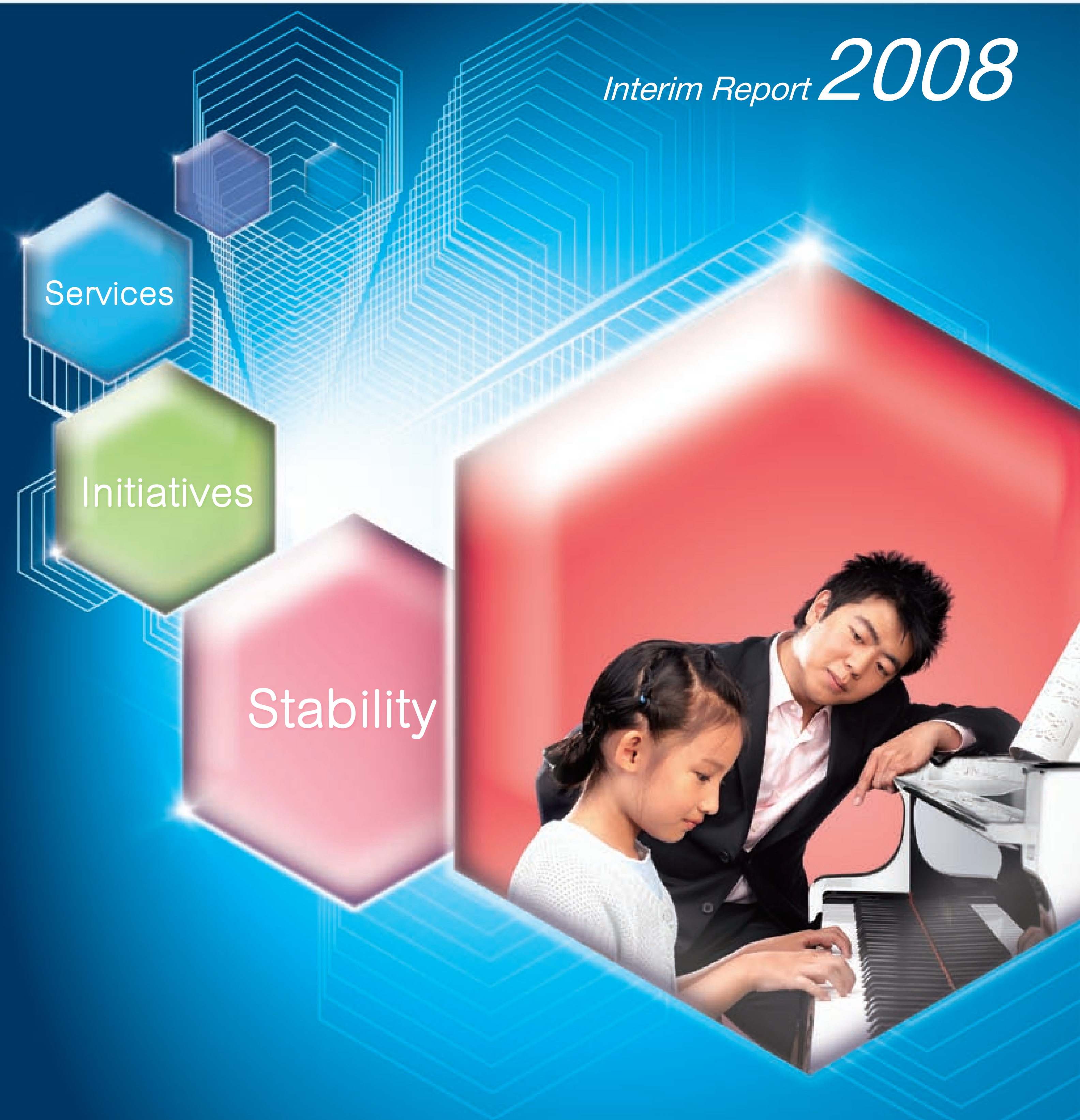
招商銀行
CHINA MERCHANTS BANK

CHINA MERCHANTS BANK CO., LTD.

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

Stock Code：3968

Interim Report 2008



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Important Notice

The Board of Directors, the Board of Supervisors, and directors, supervisors and senior management of the Company confirm that there are no false representations, misleading statements or material omissions contained herein, and individually and collectively accept full responsibility for the truthfulness, accuracy and completeness of the contents of this report.

The 2008 Interim Report and 2008 Interim Results Announcement of the Company were approved at the 27th meeting of the 7th session of the Board of Directors on 18 August 2008. 14 of the 18 directors attended the meeting in person. Directors Wei Jiafu and Sun Yueying, and independent non-executive Director Wu Jiesi attended the meeting by way of telephone. Director Wang Daxiong authorized Director Fu Junyuan to attend the meeting and exercised his voting right. 8 of the supervisors attended the meeting.

The Company's 2008 interim financial report is unaudited. Unless otherwise stated, all monetary sums stated in this report are expressed in RMB.

Mr. Qin Xiao, Chairman of the Company, Mr. Ma Weihua, the President, Mr. Li Hao, the Executive Vice President and the Chief Financial Officer, and Mr. Zhou Song, the person in charge of the Planning and Finance Department, hereby make representations in respect of the truthfulness and completeness of the financial statements in this interim report.

1.1 Company Profile

1.1.1 Registered Corporate Name in Chinese:
招商銀行股份有限公司
(Chinese abbreviation: 招商銀行, hereinafter the "Company", the "Bank" or the "Group")
Registered Corporate Name in English:
China Merchants Bank Co., Ltd.

1.1.2 Legal Representative: Qin Xiao
Authorized Representatives: Ma Weihua, Li Hao
Secretary of the Board of Directors: Lan Qi
Joint Company Secretaries:
Lan Qi, Seng Sze Ka Mee, Natalia (FCIS, FCS, FHKIOD)
Qualified Accountant: Cheng Ting Nan (CPA, FCCA)
Securities Representative: Wu Jianbing

1.1.3 Registered and Office Address:
7088 Shennan Boulevard, Futian District, Shenzhen, Guangdong Province, China

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

1.1.5 Principal Place of Business in Hong Kong:
21st Floor, Bank of America Tower,
12 Harcourt Road, Hong Kong

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

1.1.7 Domestic Auditor:
KPMG Huazhen Certified Public Accountants
Office Address: 8th Floor, Tower 2, Oriental Plaza, 1 East Chang An Avenue, Beijing, PRC
International Auditor:
KPMG Certified Public Accountants
Office Address: 8th Floor, Prince's Building, 10 Chater Road, Central, Hong Kong

1.1.8 Legal Advisor as to the PRC Law:
Jun He Law Office
Legal Advisor as to Hong Kong Law:
Herbert Smith

1.1.9 Trustee for A share with trading restrictions:
China Securities Depository & Clearing Corporation Limited, Shanghai Branch

1.1.10 Share Registrar and Transfer Office as to H share:
Computershare Hong Kong Investor Services Limited
Rooms 1712-1716, 17/F, Hopewell Centre,
183 Queen's Road East, Wanchai, Hong Kong

1.1.11 Websites and Newspapers designated by the Company for Information Disclosure:
Mainland China: *"China Securities Journal", "Securities Times", "Shanghai Securities News"*, website of the Shanghai Stock Exchange (www.sse.com.cn), the Company's website (www.cmbchina.com);
Hong Kong: website of the Stock Exchange of Hong Kong Limited (www.hkex.com.hk), the Company's website (www.cmbchina.com);
Periodical reports available at: the office of the Board of Directors

1.1.12 Other information about the Company:
Initial registration date: 31 March 1987
Initial registration place: Administration for Industry and Commerce of Shenzhen, Shekou Branch
Registered No. of business licence for an enterprise as a legal person: 4403011228801
Taxation Registration No.:
Guo Shui Shen Zi 44030010001686X
Shen Di Shui Deng Zi 44030410001686X

II Financial Highlights

Operating results

	Jan-Jun 2008	Jan-Jun 2007	Compared with corresponding period of the previous year
	(in millions of RMB)		+/(-)%
Net operating income[1]	**28,820**	17,554	64.18
Profit before tax	**17,122**	9,007	90.10
Net profit attributable to the Bank's equity holders	**13,245**	6,120	116.42

Note: (1) Net operating income is the sum of total operating income and the share of profits of an associate.

Per share

	Jan-Jun 2008	Jan-Jun 2007	Compared with corresponding period of the previous year
	(in RMB)		+/(-)%
Basic earnings	**0.90**	0.42	114.29
Diluted earnings	**0.90**	0.42	114.29
Net assets at the end of the reported period	**5.27**	4.03	30.77

Financial position

	30 June 2008	31 December 2007	30 June 2007	At 30 June 2008 compared with the beginning of the year
	(in millions of RMB)			+/(-)%
Total assets	**1,395,791**	1,310,552	1,108,776	6.50
of which: gross loans and advances to customers	**742,660**	673,167	629,553	10.32
Total liabilities	**1,318,295**	1,242,568	1,049,540	6.09
of which: deposits from customers	**1,046,626**	943,534	844,571	10.93
Total shareholders' equity	**77,496**	67,984	59,236	13.99

Financial ratios

	30 June 2008 (%)	31 December 2007 (%)	30 June 2007 (%)	At 30 June 2008 compared with the beginning of the year +/(-)
Profitability ratios[1]				
Return on average assets (after tax)	**1.96**	1.36	1.20	0.60
Return on average equity (after tax)	**36.42**	24.76	21.40	11.66
Net interest spread	**3.51**	2.96	2.85	0.55
Net interest margin	**3.66**	3.11	2.96	0.55
Percentage of net operating income to				
– Net interest income	**83.71**	82.51	83.72	1.20
– Net non-interest income	**16.29**	17.49	16.28	(1.20)
Cost-to-income ratio[2]	**30.14**	34.94	33.70	(4.80)
Capital adequacy ratios[3]				
Core capital adequacy ratio	**8.83**	8.71	8.92	0.12
Capital adequacy ratio	**10.41**	10.29	10.62	0.12
Total equity to total assets	**5.55**	5.19	5.34	0.36
Asset quality ratios				
Non-performing loan ratio	**1.25**	1.54	1.66	(0.29)
Allowances for impairment losses to non-performing loans	**216.13**	180.39	169.97	35.74
Allowances for impairment losses to total loans and advances to customers	**2.70**	2.79	2.81	(0.09)

Notes: (1) The ratios are annualized.

(2) Cost-to-income ratio is the operating expenses minus business tax and surcharges, and then divided by the net operating income.

(3) Capital adequacy ratios as at 31 December 2007 and 30 June 2007 and their relevant elements were restated based on Yin Jian Fu【2008】No. 123 issued by China Banking Regulatory Commission.

III Management's Analysis and Discussion

3.1 Analysis of general operating status

During the six-month period ended 30 June 2008, the Company had a sound general operating status, with rapid growth in profit, steady development in the scale of assets and liabilities and continuous improvement in asset quality, which were specifically reflected in the following aspects:

Continuous and rapid growth in profit. During the six-month period ended 30 June 2008, net profit was RMB13,245 million, an increase of RMB7,125million or 116.42% compared to the corresponding period of the previous year; net interest income was RMB24,125 million, an increase of RMB9,429 million or 64.16% compared to the corresponding period of the previous year; and net non-interest income was RMB4,695 million, an increase of RMB1,837 million or 64.28% compared to the corresponding period of the previous year. The substantial increase in profit was mainly due to (1) the increase in scale of interest-earning assets, the increased net interest margin and the rapid growth of net interest income; (2) continuous rapid growth in net non-interest income; (3) consistently improved assets quality resulting in decreasing cost of credit; and (4) effective income tax rate of the Company decreased to some extent due to decrease in statutory tax rates.

Steady development in the scale of assets and liabilities. As at the end of June 2008, total assets amounted to RMB1,395,791 million, an increase of RMB85,239 million or 6.50% compared with the beginning of the year; total loans and advances to customers were RMB742,660 million, an increase of RMB69,493 million or 10.32% compared with the beginning of the year; and total deposits from customers were 1,046,626 million, an increase of RMB103,092 million or 10.93% compared with the beginning of the year.

Continuous improvement in assets quality. As at the end of June 2008, the balance of non-performing loan was RMB9,289 million, a decrease of RMB1,105 million compared to the beginning of the year; non performing loan ratio was 1.25%, a decrease of 0.29 percentage points compared to the beginning of the year; and allowances coverage ratio was 216.13%, an increase of 35.74 percentage points compared to the beginning of the year.

3.2 Analysis of Income Statement

3.2.1 Financial results highlights

	Jan-Jun 2008	Jan-Jun 2007
	(In millions of RMB)	
Net interest income	**24,125**	14,696
Net fee and commission income	**4,094**	2,664
Other net income	**568**	194
Operating expenses	**10,306**	6,968
Share of profit of an associate	**33**	–
Impairment losses	**1,392**	1,579
Profit before tax	**17,122**	9,007
Income tax	**3,877**	2,887
Net profit attributable to equity holders of the Bank	**13,245**	6,120

During the six-month period ended 30 June 2008, the Company achieved a profit of RMB17,122 million before tax, an increase of 90.10% compared to the corresponding period of 2007; net profit attributable to the equity holders of the Bank was RMB13,245 million, an increase of 116.42% compared to the corresponding period of 2007. Earnings per share was RMB0.90, an increase of 114.29% compared to the corresponding period of 2007.

During the six-month period ended 30 June 2008, the Company's effective income tax rate was 22.64%, a decrease of 9.41 percentage points as compared to the corresponding period of 2007. This was mainly due to the implementation of the new Enterprise Income Tax Law in 2008 which reduced the statutory tax rate.

3.2.2 Net operating income

During the six-month period ended 30 June 2008, the net operating income of the Company reached RMB28,820 million, an increase of 64.18% compared to that of the corresponding period of 2007. It was mainly due to the rapid growth in the interest income of loans and advances to customers, the interest income of debt investments and fees and commission incomes. Net interest income accounted for 83.69% of the increased net operating income, representing an increase of 4.03 percentage points as compared to the corresponding period of 2007, while net fee and commission incomes accounted for 12.69% of the growth.

3.2.3 Net interest income

During the six-month period ended 30 June 2008, the net interest income of the Company was RMB24,125 million, an increase of 64.16% compared to that of the corresponding period of 2007. It was primarily attributable to the increase in average balance and average yield of interest-earning assets.

The following table sets forth, for the period indicated, the average balances of assets and liabilities, interest income/interest expense, and average yield/cost of the Company. The average balances of interest-earning assets and interest-bearing liabilities were calculated on a daily basis.

	30 June 2008			31 December 2007			30 June 2007		
	(In millions of RMB, excluding percentages)								
	Average balance	**Interest income**	**Average yield per annum %**	Average balance	Interest income	Average yield %	Average balance	Interest income	Average yield per annum %
Assets									
Loans and advances to customers	**802,602**	**27,523**	**6.90**	672,739	39,028	5.80	619,004	17,002	5.54
Debt investments	**220,326**	**4,261**	**3.89**	198,086	6,613	3.34	182,820	2,967	3.27
Balances with central bank	**159,638**	**1,313**	**1.65**	109,563	1,742	1.59	91,843	731	1.61
Balances and placements with banks and other financial institutions	**142,674**	**2,681**	**3.78**	109,224	4,202	3.85	107,715	1,584	2.97
Interest-earning assets and total interest income	**1,325,240**	**35,778**	**5.43**	1,089,612	51,585	4.73	1,001,382	22,284	4.49

	Average balance	Interest expense	Average cost per annum %	Average balance	Interest expense	Average cost %	Average balance	Interest expense	Average cost per annum %
Liabilities									
Deposits from customers	**906,740**	**8,742**	**1.94**	790,466	13,255	1.68	776,798	5,798	1.51
Deposits and placements from banks and other financial institutions	**296,092**	**2,682**	**1.82**	196,643	3,983	2.03	143,295	1,557	2.19
Issued debts	**15,012**	**229**	**3.07**	14,218	445	3.13	14,606	233	3.22
Interest-bearing liabilities and total interest expense	**1,217,844**	**11,653**	**1.92**	1,001,327	17,683	1.77	934,699	7,588	1.64
Net interest income	**–**	**24,125**	**–**	–	33,902	–	–	14,696	–
Net interest spread(1)	**–**	**–**	**3.51**	–	–	2.96	–	–	2.85
Net interest margin(2)	**–**	**–**	**3.66**	–	–	3.11	–	–	2.96

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

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

The following table sets out, for the period indicated, the distribution of changes in interest income and interest expense resulting from changes in scale and interest rate of the Company. Changes in scale are measured by changes in average balances (daily average balance) while changes in interest rate are measured by changes in average rates.

	Jan-Jun 2008 compared with Jan-Jun 2007		
	Increase/(decrease) resulting from		
	Scale	**Interest rate**	**Net value**
	(In millions of RMB)		
Assets			
Loans and advances to customers	5,043	5,478	10,521
Debt investments	609	685	1,294
Balances with central bank	540	42	582
Placements with banks and other financial institutions	514	583	1,097
Changes in interest income	6,706	6,788	13,494
Liabilities			
Deposits from customers	970	1,974	2,944
Placements from banks and other financial institutions	1,660	(535)	1,125
Issued debts	6	(10)	(4)
Changes in interest expense	2,636	1,429	4,065
Changes in net interest income	4,070	5,359	9,429

3.2.4 Interest income

For the six-month period ended 30 June 2008, the interest income of the Company increased by 60.55% comparing to the corresponding period of 2007, which was primarily attributable to the increase in average balance and average yield of loans and advances to customers, debt investments, balances with central bank and placements with banks and other financial institutions.

Interest income from loans and advances to customers

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

	Jan-Jun 2008			Jan-Jun 2007		
	Average balance	**Interest income**	**Average yield per annum %**	Average balance	Interest income	Average yield per annum %
	(In millions of RMB, excluding percentages)					
Corporate loans	**473,958**	**16,114**	**6.84**	392,655	11,487	5.90
Retail loans	**179,176**	**6,411**	**7.20**	117,314	3,517	6.05
Discounted bills	**149,468**	**4,998**	**6.72**	109,035	1,998	3.70
Loans and advances to customers	**802,602**	**27,523**	**6.90**	619,004	17,002	5.54

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

During the six-month period ended 30 June 2008, the interest income from loans and advances to customers of the Company increased by 61.88%, compared to the corresponding period of 2007. The increase in interest income was primarily due to the following factors: (1) the businesses of corporate loans and retail loans developed rapidly. As a result, the average balance of corporate loans increased by 20.71%, the average balance of retail loans increased by 52.73%, and the impact of the increase in average balance of loans and advances to customers accounted for 47.93% of the total increase in interest income; (2) interest rate was raised successively by the People's Bank of China ("PBOC") since the second half of 2007, therefore, the average yields of both corporate loans and retail loans increased by 94 basis points and 115 basis points respectively in the first half of 2008, compared to the corresponding period of 2007. Owing to the sharp rise of interest rate in the bills market since the second half of 2007, the average yield of discounted bills in the first half of 2008 was up by 302 basis points compared to the corresponding period of the previous year.

