above standards and amendments did not result in substantial changes to the Group’s accounting policies and did not have a material impact on the Group’s consolidated financial position as at the end of December 2006 and June 2007.

Except for the above standards and amendments, the accounting policies and methods of computation used in the preparation of this unaudited condensed consolidated financial information are consistent with those used in the annual financial statements for the year ended 31 December 2006.

B Subsidiary undertakings

Subsidiaries, which are those companies and other entities (including Special Purpose Entities) in which the Group, directly or indirectly, has control, are consolidated.

The Group controls another entity when the Group has the power to govern the financial and operating policies of the entity. The existence and effect of potential voting rights that are presently exercisable or presently convertible are also considered when assessing whether the Group controls the entity.

Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases. The purchase method of accounting is used to account for the acquisition of subsidiaries. The cost of an acquisition is measured at the fair value of the assets given up, shares issued or liabilities undertaken at the date of acquisition, plus costs directly attributable to the acquisition. The excess of the cost of acquisition over the fair value of the net assets of the subsidiary acquired is recorded as goodwill. Inter-company transactions, balances and unrealized gains on transactions between group companies are eliminated; unrealized losses are also eliminated unless the loss cannot be recovered. Where necessary, accounting policies of subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

In the stand alone financial statements of the Bank, the subsidiaries are measured at cost less provision for impairment, as the fair value of these subsidiaries cannot be reliably measured. The amount of impairment loss is included in the net profit or loss for the year. The Group applies a policy of treating transactions with minority interests as transactions with parties external the Group.

C Critical accounting estimates and judgments in applying accounting policies

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying accounting policies of the Group.

1) *Impairment losses on loans and advances*

The Group reviews its loan portfolios to assess impairment on a quarterly basis, unless known circumstances indicate that impairment may have occurred as of an interim date. In determining whether an impairment loss should be recorded in the consolidated profit and loss account, the Group makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group (e.g. payment delinquency or default), or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when estimating expected future cash

flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

2) *Fair value of financial instruments*

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

3) *Income taxes*

The Group is subject to income taxes in various jurisdictions; principally, however in the Chinese Mainland and Hong Kong. Significant estimates are required in determining the provision for income taxes. There are certain transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. In particular, the deductibility of certain items in Mainland China is subject to government approval. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred income tax provisions in the period during which such a determination is made. (Note 27)

On 16 March 2007, the National People's Congress approved the Corporate Income Tax Law of the People's Republic of China (the "new CIT Law"), which is effective from 1 January 2008. Under the new CIT Law, the corporate income tax rate applicable to domestic companies from 1 January 2008 will be decreased from 33% to 25%. This reduction in enterprise income tax rate will directly reduce the Group's effective tax rate prospectively from 2008. According to IAS 12, the deferred tax assets and deferred tax liabilities shall be measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled. As a result, such change in the corporate income tax rate impacted the financial position of the Group at 30 June 2007 as follow:

	Six months ended 30 June 2007
Increase: income tax expense of current period	1,285
Increase: revaluation reserve for AFS securities	(93)
Increase: revaluation reserve for properties	(369)
Decrease: deferred tax assets	(1,203)
Decrease: deferred tax liabilities	380

As at the date that these financial statements are approved for issue, detailed measures of the new CIT Law have yet to be issued. Subject to detailed measures and other related regulations concerning computation of taxable income, as well as specific preferential tax treatments and their related transitional provisions, the Group will further evaluate the impact to its operating results and financial positions of future periods as more detailed measures and other related regulations are announced.

4) *Provision for outstanding litigation*

The Group evaluates the losses, if any, arising from outstanding claims made by third parties on a regular basis. Provision for losses is made by the Group in the financial statements when it is probable that an outflow of resources is required to settle the claims. (Note 26)

3 USE OF FINANCIAL INSTRUMENTS

A Strategy in using financial instruments

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

The Group also seeks to raise its interest margins by obtaining above average margins, net of provisions, through lending to commercial and retail borrowers with a range of credit standing. Such exposures involve not just loans and advances but also financial guarantees and credit related commitments such as letters of credit, performance, and other bonds.

B Credit risk

The Group takes on exposure to credit risk which is the risk that a counterparty will be unable to pay amounts in full when due. Credit risk is increased when counterparties are concentrated in the same industries or geographical regions. The majority of the Group's operation is located within China; however different areas in China have their own unique characteristics in economic development. Therefore, each area in China could present different credit risks.

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

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

The Group also maintains strict control limits on net open derivative positions, i.e. the difference between purchase and sale contracts, by both amount and term.

The Group further restricts its exposure to credit losses by entering into master netting arrangements for its interest rate swap transactions with selected counterparties with which it undertakes a significant volume of transactions. Master netting arrangements do not generally result in an offset of balance sheet assets and liabilities as transactions are usually settled on a gross basis. However, the credit risk associated with favorable contracts is reduced by a master netting arrangement to the extent that if an event of default occurs, all amounts with the counterparty are terminated and settled on a net basis. The Group's overall exposure to credit risk on derivative instruments subject to master netting arrangements can change substantially within a short period since it is affected by each transaction subject to the arrangement.

The Group has issued credit related commitments including guarantees and letters of credit. The primary purpose of these instruments is to ensure that funds are available to customers as required. These instruments represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet its obligations to third parties. These instruments carry similar credit risk as loans, so the group manages such credit risk together with loan portfolio.

Geographical concentrations of assets, liabilities and financial guarantees and credit related commitments:

	Total assets	Total liabilities	Financial guarantees and credit related commitments
As at 30 June 2007			
Mainland China	1,869,767	1,748,732	367,783
Hong Kong	247,084	243,752	23,853
Others	19,029	19,132	6,389
Total	2,135,880	2,011,616	398,025
As at 31 December 2006			
Mainland China	1,605,118	1,517,989	286,526
Hong Kong	97,111	93,743	21,570
Others	17,254	17,256	5,937
Total	1,719,483	1,628,988	314,033

Total assets, total liabilities and financial guarantees and credit related commitments are based on the country/region in which the branch or the group entity is located.

Geographic sector risk concentration for loans and advances to customers (gross):

	30 June 2007		31 December 2006	
		%		%
Domestic regions				
— Jiangsu	130,997	12	109,198	12
— Beijing	126,519	11	109,585	12
— Shanghai	117,223	10	98,816	11
— Guangdong	104,153	9	83,014	9
— Zhejiang	89,624	8	74,341	8
— Shandong	54,193	5	50,756	5
— Hubei	40,183	4	33,868	4
— Henan	39,494	3	35,956	4
— Liaoning	36,338	3	27,699	3
— Others	277,127	25	244,695	26
Domestic regions total	1,015,851	90	867,928	94
Hong Kong and overseas countries	114,834	10	56,897	6
Interest receivables	2,547	—	2,580	—
Gross amount of loans and advances before allowance for impairment	1,133,232	100	927,405	100

A geographical region is reported where it contributes 3% and more of the relevant disclosure item.

The above tables show the geographic sector risk concentration relating to loans and advances to customers, the most significant type of assets. The Group's financial guarantees and credit related commitments mainly comprise acceptances and credit related commitments (Note 33).

The economic sector risk concentration analysis for loans and advances to customers (gross):

	30 June 2007		31 December 2006	
		%		%
Corporate loans				
Manufacturing				
— Petroleum and chemical	47,698	4	41,227	4
— Electronics	31,165	3	26,917	3
— Steel	28,595	3	26,448	3
— Machinery	38,372	3	25,592	3
— Textile	22,342	2	20,420	2
— Other manufacturing	114,213	10	100,141	11
Transportation	110,298	10	93,035	10
Trading	94,832	8	81,945	9
Services	95,879	9	79,630	9
Real estate	74,142	7	65,962	7
Utilities	79,527	7	63,289	7
Construction	38,773	3	35,961	4
Educations and scientific research	28,192	2	25,521	3
Post and telecommunications	10,783	1	11,456	1
Agriculture	2,336	—	2,440	—
Non-banking financial institutions	69,067	6	13,020	1
Others	11,969	1	12,888	1
Corporate loans total	898,183	79	725,892	78
Mortgage loans	97,760	9	88,224	10
Medium-term and long-term working capital loans	20,243	2	17,626	2
Short-term working capital loans	10,029	1	10,321	1
Car loans	4,207	—	3,932	1
Credit card advances	3,210	—	2,731	—
Loans secured by deposits	2,761	—	1,284	—
Others	5,602	1	2,010	—
Individual loans total	143,812	13	126,128	14
Discounted bills	88,690	8	72,805	8
Interest receivables	2,547	—	2,580	—
	91,237	8	75,385	8
Gross amount of loans and advances before allowance for impairment	1,133,232	100	927,405	100

The economic sector risk concentration analysis for loans and advances to customers is based on the Group's internal classification system.

Loans and advances to customers analysed by customer type (gross):

	30 June 2007	31 December 2006
Domestic		
Corporate entities		
State owned entities	266,998	240,214
Collective owned entities	9,196	13,456
Private unlimited companies	57,913	47,733
Private limited companies	250,225	204,038
Joint stock companies	80,035	64,937
Foreign invested enterprises	112,737	83,408
Other domestic entities	20,503	31,226
	797,607	685,012
Individuals	130,856	112,129
	928,463	797,141
Hong Kong and Overseas		
Corporate entities	100,576	40,880
Individuals	12,956	13,999
	113,532	54,879
Discounted bills	88,690	72,805
Interest receivables	2,547	2,580
Gross amount of loans and advances before allowance for impairment	1,133,232	927,405

C Market risk

Market risks arise from open positions in interest rate and currency products, which are exposed to general and specific market movements. The Group principally operates in the PRC, in which the interest rate is set by mirroring with PBOC suggested interest rates, and the Group manages its interest rate risks by maintaining a minimum level of net interest spread between interest bearing assets and liabilities. China has reformed its foreign exchange rate management by moving into a managed floating exchange rate regime based on market supply and demand with reference to a basket of currencies. The change of exchange regime lead to an increase in volatility, therefore, the Board sets limits on the level of exposure by currency to monitor the Group's currency risk.

D Currency risk

The Group conducts the majority of its businesses in RMB, with certain foreign transactions in Hong Kong dollars and US dollars. The Group takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Board set limits on the level of exposure by currency, which is monitored regularly. The tables below summarize the Group's exposure to foreign currency exchange rate risk at the end of each period. The tables show the Group's assets and liabilities at carrying amounts in RMB, categorized by the original currency.