Interest income from debt investments

Interest income from debt investments of the Company during the six-month period ended 30 June 2008 increased by 43.61% compared to the corresponding period of 2007. It was primarily attributable to, on the one hand, the rapid increase in the average balances of the investment assets of RMB220,326 million, an increase of 20.52% compared to the corresponding period of 2007. This factor accounted for 47.06% of the return on investments. On the other hand, with the significant increase in market interest rate, there was a faster increase in the yield of debt investments to 3.89% in the first half of 2008, up by 62 basis points, from 3.27% in the first half of 2007. The contribution from the yield accounted for 52.94% of the return on investments.

Interest income from balances with central bank

During the six-month period ended 30 June 2008, the interest income from balances of the Company with central bank increased by 79.62% compared to the corresponding period of 2007. It was primarily attributable to the increase of statutory deposit reserve ratio time by time by PBOC for general commercial banks since the second half of 2007, resulting in a significant increase of the average balance of the Company's balances with central bank, with a balance of RMB159,638 million, representing an increase of 73.82% compared to the corresponding period of 2007. The contribution of size growth to the interest income of placements with central bank was 92.78%.

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

During the six-month period ended 30 June 2008, the interest income from balances and placements with banks and other financial institutions increased by 69.26% compared to the corresponding period of 2007. It was primarily attributable to the increase in the average balance of balances and placements with banks and other financial institutions to RMB142,674 million, representing an increase of 32.46% compared to the corresponding period of 2007. In addition, the average yield of placements with banks and other financial institutions in the first half of 2008 increased 81 basis points compared to the corresponding period of 2007.

3.2.5 Interest expense

During the six-month period ended 30 June 2008, the interest expense of the Company increased by 53.57% compared to the corresponding period of 2007. It was primarily attributable to the increase in the average balance of deposits from customers and placements from banks and other financial institutions, and the increase in the average cost of deposits from customers.

Interest expense on deposits from customers

Deposits from customers are the major source of fund of the Company. During the six month period ended 30 June 2008, the Company's interest expense on deposits from customers increased by 50.78% compared to the corresponding period of 2007. The increase of average balance and the change in average cost accounted for 32.95% and 67.05% respectively of the increase. With the interest rate of deposits successively raised by the PBOC since the second half of 2007, the overall funding cost increased to some degree, thus resulting in the average cost of deposits from customers increased by 43 basis points compared to the previous year.

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

	Jan-Jun 2008			Jan-Jun 2007		
	Average balance	**Interest expense**	**Average cost per annum (%)**	Average balance	Interest expense	Average cost per annum (%)
	(In millions of RMB, excluding percentages)					
Deposits from corporate customers						
Demand	**334,739**	**1,658**	**1.00**	263,496	1,250	0.96
Time	**264,706**	**4,208**	**3.20**	212,397	2,497	2.37
Sub-total	**599,445**	**5,866**	**1.97**	475,893	3,747	1.59
Deposits from retail customers						
Demand	**174,873**	**648**	**0.75**	158,810	582	0.74
Time	**132,421**	**2,228**	**3.38**	142,095	1,469	2.08
Sub-total	**307,294**	**2,876**	**1.88**	300,905	2,051	1.37
Total deposits from customers	**906,739**	**8,742**	**1.94**	776,798	5,798	1.51

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

Interest expense on placements from banks and other financial institutions

During the six-month period ended 30 June 2008, interest expense on deposits and placements from banks and other financial institutions increased by 72.25% compared to the corresponding period of 2007. It was primarily attributable to the increase in deposits and placements from banks and other financial institutions.

Interest expense on issued debts

During the six-month period ended 30 June 2008, the interest expense on issued debts remained a similarity level, with a decrease of 1.72% compared to the corresponding period of 2007.

3.2.6 Net interest spread and net interest margin

During the six-month period ended 30 June 2008, the net interest spread of the Company was 3.51%, up by 66 basis points compared to the corresponding period of 2007. The increase was primarily due to the average interest margin of the interest-earning assets of the Company increased to 5.43% in the first half of 2008 from 4.49% in the first half of 2007, up by 94 basis points, and the average cost of the interest-bearing liabilities increased to 1.92% in the first half of 2008 from 1.64% in the first half of 2007, up by 28 basis points.

During the six-month period ended 30 June 2008, the net interest margin of the Company was 3.66%, up by 55 basis points and 70 basis points respectively compared to the end of 2007 and the corresponding period of 2007. Such an increase was primarily due to the successive increase of interest rate for loans and advances by PBOC since the second half of 2007, while interest rate for demand deposit remained largely the same, and the proportion of demand deposit of the Company was relatively large. Meanwhile, the Company has strived to improve its pricing capability, thus resulting in a greater interest spread between deposit and loan. Net interest income increased by 64.16%, which was higher than the growth rate of 32.34% of the total interest-earning assets.

3.2.7 Net fee and commission income

The following table sets forth, for the periods indicated, the principal components of net fee and commission income of the Company.

	Jan-Jun 2008	Jan-Jun 2007
	(In millions of RMB)	
Fee and commission income	**4,534**	3,012
Bank cards fees	**1,277**	776
Remittance and settlement fees	**487**	375
Agency services fees	**916**	1,365
Commissions from credit commitment and loan business	**295**	193
Trust services fees	**1,099**	94
Others	**460**	209
Fee and commission expenses	**(440)**	(348)
Net fee and commission income	**4,094**	2,664

During the six-month period ended 30 June 2008, net fee and commission income of the Company increased by 53.68% compared to the corresponding period of 2007. Such an increase was primarily attributable to increases in bank cards fees and trust services fees.

During the six-month period ended 30 June 2008, bank cards fee income increased by 64.56% compared to the previous year. It was primarily due to the increased issuance and transaction volumes of bank cards, especially those of credit cards.

During the six-month period ended 30 June 2008, income from remittance and settlement increased by 29.87% compared to the corresponding period of 2007. This was primarily attributable to the steady expansion of the business scale and customer base, resulting in increased remittance and settlement transactions as well as personal account management fees.

During the six-month period ended 30 June 2008, the fee income from agency services of the Company decreased by 32.89% compared to the corresponding period of 2007. The decrease was primarily attributable to the slowdown of the capital market, resulting in the drop of fee income from the Company's agency services of securities and fund distribution.

During the six-month period ended 30 June 2008, commissions from credit commitment and loan business increased by 52.85% compared to the corresponding period of 2007, which was primarily attributable to the expanding customer base and enlarged business volumes.

During the six-month period ended 30 June 2008, trust services fees increased by 1,069.15% compared to the corresponding period of 2007, which was primarily attributable to the significant growth in businesses of wealth management, asset custody and third-party custodian services.

During the six-month period ended 30 June 2008, fee and commission expenses increased by 26.44% compared to the corresponding period of 2007. The increase was primarily attributable to the growth in credit card issuance, resulting in an increase in expenses on credit card services. In addition, commissions on credit assets transfer businesses and ATM cross-bank withdrawals recorded an increase to some degree.

3.2.8 Other net income

During the six-month period ended 30 June 2008, other net income of the Company increased by 192.78% compared to the corresponding period of 2007. It was primarily due to increased net income from transactions. Other net income accounted for 1.97% to the operating income.

The following table sets forth, for the periods indicated, the principal components of other net income of the Company.

	Jan-Jun 2008	Jan-Jun 2007
	(In millions of RMB)	
Trading profits arising from:		
– Foreign exchange	**287**	18
– Securities, derivatives and other trading activities	**167**	71
Net gain on financial instruments designated at fair value through profit or loss	**11**	30
Net gain on disposal of available-for-sale financial assets	**32**	9
Rental income	**26**	23
Others	**45**	43
Total other net income	**568**	194

During the six-month period ended 30 June 2008, net trading profits arising from foreign exchange increased by 1,494.44% compared to the corresponding period of 2007. The increase was primarily due to the gain in the Company's swap businesses between RMB and foreign currencies which increased by RMB200 million compared to the corresponding period of the previous year, resulting from an accelerated appreciation of RMB, the rate of which was out of the market's expectation.

During the six-month period ended 30 June 2008, trading profits arising from securities, derivatives and other trading activities increased by 135.21% compared to the corresponding period of 2007. This was primarily attributable to the increase of total trading investment amounts and the revival of RMB bond markets. Thus, the valuation of trading bonds, including the government bonds, increased by approximately RMB87 million.

3.2.9 Operating expenses

During the six-month period ended 30 June 2008, the operating expenses of the Company were RMB10,306 million, representing an increase of 47.90% compared to the corresponding period of 2007. The increase in operating expenses was 16.28 percentage points lower than the increase in net operating income, reflecting an improvement in efficiency. In the first half of 2008, the cost-to-income ratio was 30.14%, decreased by 3.56 percentage points compared to the corresponding period of the previous year, which was largely attributable to the robust growth in the net operating income of the Company.

The following table sets forth, for the periods indicated, the principal components of the operating expenses of the Company.

	Jan-Jun 2008	Jan-Jun 2007
	(In millions of RMB)	
Staff costs	**5,555**	3,501
Business tax and surcharges	**1,619**	1,052
Depreciation and rental expenses	**1,243**	978
Other general and administrative expenses	**1,889**	1,437
Total operating expenses	**10,306**	6,968

Staff costs constituted the majority of the operating expenses of the Company. In the first half of 2008, staff costs increased by 58.67% compared to the corresponding period of previous year, which was primarily due to increased headcounts and performance-based bonuses along with business expansion. In the first half of 2008, the Company recruited an addition of 1,782 employees, mainly for retail banking including credit card business. Depreciation and rental expenses increased by 27.10%, which was primarily due to the increased capital expenditure on fixed assets including electronic equipments in new branches and offices. Other general and administrative expenses increased by 31.45%, and the business tax and surcharges increased by 53.90%, which were in line with the overall growth of business development of the Company.

3.2.10 Impairment losses

During the six-month period ended 30 June 2008, impairment losses of the Company was RMB1,392 million, a decrease of 11.84% compared to the corresponding period of 2007. The following table sets forth, for the periods indicated, the principal components of impairment losses of the Company.

	Jan-Jun 2008	Jan-Jun 2007
	(In millions of RMB)	
Impairment losses charged/(released) on:		
– Loans and advances to customers	**1,571**	1,521
– Deposits and placements with banks and other financial institutions	**(274)**	46
– Other assets	**95**	12
Total impairment losses	**1,392**	1,579

Impairment losses on loans and advances constituted the largest component of the impairment losses. During the six-month period ended 30 June 2008, impairment losses on loans and advances was RMB1,571 million, representing an increase of 3.29% compared to the corresponding period of 2007. For details of specific changes and reasons for the impairment losses on loans and advances, please refer to the paragraph headed "Loan quality analysis" of this section.

During the six-month period ended 30 June 2008, the impairment losses on deposits and placements with banks and other financial institutions was a release of RMB274 million, primarily due to a decrease in the historical loss used in assessing the impairment of these assets.

Impairment losses on other assets consisted primarily of the impairment losses on repossessed assets, which represented the difference between the estimated realizable value, and the carrying value of the repossessed assets. During the six-month period ended 30 June 2008, the impairment losses on other assets of the Company was RMB95 million.

3.3 Analysis of balance sheet

3.3.1 Assets

As at 30 June 2008, the total assets of the Company were RMB1,395.791 billion, representing an increase of 6.50% compared to the end of 2007. The increase in total assets was primarily due to the increase in loans and advances to customers as well as investments. Meanwhile, due to the successive increases in deposit reserve ratio by the PBOC, the Company's balances with the central bank also increased significantly.

In the first half of 2008, PBOC strengthened the regulations over the expansion of RMB loans. The Company has strictly observed the macroeconomic control policies of the State and the stringent loan control requirements stipulated by PBOC and China Banking Regulatory Commission ("CBRC"), and will continue its efforts in strict control of loan growth and further diversify its asset portfolio.

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

	As at 30 June 2008		As at 31 December 2007	
	Amount	**Percentage of the total (%)**	Amount	Percentage of the total (%)
	(In millions of RMB, excluding percentages)			
Gross loans and advances to customers	**742,660**	**53.21**	673,167	51.36
Allowances for impairment losses on loans and advances	**(20,076)**	**(1.44)**	(18,750)	(1.43)
Loans and advances to customers	**722,584**	**51.77**	654,417	49.93
Investments	**258,235**	**18.50**	244,123	18.63
Balances with central bank	**190,929**	**13.68**	146,266	11.16
Cash and balances with banks and other financial institutions	**18,940**	**1.35**	20,276	1.55
Placement with banks and other financial institutions	**182,114**	**13.05**	225,669	17.22
Other assets	**22,989**	**1.65**	19,801	1.51
Total assets	**1,395,791**	**100.00**	1,310,552	100.00

Loans and advances to customers

As at 30 June 2008, total loans and advances to customers amounted to RMB742.660 billion, representing an increase of 10.32% compared to the end of 2007, the percentage of total loans and advances to customers to the total assets was 53.21%, representing an increase of 1.85 percentage points compared to the end of 2007.

Distribution of loans by product type

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

	As at 30 June 2008		As at 31 December 2007	
	Amount	**As a percentage of total (%)**	Amount	As a percentage of total (%)
	(In millions of RMB, excluding percentages)			
Corporate loans	**497,614**	**67.00**	445,865	66.23
Discounted bills	**55,012**	**7.41**	52,276	7.77
Retail loans	**190,034**	**25.59**	175,026	26.00
Total loans and advances to customers	**742,660**	**100.00**	673,167	100.00

As a result of the macroeconomic control and tightened monetary policies of the State, the business in retail loans of the Company has slowed down. As at 30 June 2008, retail loans accounted for 25.59% of the total loans and advances to customers, representing a decrease of 0.41 percentage points compared to the end of 2007.

Corporate loans

As at 30 June 2008, corporate loans represented 67.00% of the total loans and advances to customers. The following table sets forth, as at the dates indicated, our corporate loans by product type.

	As at 30 June 2008			As at 31 December 2007		
	Total loan balance	**Total non-performing loans**	**Non-performing loan ratio(1) (%)**	Total loan balance	Total non-performing loans	Non-performing loan ratio(1) (%)
	(In millions of RMB, excluding percentages)					
Working capital loans	**355,090**	**6,864**	**1.93**	339,991	8,198	2.41
Fixed asset loans	**95,231**	**403**	**0.42**	74,045	438	0.59
Trade finance	**29,321**	**267**	**0.91**	19,767	414	2.09
Others(2)	**17,972**	**624**	**3.47**	12,062	535	4.44
Total corporate loans	**497,614**	**8,158**	**1.64**	445,865	9,585	2.15

Notes: (1) It represents the percentage of non-performing loans in a certain category to the total loans of the said category.

(2) Loans of this category included corporate mortgage loans, non-performing discounted commercial bills, etc.

Discounted bills

As at 30 June 2008, our discounted bills amounted to RMB55.012 billion, an increase of 5.23% compared to the end of 2007. In the first half of 2008, as the interest rate of the bills market increased significantly, the Company expanded the scale of its discounted bills accordingly.

Retail loans

As at 30 June 2008, the Company's retail loans amounted to RMB190.034 billion, increased by 8.57% compared to the end of the previous year. The following table sets forth, as at the dates indicated, the retail loans by product type.

	As at 30 June 2008		As at 31 December 2007	
	Amount	**As a percentage of total (%)**	Amount	As a percentage of total (%)
	(In millions of RMB, excluding percentages)			
Residential mortgage loans	**138,214**	**72.73**	131,138	74.93
Credit card receivables	**25,087**	**13.20**	21,324	12.18
Others(1)	**26,733**	**14.07**	22,564	12.89
Total retail loans	**190,034**	**100.00**	175,026	100.00

Note: (1) It consists primarily of retail loans secured by monetary assets, automobile loans, house decoration loans, education loans and general consumption loans.

3.3.2 Investments

Investments in debts issued by Fannie Mae and Freddie Mac

As at 30 June 2008, the Company held debts issued by two home loan mortgage companies, namely Fannie Mae and Freddie Mac, with an aggregate carrying value of USD180 million (USD110 million and USD70 million by Fannie Mae and Freddie Mac respectively, and all the above debts were senior debts) and recorded an unrealized gain of USD1,560,000. In addition, the Company also held mortgage-backed securities of USD75 million which are guaranteed by these two companies. The total carrying value of such debts involving Fannie Mae and Freddie Mac amounted to USD255 million, with an unrealized gain of USD830,000 at market value.

Investment

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

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

	30 June 2008		31 December 2007	
	Amount	**Percentage of total (%)**	Amount	Percentage of total (%)
	(In millions of RMB, excluding percentages)			
Financial assets at fair value through profit or loss	**13,252**	**5.13**	10,838	4.44
Available-for-sale investments	**155,325**	**60.15**	142,116	58.22
Held-to-maturity debt securities	**72,986**	**28.26**	74,632	30.57
Investment receivables	**16,672**	**6.46**	16,537	6.77
Total amount of investment	**258,235**	**100.00**	244,123	100.00

Financial assets at fair value through profit or loss

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

	30 June 2008	31 December 2007
	(In millions of RMB)	
Financial assets at fair value through profit or loss		
PRC government bonds	**406**	585
Bonds issued by the PBOC	**1,227**	986
Bonds issued by policy banks	**2,317**	2,146
Others[(1)]	**9,302**	7,121
Total amount of financial assets at fair value through profit or loss	**13,252**	10,838

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

Available-for-sale investments

As at 30 June 2008, the Company's available-for-sale investments increased by RMB13.209 billion or 9.29% compared to the end of the previous year, accounting for 60.15% of the Company's investments, and representing the largest component of the Company's investments. The increase in available-for-sale investments is mainly supported by the abundant liquidity resulting from increased deposits. Therefore, there are three main points to consider: (1) There was an increase in the investment of bonds issued by the PBOC, which enjoyed a credit rating at sovereign level. To control monetary supply, PBOC has in recent years issued a large amount of bonds with maturities that meet the needs of the Company. The attractive yields and liquidity of such bonds are also in line with the investment strategy of the Company; (2) There was an increase in the investment in bonds issued by policy banks, as such bonds issued since 2008 were in line with the Company's current investment preference for short-to-medium term bonds; (3) There was an increase in investments in short term credit bonds such as short term financial bonds due to the stringent control over credit lending in 2008 and the rapid growth in short term credit bonds in the market. The increase or decrease of investment in the other kinds of bonds listed above is guided by the Company's investment strategies and preference of product diversification to achieve effective risk control and attractive gain of such portfolio. In general, the bonds in the available-for-sale investments portfolio are mainly in short-to-medium term with relatively short remaining terms of maturity in average, sound liquidity, and appropriate and controllable credit risk and market risk.

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

	30 June 2008	31 December 2007
	(In millions of RMB)	
Available-for-sale investments		
PRC government bonds	**4,548**	6,858
Bonds issued by the PBOC	**58,275**	53,338
Bonds issued by policy banks	**51,962**	45,763
Other debt securities	**40,270**	35,976
Equity investments	**270**	181
Total amount of available-for-sale investments	**155,325**	142,116

Held-to-maturity debt securities

As at 30 June 2008, the held-to-maturity debt securities of the Company decreased by RMB1,646 million or 2.21% as compared to the end of 2007.

The held-to-maturity debt securities of the Company enjoyed a high credit rating. It mainly consisted of floating-rate bonds. The coupon rates of these floating-rate bonds would be adjusted according to the statutory benchmark rates. With the gradual increase in benchmark interest rates by PBOC, this portfolio will earn good investment return, having an average remaining maturity of not more than 5 years and controllable risk in general.