	RMB	US Dollars	HK Dollars	Others	Total
As at 30 June 2007					
Assets					
Cash and balances with central banks	224,609	3,363	613	457	229,042
Due from other banks and financial institutions	145,667	30,347	96,193	5,698	277,905
Financial assets held for trading	11,472	2,454	722	587	15,235
Loans and advances to customers	957,606	57,815	92,580	5,320	1,113,321
Investment securities-loans and receivables	55,714	1,147	—	—	56,861
Investment securities-available-for-sale	116,451	21,883	5,274	6,873	150,481
Investment securities-held-to-maturity	251,082	1,986	182	1,860	255,110
Other assets, including deferred tax assets	21,076	6,289	8,040	2,520	37,925
Total assets	1,783,677	125,284	203,604	23,315	2,135,880
Liabilities					
Due to other banks and financial institutions	(241,281)	(36,810)	(2,002)	(4,426)	(284,519)
Financial liabilities held for trading	(1,154)	(706)	(4,091)	(251)	(6,202)
Due to customers	(1,379,812)	(63,005)	(197,149)	(12,456)	(1,652,422)
Other liabilities, including deferred tax liabilities	(58,137)	(634)	(9,176)	(526)	(68,473)
Total liabilities	(1,680,384)	(101,155)	(212,418)	(17,659)	(2,011,616)
Net position	103,293	24,129	(8,814)	5,656	124,264
Financial guarantees and credit related commitments	289,825	75,764	16,383	16,053	398,025

	RMB	US Dollars	HK Dollars	Others	Total
As at 31 December 2006					
Assets					
Cash and balances with central banks	249,224	2,949	1,332	436	253,941
Due from other banks and financial institutions	70,367	37,773	6,495	3,988	118,623
Financial assets held for trading	8,346	1,849	2,385	415	12,995
Loans and advances to customers	821,997	43,954	38,515	5,841	910,307
Investment securities-loans and receivables	46,420	1,630	—	—	48,050
Investment securities-available-for-sale	296,890	27,583	5,912	9,438	339,823
Other assets, including deferred tax assets	46,007	(14,428)	3,415	750	35,744
Total assets	1,539,251	101,310	58,054	20,868	1,719,483
Liabilities					
Due to other banks and financial institutions	(207,691)	(23,748)	(1,460)	(3,208)	(236,107)
Financial liabilities held for trading	(101)	(2,448)	(6,024)	(151)	(8,724)
Due to customers	(1,229,158)	(59,115)	(51,068)	(13,549)	(1,352,890)
Other liabilities, including deferred tax liabilities	(27,326)	(560)	(3,374)	(7)	(31,267)
Total liabilities	(1,464,276)	(85,871)	(61,926)	(16,915)	(1,628,988)
Net position	74,975	15,439	(3,872)	3,953	90,495
Financial guarantees and credit related commitments	228,549	59,009	14,874	11,601	314,033

E Interest rate risk

Interest sensitivity of assets, liabilities and off balance sheet items

The Group takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise.

The Group operates its business predominantly in Mainland China under the interest rate scheme regulated by the PBOC. According to the PBOC regulations, there is no ceiling for loan interest rates, whilst the floor for loan interest rates is 10% below the stipulated rates. It is normal practice for the interest rates of both interest-bearing assets and liabilities to move in the same direction. The Group conducts most of its domestic businesses including loans and deposits as well as the majority of financial guarantees and credit related commitments based upon basic interest rates. Consequently, the Group is less vulnerable to interest rate risk. However, there is no guarantee that the PBOC will continue this practice in future.

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

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

The tables below summarise the Group's exposure to interest rate risks. The tables show the Group's assets and liabilities at carrying amounts, categorized by the earlier of contractual repricing or maturity dates.

Expected repricing and maturity dates do not differ significantly from the contract dates, except for the maturity of amounts classified as "Due to customers up to one month". These amounts classified as "Due to customers up to one month" represent balances on current accounts considered by the Group as a relatively stable core source of funding of its operations.

	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Non-interest bearing	Total
As at 30 June 2007							
Assets							
Cash and balances with central banks	219,356	—	—	—	—	9,686	229,042
Due from other banks and financial institutions	260,751	6,403	7,554	2,030	—	1,167	277,905
Financial assets held for trading	567	1,191	8,691	2,635	1,206	945	15,235
Loans and advances to customers	159,107	173,357	429,886	178,652	172,319	—	1,113,321
Investment securities							
— loans and receivables	337	1,011	3,233	51,222	1,058	—	56,861
— available-for-sale	14,847	35,660	47,165	36,384	14,504	1,921	150,481
— held-to-maturity	9,615	22,767	61,091	94,609	67,028	—	255,110
Other assets, including deferred tax assets	40	—	—	—	—	37,885	37,925
Total assets	664,620	240,389	557,620	365,532	256,115	51,604	2,135,880
Liabilities							
Due to other banks and financial institutions	(179,367)	(26,621)	(21,980)	(53,840)	(2,505)	(206)	(284,519)
Financial liabilities held for trading	(681)	(71)	(487)	(3,294)	(1)	(1,668)	(6,202)
Due to customers	(1,143,247)	(105,927)	(293,611)	(88,936)	(181)	(20,520)	(1,652,422)
Other liabilities, including deferred tax liabilities	(16,269)	—	(314)	(9,000)	(16,000)	(26,890)	(68,473)
Total liabilities	(1,339,564)	(132,619)	(316,392)	(155,070)	(18,687)	(49,284)	(2,011,616)
Total interest sensitivity gap	(674,944)	107,770	241,228	210,462	237,428	2,320	124,264

	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Non-interest bearing	Total
As at 31 December 2006							
Assets							
Cash and balances with central banks	243,516	—	—	—	—	10,425	253,941
Due from other banks and financial institutions	88,653	15,204	14,255	—	—	511	118,623
Financial assets held for trading	2,659	1,785	4,916	1,977	1,266	392	12,995
Loans and advances to customers	77,609	153,949	385,356	149,154	144,239	—	910,307
Investment securities							
— loans and receivables	164	862	21,194	24,835	995	—	48,050
— available-for-sale	14,464	30,574	96,519	129,433	67,574	1,259	339,823
Other assets, including deferred tax assets	154	—	—	—	—	35,590	35,744
Total assets	427,219	202,374	522,240	305,399	214,074	48,177	1,719,483
Liabilities							
Due to other banks and financial institutions	(156,400)	(28,015)	(8,862)	(40,690)	(1,944)	(196)	(236,107)
Financial liabilities held for trading	(1,434)	(2,472)	(997)	(3,239)	(12)	(570)	(8,724)
Due to customers	(899,479)	(107,309)	(250,798)	(72,466)	(62)	(22,776)	(1,352,890)
Other liabilities, including deferred tax liabilities	(17)	—	(12,292)	—	—	(18,958)	(31,267)
Total liabilities	(1,057,330)	(137,796)	(272,949)	(116,395)	(2,018)	(42,500)	(1,628,988)
Total interest sensitivity gap	(630,111)	64,578	249,291	189,004	212,056	5,677	90,495

F Liquidity risk

The Group is exposed to daily calls on its available cash resources from overnight deposits, current accounts, matured deposits, loan draw downs, guarantees and from margin and other calls on cash settled derivatives. The Board set limits on the minimum proportion of funds to be made available to meet such calls and on the minimum level of interbank and other borrowing facilities that should be in place to cover different levels of unexpected withdrawals. In addition, the Group limits its loan to deposit ratio at below 75% as required by the PBOC. 11.5% of the Group's total RMB denominated deposits and 5% of the total foreign currency denominated deposits must be deposited with central banks. The deposit ratio of RMB deposit has been increased by PBOC five times in the first half year, which increases the deposit ratio from 9% as of 31 December 2006 to 11.5% as of 30 June 2007. The tables below analyze the assets and liabilities of the Group into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date.

Maturities of assets and liabilities

	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Over due	Total
As at 30 June 2007							
Assets							
Cash and balances with central banks	229,042	—	—	—	—	—	229,042
Due from other banks and financial institutions	258,164	8,459	9,252	2,030	—	—	277,905
Financial assets held for trading	837	359	8,759	3,699	1,581	—	15,235
Loans and advances to customers	142,281	147,195	430,717	204,140	173,487	15,501	1,113,321
Investment securities							
— loans and receivables	327	935	3,233	51,298	1,068	—	56,861
— available-for-sale	8,277	25,210	45,902	51,526	19,566	—	150,481
— held-to-maturity	7,218	14,169	40,606	112,042	81,075	—	255,110
Other assets, including deferred tax assets	5,985	779	244	8,592	21,828	497	37,925
Total assets	652,131	197,106	538,713	433,327	298,605	15,998	2,135,880
Liabilities							
Due to other banks and financial institution	(174,007)	(32,147)	(22,020)	(53,840)	(2,505)	—	(284,519)
Financial liabilities held for trading	(843)	(173)	(866)	(4,108)	(212)	—	(6,202)
Due to customers	(1,143,117)	(126,528)	(293,651)	(88,930)	(196)	—	(1,652,422)
Other liabilities, including deferred tax liabilities	(30,068)	(3,764)	(1,509)	(21,861)	(11,271)	—	(68,473)
Total liabilities	(1,348,035)	(162,612)	(318,046)	(168,739)	(14,184)	—	(2,011,616)
Net liquidity gap	(695,904)	34,494	220,667	264,588	284,421	15,998	124,264

	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Over due	Total
As at 31 December 2006							
Assets							
Cash and balances with central banks	253,941	—	—	—	—	—	253,941
Due from other banks and financial institutions	88,807	15,378	14,418	—	—	20	118,623
Financial assets held for trading	2,644	1,394	4,953	2,509	1,495	—	12,995
Loans and advances to customers	64,025	129,257	387,041	170,539	143,649	15,796	910,307
Investment securities							
— loans and receivables	8	706	21,272	25,069	995	—	48,050
— available-for-sale	9,072	17,375	71,426	159,201	82,749	—	339,823
Other assets, including deferred tax assets	3,169	42	307	9,707	22,020	499	35,744
Total assets	421,666	164,152	499,417	367,025	250,908	16,315	1,719,483
Liabilities							
Due to other banks and financial institution	(160,409)	(24,201)	(8,863)	(40,690)	(1,944)	—	(236,107)
Financial liabilities held for trading	(3,689)	(522)	(925)	(3,421)	(167)	—	(8,724)
Due to customers	(903,768)	(115,516)	(257,880)	(73,528)	(2,198)	—	(1,352,890)
Other liabilities, including deferred tax liabilities	(14,431)	(2,046)	(1,523)	(12,963)	(304)	—	(31,267)
Total liabilities	(1,082,297)	(142,285)	(269,191)	(130,602)	(4,613)	—	(1,628,988)
Net liquidity gap	(660,631)	21,867	230,226	236,423	246,295	16,315	90,495

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

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

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

G Fair values of financial assets and liabilities

The following table summarizes the carrying amounts and the approximate fair values of those financial assets and liabilities not presented on the Group's balance sheet at their fair value. Bid prices are used to estimate fair values of assets, whereas offer prices are applied for liabilities.

	30 June 2007		31 December 2006	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial assets				
Due from other banks and financial institutions	277,905	277,905	118,623	118,623
Loans and advances to customers	1,113,321	1,113,321	910,307	910,307
Investment securities				
— loans and receivables	56,861	56,027	48,050	48,071
Investment securities — held to maturity	255,110	251,010	—	—
Financial liabilities				
Due to other banks and financial institutions	284,519	284,200	236,107	235,566
Due to customers	1,652,422	1,652,225	1,352,890	1,352,511
Subordinated term debt	37,393	36,115	12,292	12,292

The fair values of those financial assets and liabilities such as amounts due from/to other banks and financial institutions, loans and advances to customers and customer deposits are approximately equal to their carrying values as the interest rates of most of these assets and liabilities are adjusted to changes in interest rates set by the PBOC and other regulatory bodies. The Group only has an insignificant amount of fixed rate deposits due to and from other banks and financial institutions, deposits due to customers and loans and advances due from customers.

Due from other banks and financial institutions

Due from other banks and financial institutions includes inter-bank placements and items in the course of collection. The fair values of floating rate placements and overnight deposits are their carrying amounts. The estimated fair value of fixed interest bearing deposits, which are normally less than one year, is based on discounted cash flows using prevailing money market interest rates for debts with similar credit risk and remaining maturities. Therefore, the fair value of due from other banks and financial institutions is approximately equal to its carrying value.

Loans and advances to customers

Loans and advances to customers are stated net of impairment allowance. All except a very insignificant portion of loans and advances to customers bear interest at a floating rate.

Therefore, the carrying value of loans and advances to customers is a reasonable estimate of fair value.

Investment securities

Investment securities include only interest-bearing loans and receivables and held to maturity securities, as available-for-sale securities are measured at fair value. The fair value is determined by following the hierarchy given below:

- the price used in recent transactions of similar financial instruments with adjustment when the market conditions have changed.
- valuation techniques, including: cash flow models etc.
- if fair value cannot be measured reliably, equity and security investments are recognised at cost less impairment.

Due to other banks and financial institutions and customers

The estimated fair value of liabilities due to other banks and financial institutions and customers with no stated maturity, which includes non-interest-bearing liabilities due to other banks and financial institutions and customers, is the amount repayable on demand. The fair value of floating rate liabilities due to other banks and customers is their carrying amount. The estimated fair value of fixed interest bearing liabilities due to other banks and financial institutions and customers without quoted market price, which are normally less than one year, is based on discounted cash flows using interest rates for new debts with similar remaining maturities. Therefore, the fair value of due to other banks and financial institutions and customers is approximately equal to its carrying value.

Subordinated term debt

The fair value of floating rate subordinated term debts is approximately equal to its carrying amount. The fair value of fixed interest bearing subordinated term debts is calculated using a discounted cash flow model which is based on a current yield curve appropriate for the remaining term to maturity.

H Fiduciary activities

The Group provides custody and trustee services to third parties. Those assets that are held in a fiduciary capacity are not included in the financial statements.

	As at 30 June 2007	As at 31 December 2006
Investment custody accounts	327,728	190,248

4 NET INTEREST INCOME

	Three months ended 30 June		Half-year ended 30 June	
	2007	2006	2007	2006
Interest income				
Balances with central banks	764	487	1,465	952
Due from other banks and financial institutions	1,490	1,569	3,130	2,990
Loans and advances to customers	15,329	10,671	28,677	20,797
Investment securities	3,333	2,522	6,433	4,809
Others	63	14	115	53
	20,979	15,263	39,820	29,601
Interest expense				
Due to other banks and financial institutions	(2,340)	(1,189)	(4,372)	(2,400)
Due to customers	(6,101)	(4,517)	(11,912)	(8,857)
	(8,441)	(5,706)	(16,284)	(11,257)
Net interest income	12,538	9,557	23,536	18,344
			Half-year ended 30 June	
			2007	2006
Interest income accrued on loans and advances to customers individually identified with impairment			338	337

5 FEE AND COMMISSION INCOME

	Half-year ended 30 June	
	2007	2006
Settlement and agent service commission income	558	511
Bank card annuity fee and commission income	912	467
Guarantee and commitment commission income	188	179
Custodian commission income	180	66
Funds sales commission income	1,017	16
Funds management commission income	248	—
Other commission income	535	320
	3,638	1,559

6 DIVIDEND INCOME

	Half-year ended 30 June	
	2007	2006
Dividend income	44	27

Dividend income was from equity investments classified as available-for-sale securities or as financial assets held for trading.

7 GAINS LESS LOSSES ARISING FROM TRADING ACTIVITIES

	Half-year ended 30 June	
	2007	2006
Foreign exchange	162	171
Interest rate instruments	(246)	(21)
	(84)	150

Net income on foreign exchange includes gains and losses from spot and forward contracts, currency swaps, currency options, currency futures and from the translation of foreign currency monetary assets and liabilities into Renminbi.

Net income on interest rate instruments includes the results of marking securities held for trading, debt securities in issue, structured deposits, interest rate swaps, cross currency interest rate swaps, interest rate options and other interest rate derivatives to market.

8 OTHER OPERATING INCOME

	Half-year ended 30 June	
	2007	2006
Profit on sales of land use rights and buildings	14	47
Sales of foreclosed assets and other assets	72	3
Other miscellaneous income	106	294
	192	344

Other miscellaneous income includes income arising from miscellaneous banking services provided to the Group's customers.

9 IMPAIRMENT LOSSES ON LOANS AND ADVANCES

	Three months ended 30 June		Half-year ended 30 June	
	2007	2006	2007	2006
Due from other banks and financial institutions and securities purchased under resale agreements (Note 16(b))	(112)	(21)	(164)	(52)
Loans and advances to customers (Note 19(b))				
— Collectively assessed provision	597	340	1,114	641
— Individually assessed provision	1,359	609	2,150	1,401
	1,956	949	3,264	2,042
Less: recovery of loans previously written off	(18)	(9)	(23)	(19)
	1,826	919	3,077	1,971

10 OTHER OPERATING EXPENSES

	Half-year ended 30 June	
	2007	2006
Staff costs (Note 11)	3,682	2,730
General and administrative expenses	1,920	1,600
Depreciation (Note 21)	1,279	1,240
Business tax and surcharges	1,663	1,198
Operating lease rentals	442	431
Impairment of other receivables	17	422
Regulator's supervision fee	190	153
Reversal of outstanding litigation	(21)	(200)
Professional fees	23	18
Losses on sales of investment property	—	10
Amortization of intangible assets	110	60
Others	805	1,290
	10,110	8,952

11 STAFF COSTS

	Half-year ended 30 June	
	2007	2006
Salaries and bonus	2,235	1,663
Pension costs	292	256
Housing benefits and subsidies	263	255
Other social security and benefit costs	892	556
	3,682	2,730

12 DIRECTORS' EMOLUMENTS

Details of the directors', the supervisors' and the senior management's emoluments are as follows:

	Half-year ended 30 June	
	2007	2006
Fees	14	6

The Board resolved to grant performance bonus of 2006 to directors and senior management amounting to RMB8.32 million during the first half year of 2007.

The numbers of directors, supervisors and senior management whose annual emoluments fell within the following band are set out below:

	Half-year ended 30 June	
	2007	2006
Nil–RMB1,000,000	27	33
RMB1,000,000–RMB1,500,000	7	—
	34	33

No directors waived or agreed to waive any emolument during the period.

In the first half year of 2007, RMB250,000 was accrued for independent non-executive directors' emolument (2006: RMB250,000).

On 18 November 2005, the Board resolved to grant certain cash settled share appreciation rights ("SARs") to several senior executives of head office under long term incentive plan. According to the resolution, the initial grant of SARs targeted at senior executives of the head office as at 23 June 2005. The exercise price of each SARs is HK\$2.5, being the issue price of the H share at the time of its initial public offering. The amount of the initial grant of the SARs was 7.558 million shares. The SARs will be valid for a period of ten years from 23 June 2005, with a two-year vesting period.

On 3 November 2006, the Board resolved to grant certain cash settled SARs to several senior executives of head office under long term incentive plan. According to the resolution, the grant of SARs targeted at senior executives of the head office as at 3 November 2006. The exercise price of each SARs is HK\$6.13, being the closing price of the Group's H Share on the granting date. The amount of the grant of the SARs was 2.724 million shares. The SARs will be valid for a period of ten years from 3 November 2006, with a two-year vesting period.

During the first half year of 2007, no SARs were exercised. Benefits arising from the granting of these SARs were recognized in the consolidated profit and loss account but not included in the directors' emoluments disclosed above.

Movements in the number of shares outstanding are as follows:

	Period ended at 30 June 2007	Year ended at 31 December 2006
	Number of shares (In millions)	Number of shares (In millions)
Outstanding at beginning of the period	11	8
Granted	—	3
Outstanding at end of the period	11	11

The fair value of SARs using Binomial Option Pricing model at 30 June 2007 is RMB22 million (31 December 2006: RMB 17 million).

13 INCOME TAX

	Three months ended 30 June		Half-year ended 30 June	
	2007	2006	2007	2006
Current tax				
— Mainland China income tax	2,317	1,946	3,687	3,210
— Hong Kong profits tax	75	46	146	83
— Overseas taxation	10	226	11	227
	2,402	2,218	3,844	3,520
Deferred tax (Note 27)	(246)	(281)	1,690	(298)
	2,156	1,937	5,534	3,222

The provision for Mainland China income tax is calculated based on the statutory rate of 33% of the assessable income of the Bank and each of the subsidiaries established in Mainland China as determined in accordance with the relevant PRC income tax rules and regulations for the six months ended 30 June 2007.

Profits earned by the Hong Kong branch or subsidiaries in Hong Kong are subject to Hong Kong profits tax at the rate of 17.5%, on the estimated assessable profit for the six months ended 30 June 2007. Taxation on overseas profits has been calculated on the estimated assessable profit at the rates of taxation prevailing in the countries in which the Group operates during the six months ended 30 June 2007.

The taxation on the Group's profit before taxation differs from the theoretical amount that would arise using the taxation rate of the home country of the Bank at 33%. The reconciliation is as follows:

	Three months ended 30 June		Half-year ended 30 June	
	2007	2006	2007	2006
Profit before tax	6,955	5,071	14,155	9,257
Tax calculated at a tax rate of 33%	2,295	1,674	4,671	3,055
Effect of different tax rates in other countries	(3)	24	7	23
Tax credit arising from income not subject to tax ⁽¹⁾	(247)	(178)	(512)	(409)
Tax effect of expenses that are not deductible for tax purposes ⁽²⁾	17	417	83	553
Tax rate change impact (Note 2)	94	—	1,285	—
Income tax expense	2,156	1,937	5,534	3,222

1: The income not subject to tax of the Group mainly represents interest income arising from treasury bonds, which is income tax free in accordance with the PRC tax regulation.

2: The expenses that are not tax deductible of the Group mainly represents a portion of expenditure, such as promotion expenses, entertainment expenses etc, which is over the tax deduction limits in accordance with PRC tax regulation.

14 BASIC AND DILUTED EARNINGS PER SHARE

Basic and diluted earnings per share is calculated by dividing the net profit attributable to shareholders of the Bank by the weighted average number of ordinary shares in issue during the period.