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

	30 June 2008	31 December 2007
	(In millions of RMB)	
Held-to-maturity debt securities		
PRC government bonds	**15,446**	16,444
Bonds issued by the PBOC	**12,210**	10,810
Bonds issued by policy banks	**34,476**	34,582
Other bonds	**10,854**	12,796
Total amount of held-to-maturity debt securities	**72,986**	74,632

Investment receivables

Investment receivables are mainly the bearer's government bonds underwritten and held by the Company. As at 30 June 2008, the balance of the investment receivables of the Company amounted to RMB16,672 million, representing an increase of RMB135 million as compared to the end of 2007.

Carrying value and market value

All financial assets classified as at fair value through profit or loss and the available-for-sale debt investments were stated at market value or at fair value. Due to the lack of a mature market for the receivables in the Company's investment portfolio, the Company considers no valuation for its market value or fair value is required as full recovery is anticipated at maturity.

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

	30 June 2008		31 December 2007	
	Carrying value	**Market/ fair value**	Carrying value	Market/ fair value
	(In millions of RMB)			
Held-to-maturity debt securities	**72,986**	**72,385**	74,632	74,037

Investment concentration

The following table sets forth, as at 30 June 2008, our investment securities and other finance assets with carrying value exceeding 10% of our shareholders' equity.

	30 June 2008			
	Carrying value	**Percentage to total Investment (%)**	**Percentage to total shareholders' equity (%)**	**Market/ fair value**
	(In millions of RMB, excluding percentages)			
The PBOC	**79,712**	**30.87**	**102.86**	**79,567**
The Ministry of Finance	**27,135**	**10.51**	**35.01**	**27,140**
China Development Bank	**57,454**	**22.25**	**74.14**	**57,377**
The Export-Import Bank of China	**9,408**	**3.64**	**12.14**	**9,418**
Agricultural Development Bank of China	**21,893**	**8.48**	**28.25**	**21,748**
Total	**195,602**	**75.75**	**252.40**	**195,250**

3.3.3 Liabilities

As at 30 June 2008, the total liabilities of the Company amounted to RMB1,318.295 billion, representing an increase of 6.09% compared to the end of 2007. Total deposits from customers amounted to RMB1,046.626 billion, representing an increase of 10.93% compared to the end of 2007. Deposits accounted for 79.39% of the total liabilities of the Company and was the major source of fund of the Company. The increase of liabilities was primarily due to a rapid growth in deposits from customers.

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

	As at 30 June 2008		As at 31 December 2007	
	Amount	**Percentage of the total (%)**	Amount	Percentage of the total (%)
	(In millions of RMB, excluding percentages)			
Deposits from customers	**1,046,626**	**79.39**	943,534	75.93
Deposits from banks and other financial institutions	**202,257**	**15.34**	218,520	17.59
Placements from banks and other financial institutions	**21,972**	**1.67**	46,603	3.75
Certificates of deposit issued	**1,661**	**0.13**	1,095	0.09
Convertible bonds issued	**2**	**0.00**	13	0.00
Subordinated notes issued	**3,500**	**0.26**	3,500	0.28
Other debts issued	**9,994**	**0.76**	9,992	0.80
Other liabilities	**32,283**	**2.45**	19,311	1.56
Total liabilities	**1,318,295**	**100.00**	1,242,568	100.00

Deposits from customers

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

	As at 30 June 2008		As at 31 December 2007	
	Amount	**Percentage of the total (%)**	Amount	Percentage of the total (%)
	(In millions of RMB, excluding percentages)			
Deposits from corporate customers				
Demand	**359,147**	**34.31**	350,951	37.19
Time	**314,697**	**30.07**	266,050	28.20
Subtotal	**673,844**	**64.38**	617,001	65.39
Deposits from retail customers				
Demand	**201,511**	**19.25**	190,697	20.21
Time	**171,271**	**16.37**	135,836	14.40
Subtotal	**372,782**	**35.62**	326,533	34.61
Total deposits from customers	**1,046,626**	**100.00**	943,534	100.00

The Company has been consistently focusing on expanding deposit business. Deposits from customers of the Company maintained robust growth as a result of the rapid economic growth in the PRC, the increased disposable income of the general public and the increased PBOC deposit interest rate. As at 30 June 2008, deposits from customers of the Company amounted to RMB1,046.626 billion, representing an increase of 10.93% compared to the end of last year.

Since 2008, China's stock market has slowed down and retail customer deposits have returned to commercial banks. As at the end of June 2008, the percentage of retail deposits to total deposits from customers of the Company was 35.62%, representing an increase of 1.01 percentage points compared to the end of 2007.

With the gradual increase of deposit interest rate by PBOC, the interest spread between time deposit and demand deposit widened, resulting in a gradual increase in the percentage of time deposits to total deposits from customers. As at the end of June 2008, the percentage of time deposits to total deposits from customers of the Company was 46.43%, representing an increase of 3.84 percentage points compared to the end of 2007. Among the figures, the proportion of corporate fixed-term deposits accounted for 46.70% of the corporate deposits, representing an increase of 3.58 percentage points compared to the end of 2007, and the proportion of retail time deposits accounted for 45.94% of the retail deposits, representing an increase of 4.34 percentage points compared to the end of 2007.

3.3.4 Shareholders' equity

	As at 30 June 2008	As at 31 December 2007
	(In millions of RMB)	
Share capital	**14,707**	14,705
Capital reserve	**27,556**	27,545
Surplus reserve	**4,612**	3,088
Investment revaluation reserve	**(100)**	(471)
Regulatory general reserve	**9,500**	9,500
Retained profits	**21,221**	7,976
Proposed profit appropriations	**–**	5,641
Total shareholders' equity	**77,496**	67,984

3.4 Loan quality analysis

In the first half of 2008, the Company strictly carried out the macroeconomic control policies put forth by the State, took active initiatives in response to the changes in both the external economic situation and the operating environment, promoted the scientific development of the credit risk management system of the Company, and adopted the concepts of "Promoting reforms, Implementing industry-focus policies, Strengthening management, Improving quality" as the guiding philosophy, while devoted itself to innovation and adhered to a practical approach by "Streamlining system, Perfecting rules, Optimizing procedures, Building teams, Improving technologies". Due to the continuous efforts, during the reported period, its credit business had maintained a sound development that demonstrated features of "appropriate growth in scale, continuous improvement in quality, adequate allowances for impairment, remarkable achievements on bad loan collection, and gradual decrease of credit costs".

3.4.1 Distribution of loan portfolios by loan classification

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

	As at 30 June 2008		As at 31 December 2007		
	Amount	**Percentage of the total (%)**	Amount	Percentage of the total (%)	Increase/ Decrease over end of last year %
	(In millions of RMB, excluding percentages)				
Normal	**720,438**	**97.01**	648,431	96.33	11.10
Special Mention	**12,933**	**1.74**	14,342	2.13	(9.82)
Substandard	**1,967**	**0.26**	1,910	0.28	2.98
Doubtful	**3,174**	**0.43**	4,512	0.67	(29.65)
Loss	**4,148**	**0.56**	3,972	0.59	4.43
Total loans and advances to customers	**742,660**	**100.00**	673,167	100.00	10.32
Total non-performing loans	**9,289**	**1.25**	10,394	1.54	(10.63)

In the first half of 2008, the Company continued to record a decline in both the non-performing loans and non-performing loan ratio. By the end of the reported period, the non-performing loan balances were RMB9.289 billion, decreased by RMB1.105 billion, or 10.63%, compared to the beginning of the year. As at the end of the period, non-performing loan ratio was 1.25%, representing a decrease of 0.29 percentage points compared to the beginning of the year. Benefiting from the decrease in the generating rate of non-performing loans of the Company as well as the reinforced recovery of sizeable non-performing assets, as at the end of the period, the proportion of Substandard, Doubtful and Loss loans all decreased as compared to the beginning of the year. In the first half of 2008, an aggregate of RMB1.505 billion non-performing loans were recovered, and the Company had fulfilled the target of non-performing loan recovery half a year ahead of the schedule.

The Company has actively promoted the establishment of the risk pre-warning system and undertaken dynamic management to loans classified as special mention with controlling procedures such as filtering the risk signals, monitoring the list of risky customers and withdrawing the businesses of risky customers. Up to now, outstanding results have been achieved. As at the end of the reported period, the loans classified as special mention loans balanced at RMB12.933 billion, decreased by RMB1.409 billion compared to the beginning of the year, and the proportion of special mention loans was 1.74%, representing a decrease of 0.39 percentage points compared to the beginning of the year.

3.4.2 Distribution of loans and non-performing loans by product type

	As at 30 June 2008			As at 31 December 2007		
	Total loan balance	**Total non-performing loans**	**Non-performing loan ratio[1] (%)**	Total loan balance	Total non-performing loans	Non-performing loan ratio[1] (%)
	(In millions of RMB, excluding percentages)					
Corporate loans	**497,614**	**8,158**	**1.64**	445,865	9,585	2.15
Working capital loans	**355,090**	**6,864**	**1.93**	339,991	8,198	2.41
Fixed asset loans	**95,231**	**403**	**0.42**	74,045	438	0.59
Trade finance	**29,321**	**267**	**0.91**	19,767	414	2.09
Others[2]	**17,972**	**624**	**3.47**	12,062	535	4.44
Discounted bills[3]	**55,012**	**–**	**–**	52,276	–	–
Retail loans	**190,034**	**1,131**	**0.59**	175,026	809	0.46
Residential mortgage loans	**138,214**	**352**	**0.25**	131,138	335	0.26
Credit card receivables	**25,087**	**687**	**2.74**	21,324	409	1.92
Automobile loans	**2,352**	**40**	**1.70**	1,940	40	2.06
Others[4]	**24,381**	**52**	**0.21**	20,624	25	0.12
Total loans and advances to customers	**742,660**	**9,289**	**1.25**	673,167	10,394	1.54

Notes: (1) Percentage of non-performing loan in a certain category to the total loan of the said category.

(2) Loans of this category included corporate mortgage loans, non-performing discounted commercial bills, etc.

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

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

Under the complicated and ever-changing operating environment, the Company has taken proactive initiatives in overcoming difficulties through in-depth industry researches, scientific credit policy guidelines, overall credit risk pre-warning system and timely loan recovery measures, thereby effectively improving the quality of its corporate loans. As at the end of the reported period, the non-performing loans under corporate loans amounted to RMB8,158 million, representing a decrease of RMB1,427 million as compared to the beginning of the year. The non-performing loan ratio of corporate loans was 1.64%, representing a decline of 0.51 percentage points as compared to the beginning of the year. Among which, the non-performing amounts and ratios of various business segments such as working capital loans, fixed assets loans and trade finance loans were all in downward trends.

Affected by domestic stringent macroeconomic policies and declining stock prices in the capital market, the non-performing ratio of retail loans increased from 0.46% at the beginning of the year to 0.59 % at the end of the reported period. Among which, the quality of residential mortgage loans was relatively stable. The amounts of non-performing residential mortgage loans at the end of the period increased slightly by RMB17 million, with a non-performing loan ratio of 0.25% which represented a decrease of 0.01 percentage point as compared with the beginning of the year. Due to the limits set out in the policy of writing-off doubtful debts, the amounts of non-performing credit card receivable balances increased by RMB278 million as compared to the beginning of the year while the non-performing loan ratio rose from 1.92% at the beginning of the year to 2.74% at the end of the period.

3.4.3 Distribution of loans and non-performing loans by industry

	As at 30 June 2008			As at 31 December 2007		
	Total loan balance	**Percentage of the total (%)**	**Non-performing loan ratio (%)(1)**	Total loan balance	Percentage of the total (%)	Non-performing loan ratio (%)(1)
	(In millions of RMB, excluding percentages)					
Corporate loans	**497,614**	**67.00**	**1.64**	445,865	66.23	2.15
Manufacturing and processing	**149,421**	**20.12**	**1.90**	132,652	19.71	2.43
Transportation, storage and postal services	**90,041**	**12.12**	**0.59**	75,827	11.26	0.84
Wholesale and retail	**62,533**	**8.42**	**2.69**	58,441	8.68	3.13
Production and supply of electric power, gas and water	**54,938**	**7.40**	**0.70**	40,901	6.08	0.86
Property development	**43,133**	**5.81**	**2.73**	43,181	6.41	3.78
Leasing and commercial services	**26,249**	**3.54**	**1.61**	29,789	4.43	2.43
Construction	**19,771**	**2.66**	**0.43**	17,145	2.55	0.52
Mining	**13,876**	**1.87**	**0.00**	10,310	1.53	0.00
Water, environment and public utilities management	**9,462**	**1.27**	**0.08**	6,262	0.93	0.12
Financial services	**7,229**	**0.97**	**1.03**	6,952	1.03	1.94
Others(2)	**20,961**	**2.82**	**4.54**	24,405	3.62	3.88
Discounted bills	**55,012**	**7.41**	**0.00**	52,276	7.77	0.00
Retail loans	**190,034**	**25.59**	**0.59**	175,026	26.00	0.46
Residential mortgage loans	**138,214**	**18.61**	**0.25**	131,138	19.48	0.26
Credit card balances	**25,087**	**3.38**	**2.74**	21,324	3.17	1.92
Other retail loans(3)	**26,733**	**3.60**	**0.34**	22,564	3.35	0.29
Total	**742,660**	**100.00**	**1.25**	673,167	100.00	1.54

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

(2) Consists primarily of education, computer service and software, culture, sports, and social welfare, etc.

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

In the first half of 2008, the Company continued to implement scientific and practical industry credit policies which were based on the industry-focus researches with clear access standards, and has achieved remarkable results through the management of credit portfolio, the optimisation of industry structure and the improvement of asset quality. As at the end of the reported period, the non-performing ratios of corporate loans granted to Top 10 industry sectors were in a downward trend, with a balanced and optimized quality of the loans granted to various industry sectors.

For the real estate industry, the Company formulated a credit policy of "Control over total loan volumes, structure optimization, market segmentation and differentiated treatments". The Company imposed strict control over the total volume of loans to property development projects and strived to optimize customer structure. The Company granted corporate loans mainly to national and regional backbone real estate developers, while imposed strict limits toward small-and-medium sized real estate developers and the property development projects funded by foreign investors. The Company granted corporate loans mainly to common residential development projects while restricted those to commercial development projects. The Company mainly granted the residential mortgage loan to people buying a house for self-occupation while limited those for investment purposes. The Company has strictly implemented the policies and regulations on second house verification, increasing the percentage of down payment and raising interest rates to prevent the potential speculative risks of multiple loans granted to one individual. The head office has centralized the right to grant loans for property development projects and strengthened all critical processes such as conducting investigation prior to the granting of personal home mortgage loans, professional approval, collateral registration and repayment supervision. As at the end of the reported period, the balance of the corporate loans granted under property development industry accounted for 5.81% of the total corporate loans, a decrease of 0.6 percentage points as compared with the beginning of the year. The non-performing ratio was 2.73%, a decrease of 1.05 percentage points as compared to the beginning of the year. Under the backdrop of an external environment in which the property market has been going down in price, the Company still maintained a moderate growth of 5.40% in its home mortgage loan business. The non-performing ratio was 0.25%, representing a decrease of 0.01 percentage point as compared with the beginning of the year.

The Company adheres to the development of credit business for small and medium sized enterprises. It duly recognized the fact that under the pressure of macroeconomic control policy, the operating environment of small and medium sized enterprises is changing, with stringent financing policies, tightening financing chain and accelerating default risk exposure. While observing the principles of "proactively exploring and boldly innovating with refined measures and controllable risks", the Company continuously boosted the development of credit business for small and medium sized enterprises by being product-oriented, emphasizing procedure with particular stress on evaluation, and subsequently realising the transformation of its customer structure from the quality large sized enterprises to a balanced portfolio with quality large, medium and small sized enterprises. With respect to the characteristics of the development of regional economy, and based on the actual conditions of each branch, the Company promulgates differentiated credit policies for small and medium enterprises. The Company selects quality customers from the industrial chain and the logistic chain. It has realized professional management through the organization of management structure, marketing by teams, construction of systems, innovation of products, and optimization of process, and has implemented risk control mechanism through various measures such as integrated scoring system, pricing mechanism, management of authorization and risks pre-warning system. During the reported period, the Company's small and medium sized enterprises loans maintained a positive momentum of "increased quantity and improved quality". At the end of the period, the balance of small and medium sized enterprises loans accounted for 40.6% of the total enterprises loans, and the non-performing loan ratio was 3%, representing a slight decrease compared with that of the beginning of the year.

The Company placed strong emphasis on the impact on export-oriented enterprises brought by the adjustment of export tax rebates policy and the frictions in international trades, particularly the impact of the nation's macroeconomic control policies and social and economic changes on the development of export enterprises located both in Yangtze River Delta and Pearl River Delta. During the first half of the year, the Company has set up statistical analysis system and a system of withdrawal-upon-pre-warning against the foreign-invested enterprises, and issued a Notice on the Prevention of Risks against Foreign Enterprises and the Strengthening of Loan Management, and has collectively withdrawn businesses from certain risky customers.

3.4.4 Distribution of loans by region

	As at 30 June 2008		As at 31 December 2007	
	Amount	**Percentage of the total (%)**	Amount	Percentage of the total (%)
	(In millions of RMB, excluding percentages)			
Eastern China	**311,564**	**41.95**	275,956	40.99
Southern China and Central China	**216,890**	**29.21**	197,324	29.31
Northern China	**125,659**	**16.92**	121,474	18.05
Western China	**80,061**	**10.78**	71,898	10.68
Others	**8,486**	**1.14**	6,515	0.97
Total	**742,660**	**100.00**	673,167	100.00

During the first half of 2008, the Company persisted in its strategy of developing retail loans and SME loans, closely combined credit granting with development of regional economy and continuously optimized the regional structure of credit. Driven by the increase of receivables on credit cards and SME financing businesses, the percentage of loans in Eastern China at the end of the reported period increased by 1 percentage point as compared to the beginning of the year, while the percentage of loans in Northern China, Southern and Central China and other regions reduced to some extent.

3.4.5 Distribution of loans by collaterals

	As at 30 June 2008		As at 31 December 2007	
	Amount	**Percentage of the total (%)**	Amount	Percentage of the total (%)
	(In millions of RMB, excluding percentages)			
Loans secured by tangible assets, other than monetary assets	**229,499**	**30.90**	212,839	31.62
Loans secured by monetary assets[1]	**121,303**	**16.33**	110,299	16.39
of which: discounted bills	**55,012**	**7.41**	52,276	7.77
Guaranteed loans	**190,392**	**25.64**	185,472	27.55
Unsecured loans	**201,466**	**27.13**	164,557	24.44
Gross loans and advances to customers	**742,660**	**100.00**	673,167	100.00

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

As at the end of the reported period, loans (including collateralized loans and pledged loans) secured by assets accounted for 47.23% of the loan portfolios of the Company, representing the decrease of 0.78 percentage points compared to the end of the previous year. The Company has been taking collaterals as an important means to mitigate credit risk. The slackening in the residential mortgage loans during the reported period contributed to the decrease of the percentage of secured loans at the end of the period. The percentage of unsecured loans increased by 2.69 percentage points as compared to the beginning of the year was primarily due to the increase in loans granted through credit cards and unsecured loans granted to quality customers in more promising industries.