	Half-year ended 30 June	
	2007	2006
Profit attributable to shareholders of the Bank	8,558	6,034
Weighted average number of ordinary shares in issue	46,867	45,804
Basic and diluted earnings per share (expressed in RMB per share)	0.18	0.13

15 CASH AND BALANCES WITH CENTRAL BANKS

	30 June	31 December
	2007	2006
Cash	9,646	10,415
Balances with central banks other than mandatory reserve deposits	66,604	139,443
Included in cash and cash equivalents (Note 36)	76,250	149,858
Mandatory reserve deposits	152,792	104,083
	229,042	253,941

The Group is required to place mandatory deposits with central banks. The deposits are calculated based on the amount of deposits placed with the Group by its customers.

	30 June	31 December
	2007	2006
Mandatory reserve rate for deposits denominated in RMB	11.5%	9%
Mandatory reserve rate for deposits denominated in foreign currency	5%	4%

Mandatory reserve deposits with central banks are not available for use by the Group in its day to day operations.

16 DUE FROM OTHER BANKS AND FINANCIAL INSTITUTIONS

(a) Due from other banks and financial institutions

	30 June 2007	31 December 2006
Placement with other banks and included in cash equivalents (Note 36)	77,825	35,865
Securities purchased under resale agreement	54,541	25,972
Less: allowance for impairment losses on securities purchased under resale agreement	(10)	(10)
	54,531	25,962
Loans purchased under resale agreement	7,644	5,326
Loans and advances to other banks	128,821	45,342
Loans to other financial institutions	9,536	6,744
	138,357	52,086
Less: Individual impairment allowance on amounts due from other banks and financial institutions	(452)	(616)
	137,905	51,470
	277,905	118,623

(b) Movements in allowance for impairment losses on amounts due from other banks and financial institutions and securities purchased under resale agreement

	Half-year ended 30 June 2007	2006
Balance at beginning of the period	626	743
Reversal of impairment, net (Note 9)	(164)	(52)
Balance at end of the period	462	691

(c) Impaired amount of due from other banks and financial institutions:

	30 June 2007	31 December 2006
Impaired amount of due from other banks and financial institutions	462	626
Impaired amount of due from other banks and financial institutions (percentage)	0.17%	0.53%

17 FINANCIAL ASSETS HELD FOR TRADING

	30 June 2007	31 December 2006
Derivative financial instruments (Note 18)	945	392
Government bonds		
— Listed in Hong Kong	23	24
— Listed outside Hong Kong	162	83
— Unlisted	7,972	5,709
Other debt securities		
— Listed in Hong Kong	622	680
— Listed outside Hong Kong	164	—
— Unlisted - corporate bonds	1,456	2,731
— Unlisted - public sector	100	46
— Unlisted - banking sector	3,791	3,330
	15,235	12,995

18 DERIVATIVE FINANCIAL INSTRUMENTS

The following derivative instruments are utilized by the Group for trading purpose:

Currency forwards represent commitments to purchase/sell foreign exchanges including undelivered spot transactions. Foreign currency and interest rate futures are contractual obligations to receive or pay a net amount based on changes in currency rates or interest rates or to buy or sell foreign currency or a financial instrument on a future date at a specified price, established in an organised financial market. The credit risk is negligible, as futures contracts are collateralised by cash or marketable securities, and changes in the futures contract value are settled daily with the exchange. Forward rate agreements are individually negotiated interest rate futures that call for a cash settlement at a future date for the difference between a contracted rate of interest and the current market rate, based on a notional principal amount.

Currency and interest rate swaps are commitments to exchange one set of cash flows for another. Swaps result in an economic exchange of currencies or interest rates (for example, fixed rate for floating rate) or a combination of all these (i.e. cross-currency interest rate swaps). The Group's credit risk represents the potential cost to replace the swap contracts if counterparties fail to perform their obligation. This risk is monitored on an ongoing basis with reference to the current fair value, the notional amount of the contracts and the liquidity of the market. To control the level of credit risk taken, the Group assesses counterparties using the same techniques as for its lending activities.

Foreign currency and interest rate options are contractual agreements under which the seller (writer) grants the purchaser (holder) the right, but not the obligation, either to buy (a call option) or sell (a put option) at or by a set date or during a set period, a specific amount of a foreign currency or a financial instrument at a predetermined price. The seller receives a premium from the purchaser in consideration for the assumption of foreign exchange or interest rate risk. Options may be either exchange-traded or negotiated between the Group and a customer (OTC).

The notional amounts of certain types of financial instruments provide a basis for comparison with instruments recognised on the balance sheet but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Group's exposure to credit or price risks. The derivative instruments become favourable (assets) or unfavorable (liabilities) as a result of fluctuations in market interest rates or foreign exchange rates relative to their terms. The aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time. The fair values of derivative instruments held are set out in the following tables.

	Contract/notional Amount	Fair values	
		Assets	Liabilities
As at 30 June 2007			
Foreign exchange contracts	146,245	663	(1,172)
Interest rate contracts	70,004	282	(496)
Others	2	—	—
Total recognized derivatives		945	(1,668)

	Contract/notional Amount	Fair values	
		Assets	Liabilities
As at 31 December 2006			
Foreign exchange contracts	97,700	161	(138)
Interest rate contracts	40,897	231	(430)
Total recognized derivatives		392	(568)

The tables above provide a detailed breakdown of the contractual or notional amounts and the fair values of the Group's derivative financial instruments outstanding at period end. These instruments, comprising foreign exchange and interest rate derivatives allow the Group and its customers to transfer, modify or reduce their foreign exchange and interest rate risks.

The Group undertakes its transactions in foreign exchange and interest rate contracts with other financial institutions and customers. Management has established limits on these contracts by counterparties, industry sectors and countries. Actual credit exposures and limits are regularly monitored and controlled by management.

Credit risk weighted amounts

	30 June 2007	31 December 2006
Derivatives		
— Exchange rate contracts	743	264
— Interest rate contracts	104	101
	847	365

The credit risk weighted amounts are the amounts calculated with reference to the guidelines issued by the China Banking Regulatory Commission ("CBRC") and are dependent on, amongst other factors, the creditworthiness of the counterparty and the maturity characteristics of each type of contract.

Replacement costs

	30 June 2007	31 December 2006
Derivatives		
— Exchange rate contracts	663	161
— Interest rate contracts	282	231
	945	392

Replacement cost is the cost of replacing all contracts which have a positive value when marked to market (should the counterparty default on its obligations) and is obtained by marking contracts to market. Replacement cost is a close approximation of the credit risk for these contracts as of the balance sheet date.

The credit risk weighted amounts and replacement costs stated above have taken the effects of netting arrangements into account.

Notional amounts of derivative financial instruments by original currency

	RMB	US Dollars	HK Dollars	Others	Total
As at 30 June 2007					
Notional amount of derivative financial instruments	93,632	90,184	20,354	12,081	216,251
As at 31 December 2006					
Notional amount of derivative financial instruments	38,662	79,145	11,958	8,832	138,597

19 LOANS AND ADVANCES TO CUSTOMERS

(a) Loans and advances to customers

	30 June 2007	31 December 2006
Loans and advances to customers	1,133,232	927,405
Less: Collective impairment allowances	(6,819)	(5,705)
Individual impairment allowances	(13,092)	(11,393)
	1,113,321	910,307

(b) Movements in allowance for losses on loans and advances:

	Half-year ended 30 June 2007	2006
Balance at beginning of period	17,098	12,601
Impairment allowances for loans charged to profit and loss account	4,483	3,351
Reversal of impairment allowances for loans	(1,219)	(1,309)
Net impairment allowances for loans charged to profit and loss account	3,264	2,042
Unwind of discount on allowances	(338)	—
Loans written off during the period as uncollectible	(46)	(432)
Exchange difference	(67)	(12)
Balance at end of the period	19,911	14,199

(c) Individually identified loans with impairment:

	30 June 2007	31 December 2006
Individually identified loans with impairment	23,331	23,477
Individually identified loans with impairment to loans and advances to customers (percentage)	2.06%	2.53%

20 INVESTMENT SECURITIES

	30 June 2007	31 December 2006
Securities — loans and receivables		
Debt securities — at amortised cost		
— Unlisted	56,861	48,050
Securities — available-for-sale		
Debt securities — at fair value		
— Listed in Hong Kong	9,571	9,497
— Listed outside Hong Kong	8,666	74,783
— Unlisted	130,323	254,284
Equity securities — at fair value		
— Listed in Hong Kong	—	531
— Listed outside Hong Kong	753	130
— Unlisted	1,168	598
	150,481	339,823
Securities — held-to-maturity		
Debt securities — at amortized cost		
— Listed outside Hong Kong	87,603	—
— Unlisted	167,507	—
	255,110	—

As certain unlisted equity securities held by the Group have no published quoted prices available, are not able to be benchmarked with similar financial instruments, and valuation techniques are not cost effective, the Group states such unlisted equity securities at cost less impairment.

In 2004, the Group disposed of investment securities classified as held-to-maturity in the amount of RMB1.1 billion prior to their contractual maturity dates. As a result, the Group reclassified all its held-to-maturity investments with the amortised cost of RMB4,378 million to available-for-sale investments on 30 September 2004. The Group was also prohibited by Paragraph 9 of IAS 39 to classify any financial assets as held-to-maturity before 1 January 2007 and all investment securities purchased by the Group during 30 September 2004 to 31 December 2006 with the intention and ability to hold through maturity are classified as available-for-sale financial instruments in accordance with Paragraph 9 of IAS 39. On 1 January 2007, the management of the Group reclassified its available-for-sale investment securities with the fair value and amortised cost of RMB231,434 million and RMB230,177 million respectively to held-to-maturity investments. Included in the revaluation reserve at 30 June 2007 was amount of RMB1,194 million (net of tax impact: RMB897 million) relating to securities reclassified from available-for-sale to held-to-maturity investments on 1 January 2007 which will be amortized through profit and loss account over the remaining period through their maturities in accordance with IAS 39.

Gains less losses arising from investment securities comprise:

	Half-year ended 30 June 2007	2006
Gains less losses arising from de-recognition of investment securities	553	19

The movement in investment securities may be summarized as follows:

	Loans and receivables	Available- for-sale	Held-to- maturity	Total
At 1 January 2007	48,050	339,823	—	387,873
Redesignation	—	(231,434)	231,434	—
Additions	28,439	160,082	57,196	245,717
Disposals (sale or redemption)	(19,588)	(117,432)	(33,454)	(170,474)
Gains from changes in fair value	—	210	—	210
Exchange differences	(40)	(768)	(66)	(874)
At 30 June 2007	56,861	150,481	255,110	462,452

	Loans and receivables	Available- for-sale	Held-to- maturity	Total
Balance at 1 January 2006	28,372	285,971	—	314,343
Additions	23,020	463,634	—	486,654
Disposals (sale or redemption)	(3,282)	(406,593)	—	(409,875)
Losses from changes in fair value	—	(2,632)	—	(2,632)
Exchange differences	(60)	(557)	—	(617)
At 31 December 2006	48,050	339,823	—	387,873

The investment securities are analysed by issuer as follows:

	30 June 2007	31 December 2006
Securities — loans and receivables		
— Central governments and central banks	54,711	45,436
— Public sector entities	155	370
— Banks and other financial institutions	1,448	1,705
— Corporate entities	547	539
	56,861	48,050
Securities — available-for-sale		
— Central governments and central banks	75,286	144,405
— Public sector entities	2,195	2,119
— Banks and other financial institutions	62,293	178,495
— Corporate entities	10,707	14,804
	150,481	339,823
Securities — Held to maturity		
— Central governments and central banks	126,812	—
— Public sector entities	1,740	—
— Banks and other financial institutions	119,893	—
— Corporate entities	6,665	—
	255,110	—

The certificates of deposit held and included in investment securities are analysed as follows:

	30 June 2007	31 December 2006
Available-for-sale, at fair value		
— Unlisted	869	1,329

The maturity profile of certificates of deposit held analysed by the remaining period as at period end to the contractual maturity dates is as follows:

	30 June 2007	31 December 2006
Up to 3 months	353	—
3 to 12 months	516	1,066
1 to 5 years	—	263
	869	1,329

21 PROPERTY AND EQUIPMENT

	Land and Buildings	Construction in Progress	Equipment	Motor Vehicles	Leasehold Improvement	Total
Cost or valuation						
At 1 January 2007	21,615	787	4,888	135	1,201	28,626
Additions	340	720	330	4	57	1,451
Disposals	(64)	—	(137)	(3)	(50)	(254)
Transfers	102	(102)	—	—	—	—
At 30 June 2007	21,993	1,405	5,081	136	1,208	29,823
Accumulated depreciation						
At 1 January 2007	—	—	(1,889)	76	(529)	(2,342)
Charge for the period	(454)	—	(673)	(24)	(128)	(1,279)
Disposals	2	—	119	3	44	168
Reclassification	73	—	—	—	—	73
At 30 June 2007	(379)	—	(2,443)	55	(613)	(3,380)
Net book value						
At 30 June 2007	21,614	1,405	2,638	191	595	26,443
Carrying amount at						
30 June 2007, if at cost	13,084	1,300	2,482	171	595	17,632

	Land and Buildings	Construction in Progress	Equipment	Motor Vehicles	Leasehold Improvement	Total
Cost or valuation						
At 1 January 2006	20,047	1,125	4,050	236	1,221	26,679
Additions	532	1,083	1,271	50	322	3,258
Disposals	(327)	(59)	(433)	(151)	(342)	(1,312)
Transfers	1,333	(1,333)	—	—	—	—
Revaluation	30	(29)	—	—	—	1
At 31 December 2006	21,615	787	4,888	135	1,201	28,626
Accumulated depreciation						
At 1 January 2006	—	—	(953)	(2)	(560)	(1,515)
Charge for the year	(826)	—	(1,349)	(67)	(259)	(2,501)
Disposals	9	—	413	145	290	857
Revaluation	817	—	—	—	—	817
At 31 December 2006	—	—	(1,889)	76	(529)	(2,342)
Net book value						
At 31 December 2006	21,615	787	2,999	211	672	26,284
Carrying amount at						
31 December 2006, if at cost	12,946	685	2,823	191	672	17,317

Pan-China Assets Appraisal Co., Ltd. (北京天健興業資產評估有限公司) was appointed as its external valuer for the Group's (excluding Hong Kong Branch) latest valuation exercise as at 31 December 2006 to revalue land and buildings, construction in progress, with reference to the open market value, while equipment and motor vehicles were not revalued due to their insignificance.

CB Richard Ellis Ltd. was appointed as the external valuer for the Hong Kong Branch's latest valuation exercise as at 31 December 2006 to revalue lands and buildings, construction in progress, with reference to the open market value, while the equipment and motor vehicles were not revalued due to their insignificance.

The revaluation reserve relating to revaluation of property and equipment is not distributable to shareholders.

All land and buildings of the Group are located outside Hong Kong, except for those of Hong Kong branch.

	30 June 2007	31 December 2006
Net book value of land and buildings of Hong Kong Branch	1,311	1,370

22 OTHER ASSETS

	30 June 2007	31 December 2006
Settlement accounts	1,570	264
Other receivables	6,374	4,681
Less: impairment allowance	(2,260)	(2,243)
Foreclosed assets	3,864	4,050
Less: impairment allowance	(2,667)	(2,906)
Prepaid staff housing subsidies	85	96
Prepaid rental expenses	284	314
Land use rights	518	592
Intangible assets	634	709
Investment property	148	145
Others	668	238
	9,218	5,940

23 DUE TO OTHER BANKS AND FINANCIAL INSTITUTIONS

	30 June 2007	31 December 2006
Deposit from other banks	8,437	5,465
Deposits from other financial institutions	210,163	189,807
Loans from other banks	65,919	40,835
	284,519	236,107

24 FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	30 June 2007	31 December 2006
Financial liabilities held for trading		
— Derivative financial instruments (Note 18)	1,668	568
— Short position of securities held for trading	695	2,228
— Debt securities in issue	3,839	5,928
	6,202	8,724

Debt securities in issue are:

	30 June 2007		31 December 2006	
	Amount	Interest rate per annum (%)	Amount	Interest rate per annum (%)
HKD short term Certificate of Deposit	71	3.93%	923	4.28%
HKD medium term Certificate of Deposit	262	4.51%	268	4.25%
USD short term Certificate of Deposit	—	—	224	4.30%
USD medium Certificate of deposit	20	4.87%	—	—
USD floating rate Certificate of Deposit (maturing in January 2007)	—	—	1,154	3M LIBOR+0.20%
HKD floating rate Certificate of deposit (maturing in November 2008)	881	HIBOR+0.18%	909	HIBOR+0.18%
HKD fixed rate step-up rate Certificate of Deposit (maturing in May 2009)	417	range from 3.10% to 4.60%	440	range from 3.10% to 4.60%
HKD floating rate Certificate of Deposit (maturing in September 2008)	391	HIBOR + 0.26%	404	HIBOR+0.26%
HKD fixed rate step-up Certificate of deposit (maturing in Jul. 2008)	255	range from 3.57% to 4.07%	—	—
HKD fixed rate Certificate of deposit (maturing in Jun. 2009)	269	4.45%	—	—
USD floating rate Certificate of Deposit (maturing in June 2007)	—	—	235	LIBOR+0.12%
Others	1,273		1,371	
Total	3,839		5,928	

25 DUE TO CUSTOMERS

	30 June 2007	31 December 2006
Corporate current deposits	689,748	512,030
Corporate savings deposits	7,011	6,151
Corporate time deposits	406,444	303,828
Individual current deposits	202,957	188,299
Individual savings deposits	13,397	14,183
Individual time deposits	310,688	307,552
Other deposits	11,976	12,134
Interest payable	10,201	8,713
	1,652,422	1,352,890
Including:		
Pledged deposits held as collateral for letters of credit	7,164	5,066

26 OTHER LIABILITIES

	30 June 2007	31 December 2006
Settlement accounts	15,546	4,269
Dividends payable	2,015	2,020
Staff benefits payables	2,010	2,278
Tax payable	1,322	941
Provision for outstanding litigation	974	995
Others	6,041	5,648
	27,908	16,151

27 DEFERRED INCOME TAXES

On 16 March 2007, the National People's Congress approved the Corporate Income Tax Law of the People's Republic of China (the "new CIT Law"), which is effective from 1 January 2008. Under the new CIT Law, the corporate income tax rate applicable to the domestic companies from 1 January 2008 will be decreased from 33% to 25%. The deferred tax assets and deferred tax liabilities was measured at the tax rates of 33% or 25% that are expected to apply to the period when the asset is realized or the liability is settled.

Deferred income taxes are calculated on all temporary differences under the liability method using an effective tax rate of 17.5% for the period ended 30 June 2007 (Year 2006: 17.5%) for transactions in Hong Kong.

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

	Half-year ended 30 June	
	2007	2006
At beginning of the period	3,197	542
Credit/(Charge) to profit and loss account	(1,690)	298
Available-for-sale securities		
— fair value remeasurement	64	635
Property revaluation	369	—
At end of the period	1,940	1,475

Deferred income tax assets and liabilities are attributable to the following items:

	Half-year ended 30 June	
	2007	2006
Deferred income tax liabilities		
Available-for-sale securities	(340)	(380)
Property revaluation reserve	(1,369)	(1,738)
Other temporary differences	(201)	(271)
	(1,910)	(2,389)
Deferred income tax assets		
Provision for loan losses	1,442	2,229
Impairment allowances for investments	163	240
Decelerated tax depreciation	97	129
Impairment of other assets	2,123	2,987
Available-for-sale securities	25	1
	3,850	5,586
Net deferred income tax assets	1,940	3,197

The above net deferred income tax assets are disclosed separately on the balance sheet based on different responsible taxation authorities:

	30 June	31 December
	2007	2006
Deferred tax assets	2,264	3,520
Deferred tax liabilities	(324)	(323)

The deferred tax credit/(charge) in the profit and loss account comprises the following temporary differences:

	Half-year ended 30 June	
	2007	2006
Provision for loan losses:		
Provisions for loan losses	(124)	137
Utilization	(663)	—
Sub-total	(787)	137
Impairment allowances for investments	(77)	(62)
Impairment of other assets	(864)	33
Decelerated tax depreciation	(32)	(1)
Depreciation/disposal of property and equipment	—	157
Other temporary differences	70	34
	(1,690)	298

28 RETIREMENT BENEFIT OBLIGATIONS

The Group participates in various defined contribution retirement benefit plans organised by municipal and provincial governments in Mainland China under which it is required to make monthly contributions to these plans at rates ranging from 10% to 27% of the employees' basic salary for the period. The Group currently has no additional significant cost for the payment of retirement and other post-retirement benefits of employees other than the monthly contributions described above. The Group's contributions to these pension plans are charged to the profit and loss account in the period to which they relate.

Since 2007, the Group started to pay supplementary retirement benefits to its current retired employees in Mainland China. The Group's obligations in respect of supplementary retirement benefits are calculated by estimating the amount of future benefits that the Group is committed to pay to the employees after their retirement using actuarial techniques. Such benefits are discounted to determine their present values. The discount rate is the yield on high quality bonds at the balance sheet date, the maturity dates of which approximate to the terms of the Group's obligations. In calculating the Group's obligations, actuarial gains and losses, changes in actuarial assumptions and amendments to pension plan are charged or credited to the income statement as they occur. The amounts recognised in the balance sheet represent the present value of unfunded obligations.

Management has undertaken a comprehensive design of its employee annuity plan. A number of the elements of this design are consistent with and reinforce management's position that the Group has had no obligation to pay supplemental retirement benefits to current domestic employees.

Retirement benefit obligations of the Group in locations other than Mainland China, which are immaterial to the Group, are made in accordance with the relevant local policies and regulations. They are accounted for in the profit and loss account in the period when the payment is made.