3.4.6 Distribution of loans by customer types

	As at 30 June 2008		As at 31 December 2007	
	Amount	**Percentage of the total (%)**	Amount	Percentage of the total (%)
	(In millions of RMB, excluding percentages)			
State-owned enterprises	**195,145**	**26.27**	179,192	26.62
Joint-stock enterprises	**66,969**	**9.02**	56,619	8.41
Other limited liability enterprises	**91,203**	**12.28**	77,186	11.47
Others domestic enterprises	**58,434**	**7.87**	56,831	8.44
Subtotal of domestic enterprises	**411,751**	**55.44**	369,828	54.94
Foreign-invested enterprises	**77,378**	**10.42**	69,522	10.33
Subtotal of enterprises operating in the Mainland	**489,129**	**65.86**	439,350	65.27
Enterprises operating outside the Mainland	**8,485**	**1.14**	6,515	0.96
Subtotal of corporate loans	**497,614**	**67.00**	445,865	66.23
Discounted bills	**55,012**	**7.41**	52,276	7.77
Retail loans	**190,034**	**25.59**	175,026	26.00
Gross loans and advances to customers	**742,660**	**100.00**	673,167	100.00

In the first half of 2008, the distribution of the Company's loans by customer types remained stable in general.

3.4.7 Loans to the top ten customers

(In millions of RMB, excluding percentages)

Top ten borrowers	Industry	Sector nature	Loan balance as at 30 June 2008	% of total net capital	% of total loans
CITIC Group	Other financial business	State-owned enterprise	5,000	5.93	0.67
Liaoning Provincial Communication Department	Communication & transportation	State-owned enterprise	4,594	5.45	0.62
Shanghai Chengtou Corporation	Leasing and commercial services	State-owned enterprise	3,570	4.23	0.48
Shandong Provincial Communication Department	Communication & transportation	State-owned enterprise	3,500	4.15	0.47
Jiangsu Communications Holdings Co., Ltd.	Communication & transportation	State-owned enterprise	3,050	3.62	0.41
China Guodian Corporation	Generation and supply of electric power, gas and water	State-owned enterprise	2,800	3.32	0.38
Huanghe Hydropower Development Co., Ltd.	Generation and supply of electric power, gas and water	State-owned enterprise	2,329	2.76	0.32
China Shenhua Energy Company Limited	Mining	State-owned enterprise	2,156	2.56	0.29
Shanxi Provincial Communication Department	Communication & transportation	State-owned enterprise	1,890	2.24	0.25
Sinochem International Petroleum (Bahamas) Company Limited	Wholesale and retail	Foreign-invested enterprise	1,890	2.24	0.25
Total loans			30,779	36.50	4.14

As at 30 June 2008, the largest single borrower of the Company was CITIC Group, whose loan balances (amounting to RMB5 billion at the end of the period) accounted for 5.93% of the Company's net capital. The advance was in line with the regulatory requirement stipulated by relevant regulatory authorities that the loan balances to a single borrower should not exceed 10% of the bank's net capital.

3.4.8 Overdue loans

	As at 30 June 2008		As at 31 December 2007	
	Amount	**Total (%)**	Amount	Total (%)
	(In millions of RMB, excluding percentages)			
Overdue more than 3 months but within 6 months	**737**	**0.10**	800	0.12
Overdue more than 6 months but within 1 year	**1,062**	**0.14**	635	0.09
Overdue more than 1 year	**6,768**	**0.91**	7,663	1.14
Total loans overdue more than 3 months	**8,567**	**1.15**	9,098	1.35
Total loans	**742,660**	**100.00**	673,167	100.00

As the Company's capability of managing credit risks enhanced gradually, there was a further reduction of overdue loans during the first half of 2008. As at the end of the reported period, the balances of overdue loans that had been overdue for more than 3 months amounted to RMB8,567 million or 1.15% to the total loan, representing a decrease of RMB531 million or 0.20 percentage points as compared with that of the beginning of the year. Among those loans, the balances of loans overdue for more than 3 months but within 6 months, and loans overdue more than one year had all decreased when compared with that of the beginning of the year, while an increase of the balance of loans overdue for more than 6 months but within one year as compared with that of the beginning of the year was recorded. This was mainly due to the facts that outstanding balance of certain corporate loan continued to be overdue, and the writing off policy of the overdue credit cards receivables changed.

3.4.9 Rescheduled loans

	As at 30 June 2008		As at 31 December 2007	
	Amount	**Percentage to total loans (%)**	Amount	Percentage to total loans (%)
	(In millions of RMB, excluding percentages)			
Rescheduled loans [1]	**1,569**	**0.21**	1,790	0.27
Of which: loans overdue more than 90 days	**1,150**	**0.15**	1,332	0.20

Note: (1) Substandard and doubtful loans after rescheduling.

3.4.10 Discounted interest loan and its major components

During the reported period, the Company did not have discounted interest loan.

3.4.11 Repossessed assets and its allowances

As at 30 June 2008, the total repossessed assets of the Company amounted to RMB1,383 million, representing an increase of RMB136 million from the beginning of the year, and after deduction of allowances for impairment losses of RMB1,280 million, the net repossessed assets amounted to RMB103 million, representing a decrease of RMB8 million when compared to the beginning of the year.

3.4.12 Movements of allowances for impairment losses on loans

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

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

	Jan-Jun 2008	Jan-Dec 2007
	(In millions of RMB)	
As at 1 January	**18,750**	16,282
Charge for the period/year	**2,673**	4,212
Releases for the period/year	**(1,102)**	(1,206)
Unwinding of discount(1)	**(48)**	(118)
Recoveries of loans and advances previously written off	**17**	48
Write-offs	**(51)**	(528)
Transfers in(2)	**–**	238
Exchange differences	**(163)**	(178)
As at the end of the period/year	**20,076**	18,750

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

(2) Represents transfers in of loan loss allowances resulting from the transfer of loans and advances to customers from repossessed assets.

As at 30 June 2008, allowances for impairment losses on loans and advances amounted to RMB20,076 million, representing an increase of RMB1,326 million from the beginning of the year. At the same time the non-performing loan allowances coverage ratio (total allowances for impairment losses on loans and advances to customers/total non-performing loans) was 216.13%, representing an increase of 35.74 percentage points as compared with that at the beginning of the year. The increase of allowances for impairment losses on loans and advances was primarily due to the augment of loan scale and the increase of loan allowances for the earthquake that happened in Wenchuan, Sichuan. The decrease in non-performing loans during the reported period resulted in a higher non-performing loan allowances coverage at the end of the period.

3.4.13 Allowances for bad debts provided in respect of interest receivables and other receivables

1. Changes in the interest receivables

(In millions of RMB)

Item	Balance at the beginning of the period	Increase during the period	Recovered during the period	Balance at the end of the period
Interest receivables	4,893	35,778	35,097	5,574

2. Provision for bad debts

(In millions of RMB)

Items	At the end of the June 2008	Allowances for losses	Methods of provision
Interest receivables	5,574	2	Individually assessed
Other receivables	4,282	57	Individually assessed

3.5 Analysis of capital adequacy ratio

The Company calculated and disclosed its capital adequacy ratio according to the guideline *Regulation Governing Capital Adequacy of Commercial Banks* (Order No. 2007 (11)) issued by the CBRC on 7 July 2007. As at 30 June 2008, the capital adequacy ratio of the Company was 10.41%, representing an increase of 0.12 percentage points as compared to last year, while the core capital adequacy ratio was 8.83%, representing an increase of 0.12 percentage points as compared with that at the end of the last year.

The following table sets forth the capital adequacy ratio and its related components as at the date indicated.

	As at 30 June 2008	As at 31 December 2007 (Restated)[1]
	(In millions of RMB, excluding percentages)	
Core capital		
Paid-up ordinary share capital	**14,707**	14,705
Reserves	**58,317**	49,009
Total core capital	**73,024**	63,714
Supplementary capital		
General provisions for doubtful debts	**12,525**	10,434
Term subordinated bonds	**900**	1,400
Convertible bonds	**2**	13
Other supplementary capital	**824**	147
Total supplementary capital	**14,251**	11,994
Total capital base before deductions	**87,275**	75,708
Deductions:		
– Investments in unconsolidated subsidiaries and other long-term investments	**2,657**	619
– Investments in commercial real estate	**298**	363
Total capital base after deductions	**84,320**	74,726
Risk-weighted assets	**809,937**	726,029
Core capital adequacy ratio	**8.83%**	8.71%
Capital adequacy ratio	**10.41%**	10.29%

Note: (1) The capital adequacy ratio as at 31 December 2007 and its related components were restated according to Yin Jian Fu【2008】No. 123 issued by CBRC.

3.6 Segment operating results

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

The Company evaluated the results of business segments through the internal funds transfer pricing mechanism FTP, and the business segments priced internal loan at the internal interest rate based on market interest rate, and the inter-segment interest incomes and expenses generated by the FTP system were offset when consolidating the operating results of the Company. Net interest income of the respective segments, combining interest income from loans to other segments and interest expense for borrowings from other segments, reflected the profit or loss of funding allocation to the business segments through the FTP. Cost allocation was based on the direct cost of related business segments and apportionment of management overheads.

The main businesses of the Company are corporate banking, retail banking and treasury business. For more information about the products and services of the respective main businesses, please refer to section headed "Business Operations". The following table sets forth the operating results of the business segments of the Company for the period indicated. (Unit: RMB million)

	Jan-Jun 2008					Jan-Jun 2007				
	Corporate banking	Retail banking	Treasury business	Others and unallocated	Total	Corporate banking	Retail banking	Treasury business	Others and unallocated	Total
External net interest income	12,104	3,535	8,486	–	24,125	8,845	1,466	4,385	–	14,696
Internal net interest (expense)/income	(266)	2,234	(1,968)	–	–	(298)	2,686	(2,388)	–	–
Net interest income	11,838	5,769	6,518	–	24,125	8,547	4,152	1,997	–	14,696
Net fee and commission income	1,474	2,529	–	91	4,094	678	1,915	–	71	2,664
Other net income/(expense)	503	143	(148)	70	568	387	126	(359)	40	194
Total operating income	13,815	8,441	6,370	161	28,787	9,612	6,193	1,638	111	17,554
Operating expenses	(4,695)	(5,063)	(547)	(1)	(10,306)	(3,683)	(2,908)	(374)	(3)	(6,968)
Impairment losses	(1,150)	(508)	273	(7)	(1,392)	(901)	(616)	(46)	(16)	(1,579)
Share of profits of an associate	–	–	–	33	33	–	–	–	–	–
Profit before tax	7,970	2,870	6,096	186	17,122	5,028	2,669	1,218	92	9,007

During January to June 2008, the contributions made by each business segment to the profit before tax of the Company were: 46.55% from corporate banking, 16.76% from retail banking, and 35.60% from treasury business. That contribution from treasury business grew more quickly was primarily due to the significant increase in the interest income of the investment of the Company, resulting from the higher market yields during the first half of 2008.

The major outlets of the Company are located in relatively affluent regions and some large cities in other regions in China. The following table sets forth the segment results of the Company by geographical segments in the periods indicated. (Unit: RMB million)

	Eastern China		Southern and Central China		Western China		Northern China		Others		Total	
Jan-Jun 2008	**Amount**	**%**	**Amount**	**%**	**Amount**	**%**	**Amount**	**%**	**Amount**	**%**	**Amount**	**%**
Net operating income	**10,013**	**35**	**12,474**	**43**	**2,502**	**9**	**3,690**	**13**	**141**	**0**	**28,820**	**100**
Capital expenditure	**602**	**34**	**860**	**48**	**247**	**14**	**67**	**4**	**4**	**0**	**1,780**	**100**
As at 30 June 2008												
Total assets	**377,684**	**27**	**749,755**	**54**	**104,862**	**7**	**148,245**	**11**	**15,245**	**1**	**1,395,791**	**100**
Of which: gross loans and advances to customers	**311,564**	**42**	**216,890**	**29**	**80,061**	**11**	**125,659**	**17**	**8,486**	**1**	**742,660**	**100**

	Eastern China		Southern and Central China		Western China		Northern China		Others		Total	
Jan-Jun 2007	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
Net operating income	6,047	34	7,230	41	1,514	9	2,590	15	173	1	17,554	100
Capital expenditure	157	21	484	66	44	6	53	7	–	0	738	100
As at 31 December 2007												
Total assets	326,857	25	717,382	55	90,644	7	156,281	12	19,388	1	1,310,552	100
Of which: gross loans and advances to customers	275,956	41	197,324	29	71,898	11	121,474	18	6,515	1	673,167	100

3.7 Other information

3.7.1 Balance of off-balance sheet items that may have a material effect on the financial positions and operating results and the related important information

(1) Letters of guarantee and letters of credit: the balance of the letters of guarantee and the letters of credit issued by the Company amounted to RMB93,869 million as at the end of the reported period. Except for letters of guarantee, the Company's obligation to advance will arise only in the event of a default by an applicant under the letter of credit, and as a result, the Company's profit would be negatively affected.

(2) Bills of acceptance: As at the end of the reported period, the Company's balance of the bills of acceptance was RMB217,860 million. The Company's obligation to advance will arise only in the event of a default by an applicant for the bill of acceptance, and as a result, the Company's profit would be negatively affected.

3.7.2 Outstanding overdue debts

As at the end of the reported period, the Company did not have any outstanding overdue debts.

3.8 Business operations

3.8.1 Retail Banking Segment

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

Retail loans

The Company provides retail customers with various loan products. In the first half of 2008, faced with fierce competition in retail loans which comprised mainly of residential mortgage loans and intensified macroeconomic control on the property market, the Company deployed more resources into innovating and promoting new retail loan products, and further sharpened its competitive edge in retail banking. The Company reshuffled the personal loan processing work flows so that mid and back office operations were assigned to branches. The Company also introduced new series of personal loan products, including the innovative product known as "Easy Consumption", which utilizes the All-in-one Card as the platform to merge residential mortgage loans and consumer loans repayment, thereby further enhancing personal wealth management capability of customers taken on residential mortgage loans. The project of on-line residential mortgage loan application assessment was completed which raised the processing efficiency on application approval. A competition activity known as *Breakthrough 2008* ("突圍2008") was organized to boost the underwriting of personal loans and promote the steady development of personal operational loan business. Moreover, credit card business was aggressively promoted, thereby speeding up the growth of credit card loans business. As at 30 June 2008, the total retail loans amounted to RMB190.034 billion, increasing by 8.57% when compared with that of the end of the previous year, of which the total residential mortgage loans increased by 5.40% as compared to the end of previous year while the total credit card receivables increased by 17.65% as compared to the end of previous year. Affected by the tightening residential mortgage loan market in China, the total retail loans accounted for 25.59% of total loans, decreasing by a slight 0.41 percentage points from that of the end of the previous year.

Retail customer deposits

The retail deposit products of the Company mainly consist of demand deposits, time deposits and call deposits. Retail customer deposits provided substantial low-cost funding for the Company. As at 30 June 2008, total retail customer deposits amounted to RMB372.782 billion, increasing by RMB46.249 billion or 14.16% from the end of the previous year. Retail customer deposits accounted for 35.62% of total deposits, increasing by 1.01 percentage points from the end of the previous year.

Retail non-interest income business

The Company keeps developing non-interest income business in recent years, which is now on a positive development track. In the first half of 2008, the non-interest income from retail banking was RMB2.672 billion, increasing by RMB631 million or 30.92% as compared to the corresponding period of previous year. Amongst which, handling charge income from bank cards (including credit card) was RMB1.277 billion, an increase of 64.56% compared to the corresponding period of previous year; income from wealth management was RMB491 million, an increase of 917.60% compared to the corresponding period of previous year; income from fund agency services was RMB469 million, a drop of 33.39% compared to the corresponding period of previous year; and income from agency sale of insurance was RMB182 million, an increase of 204.96% compared to the corresponding period of previous year.

Bank cards business

As at 30 June 2008, the Company had issued a cumulative total of 46.46 million All-in-one cards, including 2.95 million cards newly issued during the year. All-in-one Card deposit balance was RMB298.2 billion, accounting for 79.99% of the total retail deposits, representing RMB6,418 average balance per card. As at 30 June 2008, the Company had issued 23.82 million credit cards, including 3.14 million cards newly issued during the year. The total number of cards in circulation was 15.43 million, the cumulative number of card holders was 9.17 million, the cumulative transaction volume via credit cards for the year was RMB94.1 billion, the average transaction volume per month of each card in circulation was RMB1,048, and the revolving credit line balance was RMB9.8 billion. Income from credit card non-interest business was RMB1.095 billion, an increase of 76.05% compared to the corresponding period of previous year. Amongst which, POS fee income was RMB436 million, an increase of 56.27% compared to the corresponding period of previous year; annual fee income was RMB40 million, an increase of 5.26% compared to the corresponding period of previous year; cash advance service charge was RMB89 million, an increase of 58.93% compared to the corresponding period of previous year; overdue charge was RMB154 million, an increase of 102.63% compared to the corresponding period of previous year; fee income from installment loan was RMB204 million, an increase of 119.35% compared to the corresponding period of previous year; and other fee income from value-added services was RMB172 million, an increase of 115.00% over the corresponding period of previous year. The percentage of the overdrawn accounts of credit cardholders increased from 22% at the end of previous year to 25%. The percentage of interest-earning balances increased from 37% at the end of previous year to 39%.

Customers

As at 30 June 2008, the total number of retail deposit accounts of the Company was 36.27 million, and the deposit balance was RMB372.782 billion, of which, the total number of Sunflower customers (high end customers, with more than RMB500,000 financial assets in the Company) was 364,000. Their deposit balance was RMB135 billion, accounting for 36.21% of the retail deposit balance of the Company. The balance of Sunflower customers' assets under management of the Company amounted to RMB613.813 billion, an increase of 142.838 billion or 30.33% over the previous year, accounting for 61.91% of the balance of customers' total assets under management of the Company, up 6.81 percentage points from that of the previous year.

Marketing

With the sustained efforts of the Company in brand building for its products and services, the brands such as All-in-one Card, All-in-one Net and credit cards have gained relatively high recognition. In the first half of 2008, while continuously building up the above brands, the Company continued to refine the Sunflower Exclusive value-added services, actively commenced the targeted marketing based on customer database, and progressively promoted the integration of sales and service processes. Major marketing campaigns such as "Sunflower Cup National Teenager Piano Competition" and "The Second Wealth Management Education Community Tour" were launched. Such efforts on brand building will further help developing customer base and enhancing customer loyalty.

At present, the Company offers retail banking products primarily via its branches and sub-branches. In the meantime, to meet the market changes, the Company establishes a multi-level marketing system in its branches. As at 30 June 2008, the Company had established 219 wealth management centers and 386 Sunflower VIP rooms.

In the first half of 2008, the focus of our private banking business was on the preparation work for branches establishment, team building and customer management, the results of which were encouraging. The establishment of branches for pilot operations of private banking was in smooth progress as scheduled, with three private banking centers being established in Beijing, Shanghai and Shenzhen, respectively, while three branches are under preparation and the other four are under planning. The Company actively conducts induction training for private banking customer service managers and organizes advanced courses on private banking business, with the aim to build up a team of professional investment consultants and a market analysis platform. All these help setting up a preliminary model for private banking business.

3.8.2 Corporate Banking

The Company provides corporate customers, financial institutions and government agencies with diversified quality banking products and services. As at 30 June 2008, the corporate loan balances of the Company were RMB497.6 billion, accounting for 67.00% of the total customer loans; the balances of total discounted bills were RMB55 billion, accounting for 7.41% of the total customer loans; total corporate customer deposit were RMB673.8 billion, accounting for 64.38% of total customer deposits.

Corporate loans

Corporate loan products of the Company include working capital loans, fixed asset loans and other loans mainly include trade finance and factoring. In 2008, the Company continued to implement the strategy of industry focused customer segmentation and professionalized operations. The Company provided more support for quality industries such as transportation, energy and electricity (alternative energy in particular), iron and steel, urban infrastructure, environmental protection and high-tech industries. The Company was the first to launch green financial services in China, while controlling loan growth to industries under macroeconomic control such as those "High pollution, High energy consumption and High resources dependent" industries. These all resulted in further optimization in the industry structure of corporate loans.

In 2008, the Company has adopted a regionally focused strategy for its small and medium sized enterprise business. This segment has identified the Yangtze River Delta, Pearl River Delta and Bohai Rim as its targeted regions for business expansion, with a network of 41 branches spread over the Western China, Southwest China, Northeast China and Northwest China regions, etc. On 18 June 2008, the Company established a credit center for small sized enterprises in Suzhou. The credit center is directly supervised by the headquarter. Its business extends over the entire nation and specializes in serving small sized enterprises by providing various kinds of financing products with credit limit below RMB5 million, including credit services, guarantees, secured loans and pledge loans. Leveraging on the "Go Fortune Growth Program", an initiative to re-brand the Company's small and medium enterprise services, the Company launched the "Logistics Finance" product line, where movable properties such as raw materials and finished products can be accepted as securities for loans provided by the Company. The launch of this product line strengthened the development of small and medium sized enterprise business.

The above-mentioned measures of the Company contribute to a stable growth of business volume with the small and medium sized enterprise customers. As at end of June 2008, the number of small and medium sized enterprise borrowers of the Company reached 8,775, an increase of approximately 8% as compared to corresponding period of the previous year. The total loans and advances to small and medium sized enterprises were RMB202.1 billion, an increase of approximately 6% over the previous year.

In 2008, the growth of our small and medium sized enterprise loan business was significantly affected by the macroeconomic control policies. First of all, the systematic risk of small and medium sized enterprises has increased as they have been facing market challenges brought about by domestic factors such as credit tightening, the appreciation of Renminbi, rising labour cost and the increasingly stringent regulations on energy saving and emissions reduction, as well as international factors including the US sub-prime mortgage crisis and rising oil prices. Secondly, due to the tight credit condition, a general cutback on credit scale quota and keen demand loans from large enterprises, thus giving rise for funds in the capital market to flow to those large-scale enterprises.

Under such complicated market conditions, the Company will, based on risk measurement and risk pricing techniques, continue to promote the establishment of a proper corporate structure for small and medium sized enterprise business, promote the brand building of its small and medium sized enterprise services, continue to establish and innovate small and medium sized enterprise products, and put greater effort in staff training, with a view to achieving a rapid, healthy and stable growth for its small and medium sized enterprise business.

Discounted bills

In combined consideration of total loan amount, liquidity, yield and risk factors, the Company tightened the operations of discounted bills in the first half of 2008. As at 30 June 2008, the balance of discounted bills loans was RMB55 billion, slightly up from the level as at the end of previous year. Meanwhile, due to improved product offer and stepping up of marketing efforts, the Bill-Express business remained in an upward trend, with the cumulative transaction volume of RMB23.2 billion in the first half of the year (annual transaction volume for 2007 was RMB30.9 billion).

Corporate client deposits

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

As at 30 June 2008, total corporate client deposits amounted to RMB673.8 billion, an increase of 9.21% compared to the end of previous year. Specifically, demand deposits accounted for 53.30%, which was 6.60 percentage points higher than time deposits. The high proportion of demand deposits helped reducing interest expenses on deposits.

Non-interest-based corporate banking business

Under the guiding principles of restructuring the operating structure, the Company stepped up its efforts to maximize fee-based income besides ensuring the growth of interest income. During the reported period, the Company made efforts to promote the development of relatively new businesses including cash management, wealth management, financial consultancy, assets custody, third party custody, credit assets transfer and management, agency underwriting of short-term commercial paper and corporate annuity, thereby increasing the percentage of fees and commissions income to total income from corporate banking business. Meanwhile, the Company continues to maintain the growth of income from traditional businesses including domestic and international settlement, acceptance, guarantee and commitments in order to ensure the diversification of non-interest income sources and the continuous growth of total income. In the first half of 2008, net fee-based income of the Company was RMB1.977 billion, an increase of 85.63% compared to the corresponding period of the previous year.

In order to accomplish a strong growth of various cash management businesses, apart from the launch of innovative products, the Company also undertakes a series of diversified and comprehensive promotion activities, including advertisement for the "GoFortune" service in the year to raise the publicity for cash management business, and actively promotes our patent products named Cross-bank Solution for Cash Management ("CBS"); the formal press release for the Company's online corporate banking U-BANK version 6.0; organization of cash management exchange forum for customers; joint promotion and marketing efforts by the headquarters and branches to reinforce business training and team building and to service high net worth clients. All these activities further enhance our market position in the field of cash management.

During the reported period, The Company was honored *"The Best Internet Bank of China"* in 2007 by *The Economic Observer*, and was awarded the honor of "China's Best Domestic Cash Management Bank" by *Asia Money* for the fourth consecutive year, which proved that our brand value has been affirmed once again in the banking industry. As at 30 June 2008, the number of enterprise customers of the cash management services reached 67,128, with the balance of cash management customers deposits amounted to RMB416.8 billion and the balance of loans amounted to RMB281.8 billion. Therefore, the cash management business offered an important client base for low-cost deposits and cross-selling opportunities.

In respect of corporate wealth management, besides sustaining the rapid growth in the sales of existing products, the Company launched more innovative products. As a result, the wealth management service offered selections of three currencies including RMB, USD and HKD, with maturities of any periods beyond 7 days, and investment strategies focused on both the money market and the capital market. The Company switched its business approach from product selling to brand operation. In the first half of 2008, the sales volume of corporate wealth management was RMB129.3 billion, an increase of 1,136% over the corresponding period of the year.

As for international settlement, the Company achieved a total volume of USD59.691 billion, an increase of 36.49% as compared to the corresponding period of previous year; the foreign exchange volume was USD41.3 billion, an increase of 45.17% as compared to the corresponding period of previous year; the direct fee income from international settlement business was USD28.4696 million, an increase of 46.92% as compared to the corresponding period of previous year. The aggregated fee-based income of international business (including handling fees, trade financing and foreign exchange settlement) was USD228 million, an increase of 85.64% as compared to the corresponding period of previous year.

With regard to offshore business, the Company achieved a settlement volume of USD20.336 billion, an increase of 69.0% as compared to the corresponding period of previous year. The accumulated offshore fee-based business was USD8.28 million, increasing by USD3.13 million or 60.8% as compared to the corresponding period of the previous year.

As for third party custody business, the Company had 7,112 institutional clients of third party custody, including new clients of 3,538. The average daily funds under third-party custody amounted to RMB122 billion, up 220% as compared to that of 2007, and realized custody fee amounted to RMB101.42 million.

With regard to the underwriting of short-term commercial papers and medium-term notes, the Company successfully completed 16 issues of short-term commercial papers for 13 clients. The lead underwriting volume was RMB8.19 billion (joint lead underwriting volume accounted for 50%), thereby realizing an agreed fees income of RMB29.98 million. The Company completed one issue of medium-term notes with lead underwriting volume of RMB1.8 billion, thereby realizing an agreed handling fees income of RMB27 million.

With regard to the assets custody business, the custody assets of the Company were RMB205.575 billion, an increase of 35.57% as compared to the beginning of the year and an increase of 146.97% over the corresponding period of the previous year. The average daily custody deposit was RMB30.973 billion, an increase of 131% as compared to the corresponding period of previous year. Income from custody fees was RMB121.137 million, an increase of 137% as compared to the corresponding period of the previous year.

As for the corporate annuity management business, the number of corporate annuity customers was 1,205. The total number of personal accounts of customers was 0.98 million, and the account management fees amounted to RMB1.2 million.

Customer base

Over the past 20 years of development, the Company has developed 307.9 thousand corporate depositors and nearly 23,000 corporate borrowers, including domestic leading enterprises and enterprise groups, government agencies, financial institutions, and Fortune Top 500 multinational enterprises. Meanwhile, the Company manages to develop small and medium sized enterprises to form a balanced customer structure.

3.8.3 Treasury

Operating environment

In the first half of 2008, both the domestic and international macroeconomic environments were under severe conditions. On the domestic side, CPI has been on a rising trend, while natural disasters such as the snowstorm and earthquakes further thrust up the inflation level. The CPI in the first half of the year reached 7.9%, and the situation was worsened by actual negative interest rates. Meanwhile, against the background of the ongoing appreciation of Renminbi, foreign currency reserves kept breaking record high, with excessive liquidity remained a major concern of the Central Bank. As such, the Central Bank adopted a tightening monetary policy to curb the overheated economy, control credit growth and hold back huge liquidity. In the first half of the year, the Central Bank raised the statutory deposit reserve ratio several times, pushing the reserve ratio to a record high at 17.5%, and issued Central Bank notes up to the amount of RMB2,930 billion. In the international arena, under the impact of the sub-prime mortgage crisis, major financial markets including stock, foreign exchange, interest rates and credit markets have experienced turbulent fluctuations. USD depreciated significantly against other major currencies. Prices of commodities such as gold, crude oil and agricultural products rose sharply. In the credit market, ratings of some financial institutions were downgraded, credit spreads widened, while the market remained vulnerable to panics and liquidity had once been extremely tight. To prevent an economic downturn, the Federal Reserve aggressively cut interest rates several times, and provided liquidity in the market through various means including debt facilities and discount window operations. The series of measures taken by the Federal Reserve, in particular the bid to rescue Bear Stearns, helped restore market confidence, resulting in the narrowing of credit spreads.

Operating strategy

As for the Renminbi business, with the strict credit control and large scale absorption of liquidity by the Central Bank, the Company followed prudent strategies on treasury operations. Firstly, control on liquidity position was tightened so that adequate level of liquidity buffer and a proper liquidity structure were maintained. In particular, the Company favored the purchase of financial assets such as resale notes. Secondly, in response to the increasing inflation pressure and widened credit spreads, the Company managed to improve and optimize bond investment. For purpose of maintaining the short term bond portfolio, the Company places focus to credit products such as the relatively low risk floating rate bonds, senior short-term commercial papers, medium-term notes and corporate bonds. Thirdly, more resources are placed for the development of secondary market trading. The Company originated dealings in the interbank market and, on the premise of adequate liquidity, re-arranged its bond holdings and increased turnover rates. In addition, the Company actively conducted more interest spread trades, thereby effectively lowering the cost of available-for-sale investments.

As for foreign currency business, the Company proactively adjusted the scale of foreign currency investment according to market conditions. In doing so, the Company has overcome the adverse impact of the sharp drop in the U.S. interest rates. The Company obtained the funds through redemption of bonds and actively executed dealing in derivatives such as swaps and options in order to raise the yields of portfolios. By trading local and foreign currencies swaps, the Company also profited from arbitrage opportunities in the domestic swap markets brought about by the expectation of appreciation in Renminbi.

Operating results

In the first half of 2008, the annual yield of the Company's foreign currency/RMB-denominated securities portfolio reached 3.89%, up 55 basis points as compared with the full year of 2007, and up 62 basis points as compared with the first half of 2007. The increase in investment yield was contributed by the floating rate bonds, newly acquired investments, repricing upon reinvestment of securities and a higher proportion of investment in credit obligation products. In the first half of 2008, the Company's annual yield on financial assets under repurchase agreement and placements to banks and other financial institutions was 3.78%, down 7 basis points as compared with the full year of 2007, but up 81 basis points as compared with the first half of 2007. This was due to the yield on financial assets under repurchase agreement was higher than the same period of last year but lower than the second half of 2007.

In the first half of 2008, the Company's proprietary investment portfolio reached RMB258.235 billion, increasing by 26.95% over the corresponding period of previous year. In addition, assets under management on behalf of customers denominated in both local and foreign currencies reached RMB111.203 billion, increasing by 60.90% over the previous year. In the first half of 2008, benefiting from the rapid growth of business of asset management on behalf of customers, the Company's income from wealth management reached RMB670 million, increasing by 1,267.35% over the corresponding period of previous year.

Business development

In the first half of 2008, as a result of intense fluctuations in the financial markets both within China and abroad, large volumes of funds flowed to low risk investments to minimize risk. Riding on the trend, the Company aggressively developed low risk wealth management products and liquidity management products. As at 30 June 2008, the number of wealth management products launched by the Company amounted to 797, with a total issue value of RMB280 billion and an outstanding amount of RMB111.2 billion. In addition, the Company continued to consolidate its position as a market maker and increase its influence in the market. For the period from January to June 2008, the Company's transaction volume of discounted bills reached RMB3,089.5 billion, ranking first among the domestic banks in the bond market. The transaction volume of foreign exchange settlement amounted to USD122 billion, equivalent to 90% of the previous year's total transaction volume USD135.5 billion.

3.8.4 Distribution channels

The Company provides products and services via different distribution channels. As at 30 June 2008, the Company had 41 branches, 553 sub-branches (including offices), 1 exclusive operation center equivalent to the branch (credit card center), 1 representative office, 1,368 self-service centers and over 1,200 ATM in 41 cities across Mainland China, as well as 1 branch in Hong Kong and 1 representative office in the United States. The efficiently operated outlets of the Company are primarily located in China's more economically developed regions such as Yangtze River Delta, Pearl River Delta and Bohai Rim, and some large cities in other regions.

Besides expanding physical distribution channels, the Company also made efforts to develop and improve e-banking channels such as online banking and telephone banking, which is highly recognized and has effectively relieved the pressure from the business outlets of the Company. As at 30 June 2008, the number of transactions done through U-BANK, our online corporate bank, was 9.16 million, up 77% compared to the corresponding period of last year, and the accumulated transaction amount was RMB11.43 trillion, up 166% compared to the corresponding period of last year. The total number of transactions made with the professional version of online banking was 22.43 million, up 52% compared to the corresponding period of last year, and the accumulated transaction amount was RMB372.1 billion, up 74% compared to the corresponding period of last year. The number of online transactions was 42.49 million, up 99% compared to the first half of last year, and the accumulated transaction amount was RMB19.2 billion, up 61% compared to the corresponding period of last year. In respect of telephone banking. As at 30 June 2008, the Company sold various types of wealth management products, such as fund, through telephone banking for a total amount of RMB2.828 billion. The total transaction amount with Quick & Easy Wealth Management was RMB14.55 billion and the number of accounts reached 729,000, representing a significant increase compared to the corresponding period of last year.

3.8.5 Overseas businesses

The Company provides overseas banking business, including corporate and retail banking, via its Hong Kong Branch established in 2002. The total assets of Hong Kong Branch were HKD17.5 billion at the end of June 2008.

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

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

The Company has set up a representative office in New York. On 8 November 2007, our application for establishing the New York branch was approved by the Federal Reserve of U.S. and on 14 July 2008, our New York branch received the banking business license from the New York State Banking Department, and its opening preparation is currently in progress.

3.8.6 Business innovation

Innovation is the core value and the fundamental driving force for the growth of the Company. Facing the increasingly fiercer market competition, the Company is dedicated to the continuous improvement of its business innovation capabilities. The status of business innovation of the Company during the reported period is set forth below:

Innovation in retail business

The Company has developed the "Smart Notice Deposits" program to meet the short-term liquidity demand of our customers. The Company has constantly improving our "Entrusted Wealth Management" to provide technical support for the continuous launch of new entrusted wealth management products. The ATM Acquiring service developed has been boosting the growth of the acquiring business volume. By innovatively launching "Easy Consumption" products, the Company has integrated housing loans and personal consumption payment with the All-in-one Card as the media, further strengthened the wealth management function of housing loans and better served the needs of our customers, thereby expanding our share in the personal loan market.

Innovation in corporate business

The Company continued to capitalize on the advantage of online corporate banking and cash management business and focus on the promotion of our patent product named Cross-bank Solution for Cash Management ("CBS"), so as to accomplish the comprehensive development of our cash management business. The Company not only set up a system in respect of the management of accounts receivable and payable and developed its online factoring business, but also proposed the financial service and brand building solutions for electronic supply chains. The Company successfully launched its online corporate banking service, the U-BANK 6.0, and completed a number of tasks in connection with the development of the online corporate banking system, laying a foundation for future product innovation. The Company has also developed leading nominal cash pool products in China, and continued to improve our cash management services, including group payment, group negotiated transfer, RMB cash pool, foreign currency cash pool and fund balance management.

As for small and medium sized enterprises, the Company was the first to have established a small enterprise credit center directly under Head Office, with its scope of business covering all China. The Company has also introduced the "Logistic Finance" product series to especially cater for enterprises at the upper and lower stream of the industrial chain as well as trading companies.

Innovation in treasury business

In view of the anticipated appreciation of RMB, the Company launched the high-yielding and principal-guaranteed "Wen Ying" and "Hui Ying" product series, which were warmly received among its customers. In order to meet the liquidity demand of our customers, the Company added Euro, Australian dollar, Pound Sterling and Hong Kong dollar into our traditional "Daily Wealth" and "Go Fortune Cash Pool" products, reinforcing its leading position of liquidity product in financial management market. The balance of such products once reached a record high of over RMB30 billion, and steadily remains at RMB20 billion currently. Because customers reacted negatively to the decline in domestic stock market, the Company deployed all available resources and adjusted its issuance strategy to aggressively develop fixed-income products (i.e. credit assets transfer and wealth management plan linked with bank acceptance), thereby successfully expanding its shares in the wealth management market.

3.9 Risk management

3.9.1 Credit risk management

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

Risk Control Committee of Head Office is the highest authority of the Company in credit risk management. Under the framework of the risk management strategies, policies and authorizations approved by the Board, the Committee is responsible for reviewing and deciding the most significant bank-wide risk management policies, and reviewing complicated credit items. The Company separately reviews credit risk in accordance with business risk status and credit approving system, and adopts a double endorsement credit review and approval model which is a combination of collective approval and approval by the loan granting officer. The Company has formulated a comprehensive credit approval and authorization system according to credit management level, the borrowers' credit ratings and credit guarantee conditions. The Company has also implemented practical authorization standards, authorization methods and authorization adjustment rules. The Company is strictly in compliance with the principle of separating the authorization of reviewing credit and granting loans. The procedure of "triple reviewing" is strictly applied before, during and after loan granting. The system of cross-checking among different positions and responsibilities are designed according to various risk control procedures of credit business. The Company establishes a well-defined accountability system to ensure effective working of the procedure of risk control management.

In the first half of 2008, in order to cope with the complicated external economic environment, the Company conscientiously implemented the macroeconomic control policies of the country. The Company tightened lending criteria by following the direction of credit policies, and conducted dynamic monitoring and management of existing loans by focusing on risk prevention and effectively carrying out credit risk management reform. All of these contribute to the consolidation of our credit management foundation and help achieve the optimization of credit structure and quality in an increasingly challenging operation environment.