	Half-year ended 30 June	
	2007	2006
Expenses incurred for retirement benefit plans	292	256
Expenses incurred for supplementary retirement benefits	382	—

29 SUBORDINATED TERM DEBT

	30 June	31 December
	2007	2006
Floating rate subordinated debt — 2009 ⁽¹⁾	12,000	12,000
Fixed rate subordinated debt — 2022 ⁽²⁾	16,000	—
Fixed rate subordinated debt — 2017 ⁽²⁾	9,000	—
Interest payable	393	292
	37,393	12,292

1: The RMB12 Billion floating rate subordinated term debt bears interest at the rate of 1 year fixed deposit rate set by the PBOC plus 2.52% and will mature in July 2009.

2: The Group issued following subordinated debt on 8 March 2007 in the inter-bank market of mainland China:

The first tranche of subordinated debt amounting to RMB16 Billion issued on 8 March 2007 has a maturity of 15 years, with a fix coupon rate of 4.13% for the first ten years, paid annually. The Group has the option to redeem all or part of the bonds at face value on 8 March 2017. If the Group does not exercise this option, the annual coupon rate of the bonds for the remaining 5-year period shall be the original coupon rate plus 3%, and shall remain fixed for the remaining term of the bonds.

The second tranche of subordinated debt amounting to RMB 9 Billion issued on 8 March 2007 has a maturity of 10 years, with a fixed coupon rate of 3.73% for the first 5 years, paid annually. The Group has the option to redeem all or part of the bonds at face value on 8 March 2012. If the Group does not exercise this option, the annual coupon rate of the bonds for the second 5-year period shall be the original coupon rate plus 3%, and shall remain fixed for the remaining term of the bonds.

30 SHARE CAPITAL AND CAPITAL SURPLUS

	Number of shares (in millions)	Ordinary shares of RMB1 each (RMB million)	Capital surplus (RMB million)	Total (RMB million)
At 1 January 2007	45,804	45,804	21,540	67,344
Issue of shares ⁽¹⁾	3,190	3,190	22,014	25,204
Issuance cost	—	—	(454)	(454)
At 30 June 2007	48,994	48,994	43,100	92,094

1: On 24 April 2007, a total of 3.19 billion Renminbi ordinary shares ('A shares') were subscribed by various third parties at a price of RMB7.90 per share with a total consideration of RMB25,204 million. The excess over par value of RMB21,560 million was included in capital surplus after the issuance cost of RMB454 million was netted off against capital surplus.

The shareholding structures of the Bank immediately after the issue by the Bank is as follow:

Group

	Number of shares (in millions)	Approximated percentage of the Bank's issued share capital
Domestic Shares in issue	25,930	52.92%
H shares offered under the Global Offering and converted from Domestic Shares	23,064	47.08%
Total number of shares	48,994	100.00%

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

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

Capital surplus can be utilized to offset prior years' accumulated losses, for the issue of bonus shares or for increasing paid-up capital as approved by the Shareholders.

31 RESERVES AND RETAINED EARNINGS

Pursuant to the PRC regulations, the appropriation of profits to the statutory general reserve, the discretionary reserve and the distribution of dividends in each year are based on the recommendations of the Directors and are subject to the passing of resolutions to be considered at the Bank's Annual General Meeting to be held subsequent to each year end.

In accordance with the PRC legislation, 10% of the net distributable profit of the Bank (Note 32), as determined under the PRC accounting regulations, is required to be transferred to a non-distributable statutory reserve until such time when this reserve represents 50% of the share capital of the Bank. Such profit distribution is recognized in the balance sheet upon approval by the shareholders at the Annual General Meeting.

Pursuant to the PRC regulations, the Bank is required to transfer a certain amount of its net income, as determined based on the degree of overall unidentified loss exposure, normally no lower than 1% of the ending balance of risk assets, to the statutory general reserve through its profit appropriation. The statutory general reserve is an integral part of equity interest but not subject to dividend distribution. Such statutory general reserve is recognized in the balance sheet upon approval by the shareholders at the Annual General Meeting. Statutory reserve of Hongkong branch required by Hong Kong Monetary Authority ("HKMA") is also included in above statutory general reserve.

In accordance with the PRC legislation, after the statutory reserve has been transferred from the net distributable profit of the bank, discretionary reserve may be provided upon approval by the shareholders at the Annual General Meeting. Such discretionary reserve is recognized in the balance sheet upon approval by the shareholders at the Annual General Meeting.

On 8 March 2007, the Directors proposed the following profit appropriation for 2006, which is subject to the approval by shareholders at the Annual General Meeting:

	Year ended 31 December 2006
Statutory reserve	1,271
Statutory general reserve	6,208
Discretionary reserve	576
	<hr/>
	8,055
	<hr/>

32 DIVIDENDS

	Half-year ended 30 June	
	2007	2006
Paid in the period	5	1

Under PRC Company Law and the Bank's Articles of Association, the net profit after tax as reported in the PRC statutory financial statements can only be distributed as dividends after allowances for the following:

- (i) Making up prior year's cumulative losses, if any;
- (ii) Allocations to the non-distributable statutory reserve of 10% of the net profit of the Bank as determined under PRC accounting regulations;
- (iii) Allocations to statutory general reserve;
- (iv) Allocations to the discretionary revenue reserve fund if approved by the Bank's Annual General Meeting. These funds form part of the shareholders' equity.

In accordance with the relevant regulations, the distributable profit is deemed to be the lesser of (i) the distributable profit determined in accordance with PRC GAAP and (ii) the distributable profit determined in accordance with IFRS.

The dividends are recognized in the balance sheet upon approval by the shareholders at the Annual General Meeting. At 31 December 2006, the aggregate amount of distributable profit was RMB12,635 million, being the distributable profit determined in accordance with IFRS (2005: PRC GAAP). On 8 March 2007, the directors proposed a cash dividend of RMB0.10 per share, amounting to RMB4,580 million. Such proposed dividend distribution is subject to the approval by shareholders at the Annual General Meeting.

33 FINANCIAL GUARANTEES AND CREDIT RELATED COMMITMENTS, OTHER COMMITMENTS AND CONTINGENT LIABILITIES

Financial guarantees and credit related commitments

The following tables indicate the contractual amounts of the Group's financial guarantees and credit related commitments which the Group commits to extend to customers:

	30 June 2007	31 December 2006
Guarantees	124,295	83,917
Letters of credit	31,528	28,375
Acceptances	200,028	166,094
Other commitments with an original maturity of		
— Under 1 year or	30,657	24,694
— 1 year and over	11,517	10,953
	398,025	314,033

Capital expenditure commitments

	30 June 2007	31 December 2006
Capital expenditure commitments for buildings	423	335

Operating lease commitments

Where the Group is the lessee, the future minimum lease payments under non-cancelable operating leases in respect of buildings are as follows:

	30 June 2007	31 December 2006
Not later than 1 year	706	657
Later than 1 year and not later than 5 years	1,594	1,476
Later than 5 years	527	519
	2,827	2,652

Commitments on security underwriting and bond acceptance

	30 June 2007	31 December 2006
Outstanding balance on security underwriting	6,300	10,200
Outstanding balance on bond acceptance ⁽¹⁾	20,124	24,523

1: The Bank is entrusted by the Ministry of Finance ('MOF') to underwrite certain Certificates of Treasury Bond. The investors of Certificates of Treasury Bond have a right to redeem the bonds at par any time prior to maturity and the Bank is committed to redeem those bonds. The redemption price is the principal value of the Certificates of Treasury Bond plus unpaid interest.

The original maturities of these bonds vary from 1 to 5 years.

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

Legal proceedings

A number of legal proceedings are initiated by third parties against the Group as defendant. The total outstanding claims at end of the period/year are as follows:

	30 June 2007	31 December 2006
Outstanding claims	2,206	2,058
Provision for losses	974	995

34 ASSETS PLEDGED

Assets are pledged as collateral under repurchase agreements with other banks and financial institutions and for security deposits relating to local futures, options and stock exchange memberships. Mandatory reserve deposits are also held with local central banks in accordance with statutory requirements. These deposits are not available to finance the Group's day to day operations.

	Pledged Assets		Related Liabilities	
	30 June 2007	31 December 2006	30 June 2007	31 December 2006
Balances with central banks	152,792	104,083	—	—
Investment securities	3,122	3,548	1,956	2,346
	155,914	107,631	1,956	2,346

35 CREDIT RISK WEIGHTED AMOUNT OF FINANCIAL GUARANTEES AND CREDIT RELATED COMMITMENTS

	30 June 2007	31 December 2006
Financial guarantees and credit related commitments	135,032	119,168

The credit risk weighted amount refers to the amount as computed in accordance with the formula promulgated by the CBRC and depends on the status of the counterparty and the maturity characteristics. The risk weights used range from 0% to 100% for contingent liabilities and commitments.

36 NOTES TO CONSOLIDATED CASH FLOW STATEMENT

(a) Analysis of changes in financing during the period

	Dividends	Share capital	Capital surplus	Subordinated term debt
At 1 January 2007	2,020	45,804	21,540	12,292
Net cash outflow from financing	(5)	—	—	—
Issue of shares	—	3,190	21,560	—
Issue subordinated term debt	—	—	—	25,000
Interest expense recognised on subordinated term debt	—	—	—	101
At 30 June 2007	2,015	48,994	43,100	37,393
At 1 January 2006	136	45,804	21,540	12,292
Net cash outflow from financing	(1)	—	—	(496)
Interest expense recognised on subordinated term debt	—	—	—	281
Dividends	3,664	—	—	—
At 30 June 2006	3,799	45,804	21,540	12,077

(b) Analysis of the balance of cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise the following balances with original maturities of less than 90 days used for the purpose of meeting short-term cash commitments:

	30 June 2007	31 December 2006
Cash and balances with central banks (Note 15)	76,250	149,858
Due from other banks and financial institutions (Note 16)	77,825	35,865
	154,075	185,723

37 RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. The Group is subject to the control of the State Council of the PRC Government.

(a) Transactions with the MOF

The Group enters into banking transactions with the MOF in the normal course of business. These include the purchase and redemption of investment securities issued by the MOF. The volumes of related party transactions, outstanding balances at the period end, and related income for the period are as follows:

Treasury bonds

	Half-year ended 30 June 2007	2006
Purchase during the period	28,293	24,575
Redemption during the period	(13,192)	(7,528)
Interest income	1,567	1,210

	Half-year ended 30 June 2007	2006
Outstanding balance at beginning of the period	102,767	79,368
Outstanding at end of the period	121,684	94,024

(b) Transactions with other state controlled entities

The state controlled entities are those over which the PRC government directly holds over 50% of the outstanding shares or voting rights, and has the ability to control or the power to govern their financial or operational policies.

The Group is ultimately controlled by the PRC government, which also directly and indirectly controls a significant number of entities through its government authorities, agencies and affiliates. Accordingly, the Group is likely to have extensive transactions with other State-controlled entities. These transactions are conducted in the ordinary course of the Group's banking business on terms similar to those that would have been entered into with non-state-owned entities. The Group has also established its pricing strategy and approval processes for major products and services, such as loans, deposits, investment securities, money market transactions and financial guarantees and credit related commitments. Such pricing strategy and approval processes do not depend on whether the customers are state-owned entities or

not. The volumes of related party transactions, outstanding balances and related provisions at the period end, and the related expense and interest ranges for periods ended 30 June 2006 and 2007 are as follows:

(i) *Loans and advances to customers*

	Half-year ended 30 June 2007	2006
Outstanding balance at beginning of the period	240,214	207,715
Outstanding balance at end of the period	271,017	225,259
Less: allowance for impairment losses	(3,358)	(2,578)
	267,659	222,681
Including: discounted bills	4,020	11,961
Interest rate range for discounted bills	2.4%~7.96%	1.44%~4.8%
Interest rate range of loans and advances other than discounted bills	0.05%~18.00%	0.625%~8.775%

The loan interest rate range stated above covers interest rates for loans granted in various currencies and periods.

	Half-year ended 30 June 2007	2006
Maximum balance during the period	271,017	225,259
(Reversal)/Provision for impairment recognized during the period	(146)	265

(ii) *Investment securities*

	Half-year ended 30 June	
	2007	2006
Purchase during the period	107,394	157,098
Redemption during the period	(31,106)	(20,832)
Sales during the period	(179,093)	(147,165)
Interest income	4,681	2,924
Outstanding balance at beginning of the period	166,510	137,424
Outstanding balance at end of the period	181,837	240,285

(iii) *Due from other banks and financial institutions*

	Half-year ended 30 June	
	2007	2006
Outstanding balance at beginning of the period	31,502	101,504
Outstanding balance at end of the period	60,627	70,308
Less: allowance for impairment losses	(462)	(681)
	60,165	69,627
Maximum balance during the period	84,528	101,504
Provision for impairment reversed during the period	(164)	(52)

(iv) *Derivative financial instruments*

	Notional amount	Fair values
As at June 2007		
Foreign exchange derivatives	5,178	107
Interest rate derivatives	2,894	29

	Notional amount	Fair values
As at June 2006		
Foreign exchange derivatives	3,878	5
Interest rate derivatives	—	—

(v) *Due to other banks and financial institutions*

	Half-year ended 30 June 2007	2006
Outstanding balance at beginning of the period	89,864	73,797
Outstanding balance at end of the period	38,906	104,511
Maximum balance during the period	194,175	104,511

(vi) *Due to customers*

	Half-year ended 30 June 2007	2006
Outstanding balance at beginning of the period	273,099	560,549
Outstanding balance at end of the period	323,495	315,638
Maximum balance during the period	323,495	560,549

(vii) *Financial guarantees and credit related commitments*

	30 June 2007	31 December 2006
Guarantees	43,714	29,609
Letters of credit	7,189	7,043
Acceptances	19,399	13,779
Derivative transactions unsettled	7,409	1,520

(c) Transactions with directors and senior management

The Group enters into banking transactions with directors and senior management in the normal course of business. These include loans and deposits, which are carried out under commercial terms and at market rates except that loans and deposits have been made to and taken from senior management of the Hong Kong branch at preferential rates. The volumes of related party transactions during each of six months ended 30 June 2006 and 2007, outstanding balances at the balance sheet date are as follows:

(i) Loans

	Half-year ended 30 June	
	2007	2006
Outstanding at beginning of the period	17	10
Granted during the period	23	14
Repaid during the period	(20)	(9)
Outstanding at end of the period	20	15

No interest income and allowance for impairment have been recognised in respect of loans granted to directors and senior management.

(ii) Deposits

	Half-year ended 30 June	
	2007	2006
Outstanding at beginning of the period	33	34
Deposited during the period	81	51
Repaid during the period	(76)	(58)
Outstanding at end of the period	38	27

(d) Transactions with HSBC

As at 30 June 2007, the Hong Kong and Shanghai Banking Corporation Limited ("HSBC") holds 9,115 million shares of the bank which represents 18.6%. Transactions between the Group and HSBC are mainly banking activities under commercial terms and at market rates. Detail transaction volumes since the above share acquisition are set out below:

(i) Placement with HSBC

	Half-year ended 30 June	
	2007	2006
Outstanding at beginning of the period	1,434	4,654
Granted during the period	384,956	134,021
Repaid during the period	(372,733)	(136,727)
Outstanding at end of the period	13,657	1,948
Interest income	96	10

(ii) Deposits from HSBC

	Half-year ended 30 June	
	2007	2006
Outstanding at beginning of the period	920	2,318
Deposited during the period	209,758	49,083
Repaid during the period	(208,641)	(49,642)
Outstanding at end of the period	2,037	1,759
Interest expense on deposits	90	30

(iii) Investment securities

	Half-year ended 30 June	
	2007	2006
Interest income	34	4

	30 June	31 December
	2007	2006
Outstanding balance	941	1,395

(iv) *Financial guarantees and credit related commitments*

	30 June 2007	31 December 2006
Guarantees	9	5
Letters of credit	461	218
Derivative transactions unsettled	8,765	5,739

38 SEGMENTAL INFORMATION

- (a) The following table sets out the segmental information of the Group's operating results, assets and liabilities. The geographical segments are:
- (i) Northern China — Including the following provinces: Beijing, Tianjin, Hebei, Shanxi, Inner Mongolia;
 - (ii) North Eastern China — Including the following provinces: Liaoning, Jilin, Heilongjiang;
 - (iii) Eastern China — Including head office and the following provinces: Shanghai, Jiangsu, Zhejiang, Anhui, Fujian, Jiangxi and Shandong;
 - (iv) Central & Southern China — Including the following provinces: Henan, Hunan, Hubei, Guangdong, Guangxi, Hainan;
 - (v) Western China — Including the following provinces: Chongqing, Sichuan, Guizhou, Yunnan, Tibet, Shaanxi, Gansu, Qinghai, Ningxia and Xinjiang;
 - (vi) Overseas — Including overseas subsidiaries and the following branches: Hong Kong, New York, Singapore, Tokyo and Seoul.

(a) Geographical segment information

	Northern China	North- eastern China	Eastern China	Central & Southern China	Western China	Overseas	Eliminations & Consolidated	Total
As at 30 June 2007								
Assets								
Cash and balances with central banks	7,816	3,622	203,956	8,484	4,899	265	—	229,042
Due from other banks and financial institutions	23,989	2,187	133,017	5,343	1,571	115,470	(3,672)	277,905
Financial assets held for trading	—	—	12,191	—	—	3,044	—	15,235
Loans and advances to customers	189,207	62,696	441,806	216,405	88,890	110,800	3,517	1,113,321
Investment securities								
— loans and receivables	4,429	2,711	40,602	6,734	2,385	—	—	56,861
— available-for-sale	18,428	1,220	96,832	8,438	2,305	23,258	—	150,481
— held-to-maturity	10,584	14,804	197,538	21,066	8,124	2,994	—	255,110
Other assets	14,524	7,704	16,335	18,687	9,358	10,282	(38,965)	37,925
Total assets	268,977	94,944	1,142,277	285,157	117,532	266,113	(39,120)	2,135,880
Liabilities								
Due to other banks and financial institutions	(71,081)	(7,892)	(145,092)	(36,193)	(11,074)	(13,187)	—	(284,519)
Financial liabilities held for trading	—	—	(1,517)	—	—	(4,685)	—	(6,202)
Due to customers	(254,200)	(127,232)	(582,634)	(324,620)	(145,773)	(219,776)	1,813	(1,652,422)
Other liabilities	(4,452)	(1,899)	(66,301)	(5,119)	(2,773)	(25,236)	37,307	(68,473)
Total liabilities	(329,733)	(137,023)	(795,544)	(365,932)	(159,620)	(262,884)	39,120	(2,011,616)
Net on balance sheet position	(60,756)	(42,079)	346,733	(80,775)	(42,088)	3,229	—	124,264
Acquisition cost of property and equipment ("PPE") and intangible assets								
	145	102	871	272	73	16	—	1,479
For the half-year ended 30 June 2007								
Interest income	6,734	2,603	22,085	7,613	3,213	3,428	(5,856)	39,820
Interest expense	(3,032)	(1,148)	(11,456)	(2,738)	(1,165)	(2,566)	5,821	(16,284)
Net interest income	3,702	1,455	10,629	4,875	2,048	862	(35)	23,536
Fee and commission income	288	126	1,900	360	494	470	—	3,638
Fee and commission expense	(67)	(24)	(234)	(58)	(23)	(131)	—	(537)
Net fee and commission income	221	102	1,666	302	471	339	—	3,101
Dividend income	—	—	49	13	—	(18)	—	44
Gains less losses arising from trading activities	180	36	(537)	113	25	99	—	(84)
Gains less losses arising from de-recognition of investment securities	50	—	304	—	—	199	—	553
Other operating income	15	7	109	23	13	25	—	192
Impairment losses on loans and advances	(412)	(360)	(1,558)	(392)	(328)	(27)	—	(3,077)
Other operating expenses	(1,509)	(899)	(4,511)	(1,835)	(834)	(522)	—	(10,110)
Operating profit/(loss) before tax	2,247	341	6,151	3,099	1,395	957	(35)	14,155
Income tax	(756)	(185)	(3,115)	(922)	(380)	(176)	—	(5,534)
Net profit/(loss) for the period	1,491	156	3,036	2,177	1,015	781	(35)	8,621
Depreciation and amortization of property and equipment and intangible assets								
	142	142	721	207	126	52	—	1,390