Through broad and in-depth research on industry peers, the Company has come up with new thoughts and models for the credit risk management system, implemented a system to employ dedicated officers for loan approvals, studied the possibility of setting up a risk manager system, implemented a centralized approval system in certain branches and gradually established a credit risk management system. The Company focused on selected industries, strengthened the guiding of credit policies, and remained highly precautious against the credit risk arising from those heated industries, i.e. the "High pollution, High energy consumption and High Resources dependent industries", real estate, education, cement and textile, etc.. The Company has also completed its regulatory system on granting credit by formulating and revising basic regulations such as the "Administrative Rules on Credit Approval for Company Corporate Cards", the "Administrative Rules of China Merchants Bank for Governing the Granting of Syndicated Loans" and the "Administrative Rules of China Merchants Bank for Governing Credit Approval for Debt Financing Instruments of Non-financial Enterprises in the Interbank Bond Markets". Furthermore, the Company revised and completed its group customer management scheme, and credit risk pre-warning scheme, and researched into the new credit approval and authorization system and the centralized credit approval system. The Company has reinforced its work of credit review and management of non-performing assets and proactively guaranteed the stable improvement of credit asset quality through monitoring and controling procedures such as filtering risky customers, pre-warning risks, recovering non-performing loans and withdrawing business. The Company keeps on developing and utilizing quantification techniques, promoting the deployment of online Off-site Monitoring System, planning on the development of the new generation of IT system for credit risk management, and accelerating the upgrade of our IT technologies for credit management.

3.9.2 Liquidity risk management

Liquidity risk refers to the risk that the Company is not able to satisfy its customers by providing them with deposits due, new loans, and reasonable financing, or the risk that the Company is not able to meet these requirements at normal cost. The overall liquidity of the Company is managed by the Assets and Liabilities Management Committee, and the Planning and Finance Departments in the Head Office and branches are responsible for execution.

In the first half of 2008, facing the complex and changing economic and financial situation, the Company continued to pursue prudent liquidity management policies and adopted effective liquidity management strategies, which helped maintain a stable level of liquidity.

As shown by the liquidity gap, at the end of June 2008, the Company had a liquidity gap for immediate repayment of RMB792.013 billion, primarily caused by a higher level of demand deposits (including deposits held at call). Taking the depositional characteristics of demand deposits into account, the liquidity risk of immediate repayment of the Company was relatively small. The results of stress test showed that the Company was capable of coping with liquidity risks in extreme circumstances.

3.9.3 Interest rate risk management

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

In the first half of 2008, the Company closely monitored the development and changes in the macroeconomic and financial situations, adjusted the prices for internal fund transfers and guiding business interest rates in a timely manner, so as to facilitate the balanced and coordinated development of the assets and liabilities of the Company and keep the net interest margin at a reasonable level.

The Company reports interest rate risk positions and provides relevant suggestions to the Assets and Liabilities Management Committee on a monthly basis. The analysis tools for interest rate risk include, without limitation, gap analysis, sensitivity analysis, scenario simulation, and stress test. The interest rate risks in RMB businesses are mainly monitored and adjusted by balance sheet management. The Company also tries to hedge foreign currency interest rate risks by, in addition to balance sheet management, utilizing derivative products such as interest rate swap.

3.9.4 Exchange rate risk management

Exchange rate risk refers to the negative impact on the assets and liabilities denominated in foreign currency that may arise as a result of changes in exchange rate. Exchange rate risks faced by the Company mainly come from the currency mismatching of assets and liabilities denominated in foreign currencies held by the Company.

In view of the continuous appreciation of Renminbi against US dollar, in order to mitigate the risk arising from non-Renminbi capital, the Company strives to match lending and borrowing of each currency, and conducts timely back-to-back transactions to properly limit exposures to exchange rate risk. Also, the Company conducts hedging transactions on the FOREX markets and reduces currency risks by setting exposure cap and stop-loss limit to meet the requirements of business development.

As at 30 June 2008, the Company had a foreign exchange exposure of RMB12.648 billion.

3.9.5 Operational risk management

Operational risk refers to the risk of loss arising from inappropriate or unsound internal procedures, incompetent personnel or systems, or external events. The Company reduces and controls the operational risk by strengthening internal control, enhancing staff's risk prevention awareness and ability, and implementing a strict accountability system. Major measures taken in the first half of 2008 were as follows:

(1) The Company implemented measures to meet the requirements of the regulatory authorities and requiring all levels of personnel to sign letters of responsibility for the prevention and control of frauds. The Company launched a campaign to inspect the "five-forbidden behaviours" (such as gambling), and conducted activities to promote integrity concept across the Bank. The Company also took measures to rectify exceptional behaviours of employees and timely inspected and punished any unlawful misconduct. The "Collection of Unlawful Cases" was compiled for continuing education on abiding by laws and disciplines.

(2) With regard to information technology, the Company completed the online running of the new system, thus systematically improving operation procedures and controlling measures for the accounting, savings and fee-based businesses, and assuring project development and system security. The Company's online banking system has passed the remote penetration tests of the Third Unit under the General Staff Department of the People's Liberation Army, as such, marking that the security of the Company's online banking system has been recognized by the State authorities and experts.

(3) The Company strengthened the inspection and examination on important control segments such as cash management, account checking, stamp and chop management, day-end account balancing and ATM management. Subsequent audits on IT risks, special inspection on safety measures during the Olympic Games period as well as regular audits on treasury activities were made.

(4) The Company proactively participated in the forum on "Provision for Operating Risk Capital" held by CBRC, and expressed its opinions and suggestions in response to the "Guidance on Provision for Operating Risk Capital for Commercial Banks" (Second Consultation Draft) promulgated by CBRC.

(5) As per the requirements of the "Guidance on Provision for Operating Risk Capital for Commercial Banks" (Second Consultation Draft) promulgated by CBRC, the Company wrapped up the first round of classifying product lines with operation risk , and, on such basis, estimated the impact of making provisions for operating risk regulatory capital on the capital adequacy ratio of the Company.

(6) The Company initiated the development of a set of tools for operational risk examining control which will cover such aspects as the identification, valuation, controling, reporting and mitigation of operating risks. The tools are broadly used by many international banks. In accordance with our three-year plan, full scale development of the tools for operating risk control on the credit business will commence in the second half of the year.

3.9.6 Administration of compliance risks

Compliance risk refers to the risks of being subject to legal sanctions, regulatory punishments, major financial losses, and reputation diminishing as a result of commercial banks' failure to observe the laws, rules and guidelines.

With the core objective to strengthen the overall compliance management, the Company presses on with all tasks regarding compliance, anti-money laundering, internal measures and law issues to reduce and control compliance risks, and ensures the whole bank is operating in compliance with laws and rules. Major measures taken in the first half of 2008 included:

(1) The Board of Directors has reviewed and approved the "Compliance Policy", which states the principles, targets and essentials of the Company's compliance management, highlighting that the compliance practices of the Company should adhere to the guiding concept of "Seeking the balanced development in terms of profitability, quality and scale". As a result, compliance is established as a core component of the Company's corporate culture and the foundation for the healthy operation and sustainable growth of the Company.

(2) The Solutions for Overall Compliance Management were formulated, which set forth the targets and specific measures for implementing overall compliance management and are deemed to be an important guiding document for compliance management in recent years.

(3) The Working Rules of the Compliance Management Committee were formulated, pursuant to which a Compliance Management Committee is to be established under the supervision of the senior management as the highest authority on compliance risk management of the Company. A perpendicular management mechanism featuring double leadership, two-way assessment and two-line reporting by both the compliance officers and the compliance departments of the branches has been established. The chief compliance officer and the compliance officers may veto by one vote in respect of compliance issues.

(4) Three defense lines of compliance risks management were constructed among the operating units, compliance and risk management departments and the internal audit departments. The operating units and the business lines constitute the first defense line for implementing self-compliance control and compliance risk prevention; the compliance departments and the risks management departments constitute the second defense line for implementing professional compliance management prior to and in the process of the occurrence of misconducts; and the internal audit departments constitute the third defense line for afterward control.

(5) In response to the problems stated by the CBRC in its "Regulatory Circular 2007" that in respect of the Company's systems and compliance management, certain business systems were incomplete, outdated or not practical in implementation, the Company is working on rectification measures and has set a time schedule to rectify the deviations existing in the operating activities.

(6) On the foundation of a sound anti-money laundering system, and aiming at the problems found in the execution of relevant policies, the Company has been pressing on with the anti-money laundering tasks through anti-money laundering inspections and issuing risk reminders. The Company took initiative to develop name list database and filtering system, and enhanced various measures on customer identification, classification of customer risks, doubtful transaction surveillance and anti-money laundering data reporting.

3.10 Change of the external environment and counter measures adopted

3.10.1 Problems and difficulties in our operations and the solutions thereof

In the first half of 2008, under the backdrop of the macroeconomic control policies, the Company faced the following problems and difficulties in its operations: the squeezed scale of credit, a slump on the stock market, continuous appreciation pressure of RMB, increased uncertainties of the development of domestic macro-economy, and fiercer competitions among domestic and overseas banks in terms of businesses, products, services, techniques, corporate governance and brand building.

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

(1) Faced with the pressure from the macroeconomic control policies of the State, the Company earnestly adhered to the guiding principles of "management reform, procedure re-engineering, risk prevention and scientific development", so as to overcome negative impact and facilitate the adjustment of operation strategies and management reform, thereby maintaining the development in a good trend.

(2) The Company implemented a series of reforms involving compliance management, risk management, budget management, service management, procedure management and strategy management, thereby improving its management quality. By implementing the macroeconomic control policies through various measures, the Company proactively adjusted loan structure and improved asset and liability management. It strengthened liquidity management to improve return on funds, and put more efforts on product innovation and marketing to explore business markets. The Company improved its business system for small and medium sized enterprises, while proactively undertaking industry focuses and group clients marketing. In response to the significant changes of market situation, the Company focused on fee based business to diversify the channels of income source and adjust income structure.

(3) The Company earnestly strengthened its risk management by shifting from risk control in the past to risk management and operation. The Company deepened specific inspection on core businesses and risks in an effort to improve the enforcement of credit policies and stringently prevent special-mention loans from deteriorating into non-performing loans. The Company implemented centralized creditworthiness verification and centralized loan-extension to improve systems in relation to risk prevention, fixed asset and project loans management. The Company facilitated the development of group client and information system for risk prevention, and enhanced the management of credit information and archives, proactively pushing forward risk quantification management. The Company strengthened the research on the ten-tier classification of credit assets, with a view to perfect provision management system and enhance the management of the entire procedure of credit-based connected transactions. The Company further regulated loan approval standards by reinforcing individual authorization, expanding authorization portfolio and improving approval procedures.

(4) The Company put forth more efforts on product innovation and marketing to expand its market. The Company not only continued to enhance product innovation in respect of cash management, personal wealth management, credit cards and online banking, but also carried out featured client-oriented marketing, thereby promoting the rapid development of its corporate banking, retail banking, institutional banking and credit cards business.

3.10.2 Change and impact of business environment, macroeconomic control policies and regulations

(1) In relation to the tightening monetary policies

In the first half of 2008, the PBOC further strengthened its macroeconomic control measures, primarily including such tightening monetary policies by raising the statutory deposit reserve ratio time by time, controlling of loan scale, and strengthening open market operation and tightening of window guidance. Faced with the intensifying macroeconomic control policies, the Company reasonably controlled the extension of credit facilities to maintain a stable growth of loans, while adhering to sound liquidity management policy and efficient operating strategies. It focused on the optimization of its credit structure to minimize risks, and strengthened the development and expansion of consumer credit product lines and businesses. Meanwhile, the Company focused on the development of fee based business and continued to re-adjust income structure. The Company accelerated the re-adjustment of its asset structure and income structure against the background of tightened monetary policies.

(2) Raises of the statutory deposit reserve ratio

Since 2008, the PBOC has consecutively raised the statutory deposit reserve ratio for several times, where the same was increased from 14.5% at the beginning of the year to 17.5%. Such policy will not have a significant impact on the liquidity of the Company in short term, but will pose an accumulated impact in medium to long term. Adhering to the operating principle of harmonious development in terms of "quality, profitability and scale", the Company enjoys a steady growth in businesses, an overall balanced structure of assets and liabilities, sufficient sources of borrowings, smooth financing channels, stable asset allocation with a reasonable structure, and a comparably high proportion of liquitable assets. The impact of higher statutory deposit reserve ratio was minimized by means of optimized income structure, improved service quality, strengthened business management.

(3) *Appreciation of Renminbi*

During the first half of 2008, the exchange rate of Renminbi continued to appreciate against the US dollar, with an accumulated increase of 6.37%. On the one hand, the increasing flexibility of the RMB further realized the basic function of supply and demand of the market, while exposing the Company to higher exchange rate risks. The Company strengthened the exchange rate risk exposure management and lowered the pledge ratio of foreign currency-denominated asset-backed loans. It also conducted timely exchange settlement and reinforced the measurement and analysis of exchange rate risks. All of these mitigated the impact on the Company of the exchange rate fluctuations. On the other hand, the appreciation of Renminbi will aggravate the issues of funding sources and strong demand for foreign currency, which may result in certain foreign currency liquidity risks in the medium and long term. The Company endeavored to perfect the mechanism in respect of the monitoring and adjustment of capital adequacy position, and took into account the impact brought by the fluctuations of exchange rates in its fund raising and application of fund. The Company will maintain an appropriate capital adequacy ratio and facilitate the optimization of capital duration structure, currency structure and business structure.

(4) *Impact of sub-prime crisis on bond investments denominated in foreign currencies of the Company*

Currently, bond investments denominated in foreign currencies of the Company are mainly classified into bonds issued by the government, bonds issued by government agencies, bonds issued by finance enterprises, and bonds issued by industrial and commercial enterprises, etc. As the Company took profit by disposing of its all sub-prime related products in August 2006, the sub-prime crisis did not bring direct losses to the Company. Currently, the rating of all bonds in our foreign currency portfolio is over investment grade, as such our overall credit risk is minimal. The Company conducts its investment businesses in strict compliance with the requirements of credit authorization system and risk ceilings prevailing in the industry, while focusing on profitability and maintaining good liquidity of portfolios.

As at 30 June 2008, the Company held bonds issued by two home loan mortgage companies, namely Fannie Mae and Freddie Mac, with an aggregate carrying value of USD180 million (USD110 million and USD70 million were issued by Fannie Mae and Freddie Mac respectively, and all those bonds were senior debt) and recorded unrealized gains of USD1,560,000. In addition, the Company also held mortgage backed securities of USD75 million, which are guaranteed by these two companies. The total carrying value of such bonds involving Fannie Mae and Freddie Mac amounted to USD255 million, with unrealized gains of USD830,000 at market value. As the above two categories of bonds represent a relatively small portion of our portfolio, the impact on the Company of the recent incident involving Fannie Mae and Freddie Mac is minimal.

Since the beginning of the year, despite the lower liquidity of the international bond market, the Company gained certain price spreads income by capitalizing on the fluctuations in market yield and making adjustments to its portfolio through stages operation. Looking into the second half of the year, the Company will continue such operation strategy and make dynamic adjustments to its investment portfolio, in an effort to further reduce interest rate risk.

(5) *Impact of natural disasters on the Company's loans and corresponding measures*

An earthquake measuring 8 in the Richter scale hit the Wenchuan region of Sichuan Province on 12 May 2008, resulting in huge casualties and property damage in Wenchuan and its surrounding areas. As the Company has branches only in Chengdu and Chongqing, the earthquake had a relatively limited impact on the business operation of the Company. Upholding the principle of "serving and paying back to the society", the Company effectively carried out disaster relief operations. At the same time, the Company proactively participated in post-quake reconstruction and prioritized its support for existing customers affected to resume production. As for internal management, the Company conscientiously collected data concerning loans affected by the quake, and arranged the provision and writing off of loans on a timely basis, so as to truthfully reflect and cover risks.

3.11 Outlook and measures

During the second half of 2008, the Company is both blessed with development opportunities brought about by the generally positive momentum of macroeconomic development and further improved financial ecosystem, and confronted with grim challenges posed by the slower growth of both global and domestic economy, increased uncertainties of the macroeconomic control policies and the continuous fluctuation in the capital market. The Company will continue to pursue the development strategy of "management reform, procedure re-engineering, risk prevention and scientific development", and firmly adhere to the operating principle of "customer-centric and market-oriented", thereby accelerating the adjustment of operation strategies and management reform.

From the perspective of operating environment, with the relatively rapid development of the economy, alleviated inflationary pressure, escalating income of the residents, and considerably lower effective income tax, favorable conditions have been created for the steady growth of the business scale and profitability of the Company. The rapid development of the multi-tier financial market, together with the loosening of restrictions on the integrated operational environment, will help the Company in exploring new business models and facilitating the adjustment of its business and income structures.

The development of the Company's operation is also subject to challenges brought about by the changes of market environment: real estate market hovering at a high level, deep correction of the stock market, decreasing profitability of some enterprises in the high-energy-consumption and high-emission industries and the traditional export-oriented industries, and continued macroeconomic control measures. All of these constitute severe challenges to our capability of managing credit risks. The sluggish capital market has a significant impact on the development of the retail business and fee based businesses of the Company. The contradictions between the term of deposits and loans and between currency structures have deteriorated, demanding a higher level of liquidity management of both domestic and foreign currencies. With the heightened possibility of economic downturns, the Company has seen the squeezed scale of interest-bearing assets, the increased cost of debt and the slowing down of the growth of non-interest income.

Against the complicated operating environment, the Company will proactively capture development opportunities, prevent operating risks and execute management reform, so as to overcome all kind of unfavorable factors. Without prejudice to internal control and compliance, development and innovation, risk management and market exploration, the Company will insist on proceeding with the refinement of operating strategies in order to maintain a stable development of the Company. The Company intends to implement the following measures in the second half of the year: (1) Continue to follow the macroeconomic control policies of the State and strengthen assets and liabilities management and financial management; (2) Reinforce the promotion of retail business, and build up additional competitive edges for retail banking; (3) Further underscore the development of wholesale business and gradually promote integrated operation; (4) Incessantly sharpen our sensitivity and proactive thinking so as to solidify risk management; (5) Enhance the internal control and compliance management in all aspects so as to guard against incidents of fraud and misconduct; (6) Optimize human resources training, staff appraisal and incentive system with a view to improving human resources management; (7) Drive forward organizational and management reforms and step up the construction of a system of process-based banking; and (8) Complete network construction and remodification in order to maintain a quality service brand.