	Northern China	North- eastern China	Eastern China	Central & Southern China	Western China	Overseas	Eliminations & Consolidated	Total
As at 31 December 2006								
Assets								
Cash and balances with central banks	51,808	3,910	180,153	11,046	6,007	1,017	—	253,941
Due from other banks and financial institutions	21,239	497	72,037	5,508	472	22,971	(4,101)	118,623
Financial assets held for trading	—	—	8,599	—	—	4,396	—	12,995
Loans and advances to customers	162,029	55,830	376,947	179,744	79,490	53,667	2,600	910,307
Investment securities								
— loans and receivables	2,564	1,514	38,788	3,384	1,800	—	—	48,050
— available-for-sale	31,462	17,042	228,981	27,449	10,221	24,668	—	339,823
Other assets	11,229	8,241	29,155	13,129	7,227	7,646	(40,883)	35,744
Segment assets	280,331	87,034	934,660	240,260	105,217	114,365	(42,384)	1,719,483
Liabilities								
Due to other banks and financial institutions	(101,932)	(3,809)	(99,161)	(18,522)	(7,008)	(5,675)	—	(236,107)
Financial liabilities held for trading	—	—	(419)	—	—	(8,305)	—	(8,724)
Due to customers	(226,365)	(127,384)	(510,497)	(285,552)	(133,126)	(69,647)	(319)	(1,352,890)
Other liabilities	(3,408)	(1,103)	(37,046)	(3,520)	(1,521)	(27,372)	42,703	(31,267)
Segment liabilities	(331,705)	(132,296)	(647,123)	(307,594)	(141,655)	(110,999)	42,384	(1,628,988)
Net on balance sheet position	(51,374)	(45,262)	287,537	(67,334)	(36,438)	3,366	—	90,495
Acquisition cost of property and equipment ("PPE") and intangible assets								
	491	283	1,970	647	325	92	2	3,810
For the half-year ended 30 June 2006								
Interest income	4,831	2,187	16,666	5,407	2,435	2,487	(4,412)	29,601
Interest expense	(2,101)	(910)	(8,311)	(1,925)	(654)	(1,768)	4,412	(11,257)
Net interest income	2,730	1,277	8,355	3,482	1,781	719	—	18,344
Fee and commission income	160	100	621	248	123	307	—	1,559
Fee and commission expense	(27)	(15)	(81)	(48)	(14)	(78)	—	(263)
Net fee and commission income	133	85	540	200	109	229	—	1,296
Dividend income	2	—	7	8	—	10	—	27
Gains less losses arising from trading activities	132	34	(117)	81	16	4	—	150
Gains less losses arising from investment securities	15	—	4	—	—	—	—	19
Other operating income	77	12	89	55	12	99	—	344
Impairment losses on loans and advances	(277)	(512)	(979)	(151)	(110)	58	—	(1,971)
Other operating expenses	(1,018)	(1,105)	(3,759)	(1,572)	(841)	(657)	—	(8,952)
Operating profit/(loss) before tax	1,794	(209)	4,140	2,103	967	462	—	9,257
Income tax	(550)	(134)	(1,438)	(565)	(309)	(226)	—	(3,222)
Net profit/(loss) for the year	1,244	(343)	2,702	1,538	658	236	—	6,035
Depreciation and amortization of property and equipment and intangible assets								
	121	142	631	208	133	67	—	1,302

Supplementary Unaudited Financial Information

(All amounts expressed in millions of RMB unless otherwise stated.)

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1 CAPITAL ADEQUACY AND LIQUIDITY RATIOS

	30 June 2007	31 December 2006
Capital adequacy ratio	14.17%	10.83%
Liquidity ratios	33.46%	33.62%

The above capital adequacy and liquidity ratios are calculated in accordance with the formula promulgated by China Banking Regulatory Commission and based on PRC GAAP.

2 COMPONENTS OF CAPITAL BASE AFTER DEDUCTIONS

The capital base after deductions used in the calculation of the above capital adequacy ratio as at end of each period is analysed as below. All the figures included in the calculation are extracted from PRC GAAP statements of the Bank.

	30 June 2007	31 December 2006
Core capital:		
Paid up ordinary share capital	48,994	45,804
Reserves	45,250	19,355
Profit and loss account	20,493	17,921
Minority interest	120	58
	114,857	83,138
Supplementary capital:		
Reserves on revaluation of land and interests in land	3,954	4,100
Impairment allowances for impaired assets and regulatory reserves	13,607	11,865
Term subordinated debt	30,120	7,200
Reserve — net profit of overseas branches retained	—	—
	47,681	23,165
Eligible value of supplementary capital	47,681	23,165
Total capital base before deductions	162,538	106,303
Deductions:		
Unconsolidated equity investments	(1,743)	(1,809)
Total capital base after deductions	160,795	104,494

The “Unconsolidated equity investments” is calculated in accordance with the “Administrative Measures on the Capital Adequacy Ratio of Commercial Banks” issued by the China Banking Regulatory Commission on 23 February 2004.

3 CURRENCY CONCENTRATIONS

As at 30 June 2007	US Dollars	HK Dollars	Others	Total
Spot assets	122,916	199,438	22,404	344,758
Spot liabilities	(101,812)	(213,324)	(17,726)	(332,862)
Forward purchases	77,047	1,141	8,851	87,039
Forward sales	(63,506)	(825)	(13,514)	(77,845)
Net options position	92	—	(83)	9
Net long/(short) position	34,737	(13,570)	(68)	21,099
Net structural position	3,024	5,072	978	9,074
As at 31 December 2006	US Dollars	HK Dollars	Others	Total
Spot assets	98,270	53,534	20,618	172,422
Spot liabilities	(86,405)	(61,936)	(17,164)	(165,505)
Forward purchases	48,670	3,445	6,256	58,371
Forward sales	(39,416)	(2,185)	(9,026)	(50,627)
Net long/(short) position	21,119	(7,142)	684	14,661
Net structural position	3,574	4,529	499	8,602

The net options position is calculated using the model user approach as set out in the banking return of the HKMA. The net structural position of the Group includes the structural positions of the Bank's overseas branches, banking subsidiaries and other subsidiaries 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 overseas branches;
- Investments in overseas subsidiaries and related companies; and
- Loan capital.

4 CROSS-BORDER CLAIMS

The Group is principally engaged in business operations within Mainland China, and regards all claims on third parties outside 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 area is reported where it constitutes 10% or more of the aggregate amount of cross-border claims, after taking into account any risk transfers. Risk transfer is only made if the claims are guaranteed by a party in a 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.

	Bank and other financial institutions	Public sector entities	Others	Total
As at 30 June 2007				
Asia Pacific excluding Mainland China	32,456	2,763	98,057	133,276
— of which attributed to Hong Kong	1,159	2,424	86,294	89,877
North and South America	12,489	1,104	11,862	25,455
Europe	100,446	209	216	100,871
	145,391	4,076	110,135	259,602
As at 31 December 2006				
Asia Pacific excluding Mainland China	31,644	4,189	38,704	74,537
— of which attributed to Hong Kong	3,116	4,036	36,849	44,001
North and South America	14,396	1,226	4,743	20,365
Europe	33,489	211	217	33,917
	79,529	5,626	43,664	128,819

5 OVERDUE AND RESCHEDULED ASSETS

(a) Advances

(i) Gross amount of overdue loans

	30 June 2007	31 December 2006
Gross advances to customers which have been overdue for: *		
— within 3 months	5,556	5,546
— between 3 and 6 months	2,139	2,180
— between 6 and 12 months	3,876	3,595
— over 12 months	14,157	12,594
	25,728	23,915
Percentage:		
— within 3 months	0.49%	0.60%
— between 3 and 6 months	0.19%	0.24%
— between 6 and 12 months	0.34%	0.38%
— over 12 months	1.25%	1.36%
	2.27%	2.58%
Gross advances to banks and other financial institutions which have been overdue for:		
— within 3 months	—	—
— between 3 and 6 months	—	—
— between 6 and 12 months	—	—
— over 12 months	462	626
	462	626
Percentage:		
— within 3 months	—	—
— between 3 and 6 months	—	—
— between 6 and 12 months	—	—
— over 12 months	0.17%	0.53%
	0.17%	0.53%

* Included in the gross overdue advances to customers as at 30 June 2007, there are trade bills which have been overdue for:

	30 June 2007
— within 3 months	359
— between 3 and 6 months	37
— between 6 and 12 months	242
— over 12 months	277
	915

(ii) *Overdue loans and advances to customers by geographical area*

	30 June 2007		31 December 2006	
	overdue loan	Specific Provision	overdue loan	Specific Provision
Domestic regions				
— Northern China	3,984	(1,541)	3,724	(1,228)
— North-eastern China	4,906	(2,208)	4,774	(1,979)
— Eastern China	7,353	(2,984)	6,866	(2,009)
— Central & Southern China	4,980	(1,577)	4,823	(1,230)
— Western China	3,822	(1,496)	3,346	(1,346)
	25,045	(9,806)	23,533	(7,792)
Hong Kong and overseas countries	683	(246)	382	(261)
	25,728	(10,052)	23,915	(8,053)

(iii) *Overdue and rescheduled loans*

	30 June 2007	31 December 2006
Total rescheduled loans and advances to customers	4,953	6,902
Less: rescheduled loans and advances to customers Including: rescheduled loans and advances to customers overdue above 3 months	3,061 2,959	5,082 3,867
Total normal rescheduled loans and advances to customers	1,892	1,820
Percentage of normal part in total rescheduled loans	38%	26%

(b) Foreclosed assets

	30 June 2007	31 December 2006
Foreclosed assets	3,864	4,050

6 IMPAIRED LOANS

(a) Individually identified loans with impairment

	30 June 2007	31 December 2006
Individually identified loans with impairment	23,331	23,477
Fair value of collaterals	8,617	8,299

(b) Impaired loans by geographical area

	30 June 2007		31 December 2006	
	Impaired loan	Specific Provision	Impaired loan	Specific Provision
Domestic regions				
— Northern China	3,409	(1,717)	3,097	(1,419)
— North-eastern China	4,227	(2,920)	4,605	(2,675)
— Eastern China	8,241	(4,279)	7,856	(3,435)
— Central & Southern China	3,447	(1,785)	4,014	(1,660)
— Western China	3,761	(2,099)	3,562	(1,849)
	23,085	(12,800)	23,134	(11,038)
Hong Kong and overseas countries	246	(292)	343	(355)
	23,331	(13,092)	23,477	(11,393)

(c) Impaired loans by industry

	30 June 2007		31 December 2006	
	Impaired loan	Specific Provision	Impaired loan	Specific Provision
Corporate	21,952	(12,449)	22,341	(10,881)
Individual	1,379	(643)	1,136	(512)
	23,331	(13,092)	23,477	(11,393)

7 THE ECONOMIC SECTOR RISK CONCENTRATION ANALYSIS FOR LOANS AND ADVANCES TO CUSTOMERS (GROSS):

	30 June 2007		31 December 2006	
		%		%
HK:				
Corporate loans				
Manufacturing				
— Petroleum and chemical	—	—	—	—
— Electronics	655	1	412	1
— Steel	—	—	—	—
— Machinery	—	—	—	—
— Textile	275	—	233	—
— Other manufacturing	1,848	2	1,828	4
Transportation	977	1	966	2
Trading	8,088	8	4,174	9
Services	69	—	74	—
Real estate	5,314	5	5,961	12
Utilities	998	1	1,355	3
Construction	3,839	4	3,153	7
Educations and scientific research	—	—	—	—
Post and telecommunications	341	—	—	—
Agriculture	—	—	—	—
Non-banking financial institutions	61,224	59	6,490	14
Others	7,453	7	8,519	18
Corporate loans total	91,081	88	33,165	70

	30 June 2007		31 December 2006	
		%		%
Mortgage loans	11,856	11	13,077	28
Medium-term and long-term working capital loans	219	—	224	—
Short-term working capital loans	—	—	—	—
Car loans	—	—	—	—
Credit card advances	30	—	21	—
Loans secured by deposits	—	—	—	—
Others	851	1	677	1
Individual loans total	12,956	12	13,999	29
Discounted bills	—	—	4	—
Interest receivables	332	—	302	1
Gross amount of loans and advances before allowance for impairment	104,369	100	47,470	100
Outside HK:	1,028,863		879,935	

The economic sector risk concentration analysis for loans and advances to customers is based on the Group's internal classification system.

The collateral rate is 32% as the period ended June 2007(2006: 30%).