4.1 The change in shares of the Company during the reported period

(unit: share)

	31 December 2007		Changes in the reported period		30 June 2008	
	Quantity	Percentage (%)	Shares subject to trading moratorium converted into shares not subject to trading moratorium	Conversion from Convertible Bonds	**Quantity**	**Percentage (%)**
I. Shares which are subject to trading moratorium	7,331,629,579	49.86	-2,532,396,325	–	**4,799,233,254**	**32.63**
1. State-owned shares	201,557,020	1.37	-201,557,020	–	**–**	**–**
2. Shares held by state-owned legal persons	6,639,650,699	45.15	-1,840,417,445	–	**4,799,233,254**	**32.63**
3. Other domestic shareholdings	484,741,256	3.30	-484,741,256	–	**–**	**–**
Of which: shares held by domestic legal persons	484,741,256	3.30	-484,741,256	–	**–**	**–**
Shares held by domestic natural persons	–	–	–	–	**–**	**–**
4. Overseas shareholdings	5,680,604	0.04	-5,680,604	–	**–**	**–**
Of which: shares held by overseas legal persons	5,680,604	0.04	-5,680,604	–	**–**	**–**
Shares held by overseas natural persons	–	–	–	–	**–**	**–**
II. Shares which are not subject to trading moratorium	7,373,435,255	50.14	2,532,396,325	2,109,221	**9,907,940,801**	**67.37**
1. Common shares in RMB (A Shares)	4,711,435,255	32.04	2,532,396,325	2,109,221	**7,245,940,801**	**49.27**
2. Foreign shares listed domestically	–	–	–	–	**–**	**–**
3. Foreign shares listed overseas (H Shares)	2,662,000,000	18.10	–	–	**2,662,000,000**	**18.10**
4. Others	–	–	–	–	**–**	**–**
III. Total shares	14,705,064,834	100.00	–	2,109,221	**14,707,174,055**	**100.00**

As at the end of the reported period, the Company had a total of 439,478 shareholders, including 45,887 holders of H Shares and 393,591 holders of A Shares (including 13 holders of A Shares whose shares were subject to trading moratorium and 393,578 holders of A Shares whose shares were not subject to trading moratorium). In addition, the Company had 600 holders of convertible bonds, all of which were holders of tradable convertible bonds. Based on the public information available to the Company and its directors, as at 30 June 2008, the Company had met the public floating requirement of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong ("Listing Rules").

IV Share Capital Structure and Shareholder Base

4.2 Top ten shareholders

(unit: share)

Serial No.	Name of Shareholder	Type of Shareholder	Shares held at the end of the period	Percentage of total share capital %	Type of shares	Changes in the reported period	Number of Shares subject to trading moratorium	Shares pledged or frozen
1	HKSCC Nominees Limited (1)	–	2,630,027,641	17.88%	H shares	371,652	0	–
2	China Merchants Steam Navigation Company Limited	State-owned legal persons	1,781,677,633	12.11%	A Shares subject to trading moratorium	307,542(2)	1,781,677,633	0
3	China Ocean Shipping (Group) Company	State-owned legal persons	947,548,668	6.44%	A Shares subject to trading moratorium	0	947,548,668	0
4	Guangzhou Maritime Transport (Group) Company Limited	State-owned legal persons	565,359,590	3.84%	A Shares subject to trading moratorium	0	565,359,590	0
5	Shenzhen Yan Qing Investment and Development Company Limited	State-owned legal persons	433,484,335	2.95%	A Shares subject to trading moratorium	0	433,484,335	0
6	Shenzhen Chu Yuan Investment and Development Company Limited	State-owned legal persons	378,715,868	2.58%	A Shares subject to trading moratorium	0	378,715,868	0
7	China Communications Construction Company Limited	State-owned legal persons	261,024,805	1.77%	A Shares subject to trading moratorium	0	261,024,805	0
8	Shanghai Automotive Industry Corporation	State-owned legal persons	250,564,996	1.70%	A Shares not subject to trading moratorium	0	0	0
9	CNOOC Investment Co., Ltd.	State-owned legal persons	205,305,070	1.40%	A Shares not subject to trading moratorium	0	0	0
10	Qinhuangdao Port Group Company Limited	State-owned legal persons	175,950,157	1.20%	A Shares not subject to trading moratorium	0	0	0
10	China Shipping (Group) Company	State-owned legal persons	175,950,157	1.20%	A Shares subject to trading moratorium	0	175,950,157	0
10	Shandong State-owned Assets Investment Holdings Company Limited	State-owned legal persons	175,950,157	1.20%	A Shares not subject to trading moratorium	0	0	0
10	Guangdong Provincial Highways Administration Bureau	State-owned legal persons	175,950,157	1.20%	A Shares not subject to trading moratorium	0	0	0

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

(2) The increase in shareholding of China Merchants Steam Navigation Company Limited during the reported period was due to the fact that China Stacom Guomai Communications Co. Ltd., an original shareholder of the Company whose shares were subject to trading moratorium transferred the shares to China Merchants Steam Navigation Company Limited. The transferred shares represented the shares, a state-owned shareholder ought to be reduced and which were previously advanced by China Merchants Steam Navigation Company Limited (on behalf of China Stacom Guomai Communications Co. Ltd.) prior to the listing of the Company.

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

4.3 Top ten shareholders whose A shares are subject to trading moratorium

Name of Shareholder whose shares are subject to trading moratorium	Number of shares held which are subject to trading moratorium as at 30 June 2008 (share)	Percentage of total share capital %	Trading day	Number of new tradable shares	Undertakings
China Merchants Steam Navigation Company Limited	1,781,677,633	12.11			
Shenzhen Yan Qing Investment and Development Company Limited	433,484,335	2.95	–	–	When the share price of the Company reaches RMB8.48 or above (to be weighted depending on circumstances) in the 12 months after expiry of the 36-month period starting from acquisition of right of circulation/after expiry of 48 months after acquisition of right of circulation
Shenzhen Chu Yuan Investment and Development Company Limited	378,715,868	2.58			
China Ocean Shipping (Group) Company	947,548,668	6.44			
Guangzhou Maritime Transport (Group) Company Limited	565,359,590	3.84			
China Communications Construction Company Limited	261,024,805	1.77			
China Shipping (Group) Company	175,950,157	1.20	27 February 2009	–	After expiry of 36 months after acquisition of right of circulation
CCCC Guangzhou Dredging Co., Ltd.	154,771,402	1.05			
Shanghai Shipping (Group) Company	51,024,331	0.35			
CCCC Fourth Harbour Engineering Co., Ltd.	21,067,429	0.14			

4.4 Top ten shareholders whose shares are not subject to trading moratorium

Name of Shareholder	Class of shares	Number of shares held as at 30 June 2008 (share)	Percentage of total share capital %
HKSCC Nominees Limited	H Shares	2,630,027,641	17.88%
Shanghai Automotive Industry Corporation	A Shares not subject to trading moratorium	250,564,996	1.70%
CNOOC Investment Co., Ltd.	A Shares not subject to trading moratorium	205,305,070	1.40%
Qinhuangdao Port Group Company Limited	A Shares not subject to trading moratorium	175,950,157	1.20%
Shandong State-owned Assets Investment Holdings Company Limited	A Shares not subject to trading moratorium	175,950,157	1.20%
Guangdong Provincial Highways Administration Bureau	A Shares not subject to trading moratorium	175,950,157	1.20%
Huaneng Capital Services Corporation Ltd.	A Shares not subject to trading moratorium	151,001,403	1.03%
China International Marine Containers (Group) Ltd.	A Shares not subject to trading moratorium	137,109,861	0.93%
China Merchants Industry Development (Shenzhen) Co., Ltd.	A Shares not subject to trading moratorium	122,568,078	0.83%
Shangzheng 50 Tradable Open Index Stock Investment Fund	A Shares not subject to trading moratorium	72,269,990	0.49%

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

(2) Of the aforesaid top 10 shareholders whose shares are not subject to trading moratorium, the Company is not aware of any co-relationship of them.

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

As at 30 June 2008, the following persons (other than the directors, supervisors and chief executives of the Company (defines as to the Hong Kong Listing Rules)) had interests and short positions in the shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) ("SFO"):

Name of Substantial Shareholder	Class of shares	Long/short position	Capacity	No. of shares	Notes	Percentage of the relevant share held in issue (%)	Percentage of all issued share (%)
China Merchants Group Ltd.	A	Long	Interest of controlled corporations	2,599,932,810	1	21.58	17.68
China Merchants Steam Navigation Co. Ltd.	A	Long	Beneficial owner	1,785,120,730*	1	14.82	12.14
China Merchants Finance Investment Holdings Co. Ltd.	A	Long	Interest of controlled corporations	814,812,080	1	6.76	5.54
Shenzhen Yan Qing Investment Development Co. Ltd.	A	Long	Beneficial owner	434,878,336*	1		
		Long	Interest of controlled corporations	379,933,744*	1		
				814,812,080		6.76	5.54
China Ocean Shipping (Group) Company	A	Long	Beneficial owner	950,595,801*		7.89	6.46
China Shipping (Group) Company	A	Long	Beneficial owner	176,515,978*			
		Long	Interest of controlled corporations	618,366,092*			
				794,882,070	2	6.60	5.41
JPMorgan Chase & Co.	H	Long	Beneficial owner	63,121,241			
		Long	Investment manager	271,468,000			
		Long	Custodian corporation/ approved lending agent	92,073,860			
				426,663,101	3	16.03	2.90
		Short	Beneficial owner	33,272,820	3	1.25	0.23
UBS AG	H	Long	Beneficial owner	166,564,969			
		Long	Interest of controlled corporations	40,194,037	4		
				206,759,006		7.76	1.41
		Short	Beneficial owner	65,479,728			
		Short	Person having a security interest in shares	2,753,818			
		Short	Interest of controlled corporations	1,340,000	4		
				69,573,546		2.61	0.47
Mirae Asset Global Investments (Hong Kong) Limited	H	Long	Investment manager	160,244,000		6.02	1.09

* The above numbers of shares were recorded in the disclosure forms completed by the relevant substantial shareholders before 30 June 2008. During the period from the date on which the respective substantial shareholders submitted the said forms up to 30 June 2008, there were some updates to the aforesaid numbers of shares, but the levels of the changes did not result in a disclosure obligation in accordance with the SFO.

Notes:

(1) China Merchants Group Limited held interest in a total of 2,599,932,810 A shares in the Company by virtue of its control over the following corporations, which held direct interests in the Company:

(1.1) China Merchants Steam Navigation Co. Ltd. held 1,785,120,730 A shares in the Company. China Merchants Steam Navigation Co. Ltd. was a wholly-owned subsidiary of China Merchants Group Limited.

(1.2) Shenzhen Yan Qing Investment Development Co. Ltd. held 434,878,336 A shares in the Company. Shenzhen Yan Qing Investment Development Co. Ltd. was owned as to 51% and 49% by China Merchants Finance Investment Holdings Co. Ltd. and China Merchants Group Limited respectively. China Merchants Finance Investment Holdings Co. Ltd. was owned as to 90% and 10% by China Merchants Group Limited and China Merchants Steam Navigation Co. Ltd., referred to in (1.1) above, respectively.

(1.3) Shenzhen Chu Yuan Investment Development Co. Ltd. held 379,933,744 A shares in the Company. Shenzhen Chu Yuan Investment Development Co. Ltd. was owned as to 50% by each of Shenzhen Yan Qing Investment Development Co. Ltd., referred to in (1.2) above, and China Merchants Finance Investment Holdings Co. Ltd., referred to in (1.2) above, respectively.

(2) China Shipping (Group) Company held interest in a total of 794,882,070 A shares in the Company by virtue of its direct interest in 176,515,978 A shares in the Company and indirect interest in 618,366,092 A shares in the Company by virtue of its wholly-owned subsidiaries, which held direct interests in the Company as follows:

(2.1) Guangzhou Maritime Transport (Group) Company Limited held 567,177,677 A shares in the Company; and

(2.2) Shanghai Shipping (Group) Company held 51,188,415 A shares in the Company.

(3) JPMorgan Chase & Co. held interest in a total of 426,663,101 H shares (Long position) and 33,272,820 H shares (Short position) in the Company by virtue of its control over the following corporations, which held direct interests in the Company:

(3.1) JPMorgan Chase Bank, N.A. held 97,374,860 H shares (Long position) in the Company. JPMorgan Chase Bank, N.A. was a wholly-owned subsidiary of JPMorgan Chase & Co.

(3.2) J.P. Morgan Whitefriars Inc. held 49,068,749 H shares (Long position) and 11,686,913 H shares (Short position) in the Company. J.P. Morgan Whitefriars Inc. was a wholly-owned subsidiary of J.P. Morgan Overseas Capital Corporation, which in turn was a wholly-owned subsidiary of J.P.Morgan International Finance Limited. J.P. Morgan International Finance Limited was wholly-owned by Bank One International Holdings Corporation, which in turn was a wholly-owned subsidiary of J.P. Morgan International Inc. JPMorgan Chase Bank, N.A., referred to in (3.1) above, owned 100% interest in J.P. Morgan International Inc.

(3.3) J.P. Morgan Securities Ltd. held 1,251,500 H shares (Long position) and 967,500 H shares (Short position) in the Company. J.P. Morgan Securities Ltd. was owned as to 98.95% by J.P. Morgan Chase International Holdings Limited, which in turn was wholly-owned by J.P. Morgan Chase (UK) Holdings Limited. J.P. Morgan Chase (UK) Holdings Limited was wholly-owned by J.P. Morgan Capital Holdings Limited, which in turn was wholly-owned by J.P. Morgan International Finance Limited, referred to in (3.2) above.

(3.4) J.P. Morgan Structured Products B.V. held 7,967,000 H shares (Short position) in the Company. J.P. Morgan Structured Products B.V. was a wholly-owned subsidiary of J.P. Morgan International Finance Limited, referred to in (3.2) above.

(3.5) JF Asset Management (Taiwan) Limited held 5,453,000 H shares (Long position) in the Company. JF Asset Management (Taiwan) Limited was wholly-owned by JF Funds Limited. JF Funds Limited was a wholly-owned subsidiary of JF Asset Management Limited, which in turn was a wholly-owned subsidiary of JPMorgan Asset Management (Asia) Inc., which was a wholly-owned subsidiary of JPMorgan Asset Management Holdings Inc. JPMorgan Asset Management Holdings Inc. was wholly-owned by JPMorgan Chase & Co.

(3.6) JF Asset Management Limited and JF Asset Management (Singapore) Limited held 115,113,500 H shares (Long position) and 38,600,000 H shares (Long position) in the Company respectively. Both of them were wholly-owned subsidiaries of JPMorgan Asset Management (Asia) Inc., referred to in (3.5) above.

(3.7) J.P. Morgan Investment Management Inc. held 28,971,500 H shares (Long position) in the Company. J.P. Morgan Investment Management Inc. was a wholly-owned subsidiary of JPMorgan Asset Management Holdings Inc., referred to in (3.5) above.

(3.8) China International Fund Management Ltd held 19,454,000 H shares (Long position) in the Company. China International Fund Management Ltd was owned as at 49% by JPMorgan Asset Management (UK) Limited (a wholly-owned subsidiary of JPMorgan Asset Management Holdings (UK) Limited), which held 58,575,000 H shares (Long position) directly in the Company. JPMorgan Asset Management Holdings (UK) Limited was wholly-owned by JPMorgan Asset Management International Limited, which was a wholly-owned subsidiary of JPMorgan Asset Management Holdings Inc., referred to in (3.5) above.

(3.9) Bear Stearns International Limited held 12,800,992 H shares (Long position) and 12,651,407 H shares (Short position) in the Company. Bear Stearns International Limited was wholly-owned subsidiary of Bear Stearns Holdings Limited, which in turn was a wholly-owned subsidiary of Bear Stearns UK Holdings Limited. Bear Stearns UK Holdings Limited was wholly-owned by The Bear Stearns Companies Inc., which in turn was wholly-owned by JPMorgan Chase & Co.

The entire interest of JPMorgan Chase & Co. in the Company included a lending pool of 92,073,860 H shares (Long position). Besides, 17,460,000 H shares (Long position) and 19,653,913 H shares (Short position) were held through derivatives as follows:

7,967,000 H shares (Short position)	–	through cash settled derivatives (on exchange)
17,460,000 H shares (Long position) and 11,686,913 H shares (Short position)	–	through physically settled derivatives (off exchange)

(4) UBS AG held interest in a total of 40,194,037 H shares (Long position) and 1,340,000H shares (Short position) in the Company by virtue of its 100% control over the following corporations, which held direct interests in the Company:

	No. of shares	
Name of controlled Corporation	**Long position**	**Short position**
UBS Fund Management (Switzerland) AG	2,466,700	–
UBS Global Asset Management (Canada) Inc.	735,000	–
UBS Global Asset Management (Americas) Inc.	2,942,000	–
UBS Global Asset Management (Hong Kong) Ltd	8,740,400	–
UBS Global Asset Management (Singapore) Ltd	12,790,600	–
UBS Global Asset Management (UK) Limited	9,305,939	–
UBS Global Asset Management (Japan) Ltd	3,104,500	–
UBS Global Asset Management (Australia) Inc.	108,898	–
UBS O'Connor LLC	–	1,340,000

Among the entire interest of UBS AG in the Company, 29,991,000 H shares (Long position) and 54,180,320 H shares (Short position) were held through derivatives as follows:

1,840,000 H shares (Long position) and 4,011,000 H shares (Short position)	–	through physically settled derivatives (on exchange)
19,738,000 H shares (Short position)	–	through cash settled derivatives (on exchange)
15,100,000 H shares (Long position) and 9,219,320 H shares (Short position)	–	through physically settled derivatives (off exchange)
13,051,000 H shares (Long position) and 21,212,000 H shares (Short position)	–	through cash settled derivatives (off exchange)

Save as disclosed above, the Company is not aware of any other person (other than the directors, supervisors and chief executives (defines as to the Hong Kong Listing Rules) of the Company) having any interests or short positions in the shares and underlying shares of the Company as at 30 June 2008 as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

4.6 Undertakings associated with the share reform

The Company implemented the share reform (a "Conversion Scheme") on 27 February 2006. The Conversion Scheme stated the undertakings of the shareholders whose shares were subject to trading moratorium were as follows: shareholders without put obligation undertook not to trade or transfer their shares within 24 months from 27 February 2006; shareholders with put obligation undertook not to trade or transfer their shares within 36 months from 27 February 2006. In particular, China Merchants Steam Navigation Co., Ltd., Shenzhen Yan Qing Investment and Development Co., Ltd. and Shenzhen Chu Yuan Investment and Development Co., Ltd. undertook not to trade or transfer their shares before the share price of the Company first reaches RMB8.48 or above (rights and dividends to be excluded depending on circumstances) in the 12 months after expiry of the aforesaid 36-month lock-up period. As at 30 June 2008, the aforesaid shareholders had performed their undertakings as mentioned above.

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

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

4.7 Trading date of shares which are subject to trading moratorium

Time frame	Number of new tradable shares after expiry of lock-up period (shares)	Number of balance of shares which are subject to trading moratorium (shares)	Number of balance of shares which are not subject to trading moratorium(1)	Remarks
Within 24 months after acquisition of right of circulation	0	7,331,629,579	–	–
After expiry of 24 months after acquisition of right of circulation	2,532,396,325	4,799,233,254	–	Original non-circulated shares held by original non-circulated shareholders without put obligation, and the lock-up period has expired as at 27 February 2008 and the shares are tradable.(2)
After expiry of 36 months after acquisition of right of circulation	2,205,355,418	2,593,877,836	–	Original non-circulated shares held by original non-circulated shareholders with put obligation other than China Merchants Steam Navigation Company Limited, Shenzhen Yan Qing Investment and Development Company Limited and Shenzhen Chu Yuan Investment and Development Company Limited.
When the share price of the Company first reaches or above RMB8.48 (to be weighted depending on circumstances) in the 12 months after expiry of the 36-month period starting from acquisition of right of circulation/ after expiry of 48 months after acquisition of right of circulation	2,593,877,836	0	–	Original non-circulated shares held by China Merchants Steam Navigation Company, Shenzhen Yan Qing Investment and Development Company Limited and Shenzhen Chu Yuan Investment and Development Company Limited.
Total	7,331,629,579			

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

(2) On 27 February 2008, the lock-up period of 2,532,396,325 of shares which were subject to trading moratorium expired and the shares became tradable. For details of the circulation of the shares which were subject to trading moratorium, please refer to the announcement published on the website of Shanghai Stock Exchange (www.sse.com.cn), the website of Hong Kong Stock Exchange (www.hkex.com.hk) and the Company's website (www.cmbchina.com) on 22 February 2008.

4.8 Convertible bonds

Issuance of convertible bonds

Upon approval of China Securities Regulatory Commission through its Zheng Jian Fa Xing Zi【2004】No. 155 document, the Company issued 65 million convertible bonds on 10 November 2004 with carrying value of RMB100 each, amounted to RMB6.5 billion of total amount of convertible bonds in issue. Upon approval of Shanghai Stock Exchange through its Shang Zheng Shang Zi【2004】No.165 document, the 65 million convertible bonds of the Company were listed and traded on 29 November 2004 under the name of "CMB Convertible Bonds" (bond code: 110036) on Shanghai Stock Exchange. The validity period for the listed convertible bonds of the Company was from 29 November 2004 to 10 November 2009. The prospectus and listing announcement of convertible bonds were published on *China Securities Journal, Securities Times* and *Shanghai Securities News* on 29 October 2004 and 23 November 2004 respectively.

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

Top ten holders of convertible bonds

Serial No.	Name of convertible bond holder	Type of securities	Amount of convertible bonds held as at end of the reported period (in RMB)	Percentage of total convertible bond in issue%
1	Zhao Yanqing	Convertible bond	69,000	0.0011%
2	Wan Xianghong	Convertible bond	65,000	0.0010%
3	Zhang Jianfeng	Convertible bond	49,000	0.0008%
4	Lu Junwen	Convertible bond	40,000	0.0006%
5	Cui Qiang	Convertible bond	37,000	0.0006%
6	Zhang Liang	Convertible bond	35,000	0.0005%
7	He Guangping	Convertible bond	32,000	0.0005%
8	Huang Xiaodu	Convertible bond	30,000	0.0005%
9	Liang Tingjian	Convertible bond	25,000	0.0004%
10	Ding Jin	Convertible bond	19,000	0.0003%

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

Price adjustment of convertible bonds

On 20 June 2005, pursuant to the terms of issuance set out in the prospectus of "CMB convertible bonds" and the relevant rules and regulations on the issuance of convertible bonds by CSRC, the Company implemented the Plan of Distributing Dividends and Bonus Shares for 2004 in which RMB1.1 (tax included) in cash was distributed for every 10 shares held. The capital reserve was converted into share capital in the proportion of five shares for every 10 shares held. Accordingly, the conversion price of "CMB Convertible Bonds" was adjusted from RMB9.34 per share to RMB6.23 per share (please refer to the "Indicative Announcement on Adjustment of Conversion Price of Convertible Corporate Bonds of China Merchants Bank Co., Ltd." published on *China Securities Journal, Shanghai Securities News* and *Securities Times* on 14 June 2005 for further details).

The Company implemented the Conversion Scheme on 27 February 2006, under which capital reserve was converted into share capital in the proportion of 0.8589 bonus shares for every 10 shares held, and the conversion price of "CMB Convertible Bonds" was adjusted downward from RMB6.23 per share to RMB5.74 per share accordingly (please refer to the "Indicative Announcement on Adjustment of Conversion Price of Convertible Corporate Bonds of China Merchants Bank Co., Ltd." published on *China Securities Journal, Shanghai Securities News* and *Securities Times* on 22 February 2006 for further details).

Conversion of convertible bonds

The conversion period of "CMB Convertible Bonds" commenced on 10 May 2005. As at 30 June 2008, "CMB Convertible Bonds" (110036) amounted to RMB6,498,111,000 were converted into shares of "CMB" (600036). The cumulative number of convertible shares (including the enlarged convertible shares) were 1,043,671,774. At the beginning of the period, the outstanding convertible bonds were RMB13,996,000. During the reported period, the number of convertible shares were 2,109,221, involving a conversion value of RMB12,107,000. There were RMB1,889,000 of "CMB Convertible Bonds" remained outstanding, representing 0.03% of the total amount of "CMB Convertible Bonds" in issue.

5.1 Directors, supervisors and senior management

Name	Gender	Birth (Y/M)	Title	Term of office	Shareholding at the beginning of the year (Shares)	Shareholding at the end of the reported period (Shares)
Qin Xiao	Male	1947.4	Chairman, non-executive director	2007.6 – 2010.6	0	0
Wei Jiafu	Male	1949.12	Vice chairman, non-executive director	2007.6 – 2010.6	0	0
Fu Yuning	Male	1957.3	Non-executive director	2007.6 – 2010.6	0	0
Li Yinquan	Male	1955.4	Non-executive director	2007.6 – 2010.6	0	0
Hong Xiaoyuan	Male	1963.3	Non-executive director	2007.6 – 2010.6	0	0
Ding An Hua Edward	Male	1964.4	Non-executive director	2007.6 – 2010.6	0	0
Sun Yueying	Female	1958.6	Non-executive director	2007.6 – 2010.6	0	0
Wang Daxiong	Male	1960.12	Non-executive director	2007.6 – 2010.6	0	0
Fu Junyuan	Male	1961.5	Non-executive director	2007.6 – 2010.6	0	0
Ma Weihua	Male	1948.6	Executive director, president & chief executive officer	2007.6 – 2010.6	0	0
Zhang Guanghua	Male	1957.3	Executive director & executive vice president	2007.6 – 2010.6	0	0
Li Hao	Male	1959.3	Executive director, executive vice president & chief financial officer	2007.6 – 2010.6	0	0
Wu Jiesi	Male	1951.10	Independent non-executive director	2007.6 – 2010.6	0	0
Yi Xiqun	Male	1947.8	Independent non-executive director	2008.1 – 2010.6	0	0
Yan Lan	Female	1957.1	Independent non-executive director	2007.6 – 2010.6	0	0
Chow Kwong Fai, Edward	Male	1952.8	Independent non-executive director	2007.6 – 2010.6	0	0
Liu Yongzhang	Male	1956.12	Independent non-executive director	2007.6 – 2010.6	0	0
Liu Hongxia	Female	1963.9	Independent non-executive director	2007.6 – 2010.6	0	0
Shi Jiliang	Male	1945.2	Chairman of Board of Supervisors & external supervisor	2007.6 – 2010.6	0	0
Zhu Genlin	Male	1955.9	Supervisor	2007.6 – 2010.6	0	0
Chen Haoming	Male	1966.3	Supervisor	2007.6 – 2010.6	0	0
Li Jiangning	Male	1959.4	Supervisor	2007.6 – 2010.6	0	0
Dong Xiande	Male	1947.2	Supervisor	2007.6 – 2010.6	0	0
Shao Ruiqing	Male	1957.9	External supervisor	2007.6 – 2010.6	0	0
Zhou Song	Male	1972.4	Employee supervisor	2008.8 – 2010.6	31,800	33,500
Yang Zongjian	Male	1957.4	Employee supervisor	2007.6 – 2010.6	0	0
Shi Shunhua	Male	1962.12	Employee supervisor	2007.6 – 2010.6	0	0
Tang Zhihong	Male	1960.3	Executive vice president	2007.6 – 2010.6	0	0
Yin Fenglan	Female	1953.7	Executive vice president	2007.6 – 2010.6	0	0
Ding Wei	Male	1957.5	Executive vice president	2008.4 – 2010.6	0	0
Xu Lianfeng	Male	1953.2	Chief technology officer	2001.11 to present	0	0
Fan Peng	Male	1953.2	Chief audit officer	2007.6 – 2010.6	0	0
Lan Qi	Male	1956.6	Secretary of Board of Directors	2007.6 – 2010.6	0	0

Note: The shares held by Mr. Zhou Song during the period were A shares of the Company.

5.2 Appointment and resignation of directors, supervisors and senior management

The 18th meeting of the Seventh session of the Board of Directors of the Company held on 8 April 2008 approved the resolution of appointing Ding Wei as the Executive vice president of the Company. The relevant announcement was published on *China Securities Journal*, *Securities Times* and *Shanghai Securities News* on 9 April 2008. On 26 April 2008, the qualification of Mr. Ding Wei as the Executive vice president of the Company was approved by the CBRC.

Mr. Yin Xuwen, the former employee supervisor of the Company, resigned as an employee supervisor due to work changes. Mr. Zhou Song was elected as an employee supervisor of the Company at an employee representatives meeting of the Company. The relevant details were published on *China Securities Journal, Shanghai Securities News, Securities Times*, and the websites of Shanghai Stock Exchange, Hong Kong Stock Exchange and the Company on 13 August 2008.

5.3 INFORMATION ABOUT EMPLOYEES

As at 30 June 2008, the Company had 30,753 employees, including 4,927 executives, 22,611 ordinary employees and 3,215 administration staff. Of these staff, 28,687 employees had college education or above, accounting for 93.28%. Currently, the Company has 91 retirees.

5.4 BRANCHES AND REPRESENTATIVE OFFICES

The Company continued to expand its outlet network in 2008. In the first half year of 2008, 1 branch had commenced business and the Company received approval for setting up of another 2 branches. Specifically, on 28 March 2008, the Company's Nantong Branch was given an approval by the Jiangsu Regulatory Bureau of CBRC to commence business. The Company obtained the approvals issued by the CBRC on 31 January 2008 and 13 May 2008 to set up its Weifang Branch and Changchun Branch respectively. In addition, on 14 July 2008, the Company obtained the banking Business Certificate issued by the New York State Banking Department of USA to set up its New York Branch. Further progress has been made in preparing the commencement of business of the New York Branch.

The following table sets out the branches and representative offices as at 30 June 2008:

Name of branches	Business address	Postal code	No. of outlets	No. of staff	Amount of asset (in millions of RMB)
Head Office	7088 Shennan Boulevard, Shenzhen	518040	1	1,711	508,826
Shenzhen Branch	2 Shennan Road Central, Shenzhen	518001	67	2,558	91,332
Shanghai Branch	161 Lujiazui Road East, Pudong, Shanghai	200120	48	2,041	84,287
Wuhan Branch	518 Jianshe Avenue, Hankou, Wuhan	430022	24	1,094	37,551
Beijing Branch	156 Fuxingmen Nei Dajie, Beijing	100031	40	2,024	80,835
Shenyang Branch	12 Shiyiwei Road, Heping District, Shenyang	110003	17	966	21,745
Guangzhou Branch	138, Tiyu Road East, Tianhe District, Guangzhou	510620	35	1,266	29,733
Chengdu Branch	9 Shuncheng Street, Qingyang District, Chengdu	610016	21	773	16,201
Lanzhou Branch	9 Qingyang Road, Chengguan District, Lanzhou	730000	15	505	15,699
Xi'an Branch	107 Heping Road, Xi'an	710001	19	797	17,973
Nanjing Branch	1 Hanzhong Road, Nanjing	210005	17	866	41,368

Name of branches	Business address	Postal code	No. of outlets	No. of staff	Amount of asset (in millions of RMB)
Wuxi Branch	128 Renmin Road Central, Wuxi	214002	9	342	11,838
Changzhou Branch	125 Heping Road South, Changzhou	213003	3	147	3,940
Yangzhou Branch	12 Wenchang Road West, Yangzhou	225009	1	83	2,100
Suzhou Branch	128 Sanxiang Road, Suzhou	215004	10	434	17,063
Nantong Branch	Huachen Buildling, No.111 Gongnong Road, Nantong	226001	1	63	1,250
Chongqing Branch	2 Linjiangzhi Road, Yuzhong District, Chongqing	400010	22	785	24,603
Dalian Branch	17 Renmin Road, Zhongshan District, Dalian	116001	15	577	14,092
Hangzhou Branch	23 Hangda Road, Hangzhou	310007	20	921	50,052
Ningbo Branch	938 Baizhang Road East, Ningbo	315041	10	438	19,031
Wenzhou Branch	Jinglong Building, Chezhan Avenue, Wenzhou	325000	8	257	9,326
Shaoxing Branch	Jindun Building, 60 Shengli Road East, Shaoxing	312000	6	204	7,755
Jinhua Branch	45 Shuangxi Road West, Jinhua	321017	1	75	2,873
Taizhou Branch	535 Shifu Road Taizhou	318000	1	78	1,827
Nanchang Branch	162 Bayi Avenue, Nanchang	330003	13	554	20,483
Changsha Branch	24 Cai'e Road Middle, Furong District, Changsha	410005	17	606	22,552
Fuzhou Branch	60 Guping Road, Fuzhou	350003	12	462	10,544
Quanzhou Branch	Huangxing Building, 301 Fengze Street, Quanzhou	362000	5	149	6,708
Qingdao Branch	36 Hong Kong Road Middle, Shinan District, Qingdao	266071	12	619	28,483
Tianjin Branch	55 Youyi Road North, Hexi District, Tianjin	300204	18	747	19,534
Jinan Branch	21 Chaoshan Street, Lixia District, Jinan	250011	16	662	28,461
Yantai Branch	237 Nanda Street, Yantai	264000	5	159	4,206
Urumchi Branch	80 Xinhua Road North, Urumchi	830002	10	339	9,449
Kunming Branch	48 Dongfeng Road East, Kunming	650051	15	558	20,360
Hefei Branch	436 Changjiang Road Middle, Hefei	230061	12	554	12,771
Xiamen Branch	862 Xiahe Road, Xiamen	361004	8	345	8,959
Harbin Branch	3 Zhongyang Avenue, Daoli District, Harbin	150001	10	361	6,398
Zhengzhou Branch	68 Jingsan Road, Zhengzhou	450008	11	430	23,950
Dongguan Branch	Yujing New Times Plaza, Dongcheng Avenue, Dongguan	523129	10	414	8,303
Foshan Branch	1-3/F, Hongye Mansion, Jihua 5th Road, Foshan	528000	7	313	7,601
Taiyuan Branch	1 Xinjian Road South, Taiyuan	030001	2	158	3,194
Hohhot Branch	56 Xinhua Street, Hohhot	010010	1	95	2,447
Hong Kong Branch	12 Harcourt Road, Hong Kong	–	1	77	15,243
Beijing Representative Office	35 Jinrong Avenue, Xicheng District, Beijing	100005	1	6	–
USA Representative Office	509 Madison Aveune, Suite 306, New York, New York 10022, U.S.A.	–	1	2	3
Credit Card Centre	316 Lao Shan Road, Pudong New District, Shanghai	200120	1	4,138	24,842
Total			599	30,753	1,395,791

6.1 Overview of Corporate Governance

During the reported period, the Company has observed the State laws, regulations and various policies and requirements governing the corporate governance formulated by the relevant regulatory departments and complied with the code provisions in the Code on Corporate Governance Practices in Appendix 14 of the Listing Rules. No deviations from any of the code provisions have been identified.

During the reported period, by taking advantage of the opportunity of the launch of special project to strengthen corporate governance by the CSRC, the Company continuously improved and enhanced its corporate governance and ensured the Company's compliant operations and continued healthy growth. The corporate governance of the Company was improved mainly by taking the following measures:

(I) Further revising and improving relevant systems governing corporate governance

1. The new Articles of Association of the Company became effective. In May 2008, the CBRC approved the Articles of Association of the Company which was considered and passed at the Company's first extraordinary general meeting in 2007, thereby the new Articles of Association of the Company officially took effect. The new Articles of Association of the Company include amendments to the provisions regarding the registered capital, the total share capital, the shareholding structure of the Company, and amendments to the provisions regarding the qualification and terms for the independent directors and external supervisors, time of notice of the board meetings, the names and duties of certain committees under the Board of Directors and the Board of Supervisors. In addition, *Rules of Procedures for Annual General Meeting, Rules of Procedures for the Board of Directors* and *Rules of Procedures for the Board of the Supervisors* were also revised accordingly.

2. The information disclosure system was revised. In order to improve the management and quality of information disclosure and to safeguard investors' legal interests, after conducting a careful analysis on relevant regulations and rules and referring to the actual conditions and listing requirements both in mainland China and Hong Kong, the Company revised and completed the *Management System Governing Information Disclosure Issues of China Merchants Bank Co., Ltd.*, which was considered and passed at the third meeting of the seventh board meeting of the Company and was enforced throughout the Company.

3. To further regulate supervision of connected transactions. In order to control the non-lending connected transactions which are strictly regulated by Hong Kong Stock Exchange, establish a comprehensive management system governing connected transactions, further regulate the conduct of connected transactions, effectively control the risks of connected transactions and meet relevant overseas regulatory requirements, the Company further improved and regulated the management system governing connected transactions. The newly revised *Regulations of on Connected Party Transactions* was considered and passed at the 17th meeting of the seventh board meeting of the Company and was subsequently implemented across the Company.

4. In accordance with the *Notice Regarding the Improvement of the 2007 Annual Report and Relevant Work of Listed Companies* promulgated by the CSRC, the Company formulated its rules governing independent directors' work on annual reports and set out the workflow of the audit committee.

5. In accordance with the advanced documents *Compliance and the Internal Compliance Department of Banks* promulgated by Basel Committee on Banking Supervision and the *Guidelines on Compliance Risk Management of Commercial Banks* promulgated by the CBRC, the Company formulated the *Compliance Policy of China Merchants Bank Co., Ltd.*, which was considered and passed at the 13th meeting of the Seventh board meeting of the Company. The compliance policy provides for the independence of the compliance department and compliance officer(s) of the Company, the resources of the compliance department, the principles of establishing the compliance organization structure of business lines and branches, the compliance risk reporting system, compliance risk supervision mechanism, the collaborative relationship between the compliance department and other departments, the relationship between compliance risk management and external supervision. The compliance policy represents the highest guidance document for compliance risk management work of the Company.

(II) Adjust the organizational structure of the board committees to bring their professional functions into full play

The Company refined the structure and relevant duties of the special committees under the Board by changing the Executive Committee of the Board of Directors into the Strategy Committee, and separating the Audit and Connected Party Transaction Control Committee into the Audit Committee and the Connected Party Transaction Control Committee. The structure of the special committees under the board after adjustments better meets the requirements of regulatory authorities in mainland China and Hong Kong and better differentiates their respective duties.

(III) Improving on working method and reinforcing appraisal and incentive mechanism to enhance the directors' awareness and capability

1. To enhance directors' meeting attendance rate by improving working style and ways of holding meeting. Firstly, a plan of physical board meetings has been prepared at the beginning of the year so as to include such board meetings into directors' annual working schedule. Secondly, communication with directors in relation to the timing and venue of any of such board meeting shall be made as soon as practicable prior to the date of holding to facilitate each director's working schedule. Thirdly, board meetings are allowed to be held in various forms such as physical meetings, telephone meetings and meetings by way of written resolutions.

2. To further seek ways for the improvement of appraisal system on directors' performance. The Board of Supervisors of the Company has conducted appraisal on directors' performance since 2007. Attendance rates of various board meetings, performance of duties in good faith, independent opinions given by independent directors on significant issues are regarded as important appraisal indications. Beneficial researches have been conducted on the appraisal standards of directors' performance and means of supervision adopted by the Board of Supervisors. The appraisal results have been submitted to the annual general meeting of the Company.

3. To actively organize the directors to participate in training programs and to edit and reproduce various regulations effective at home and abroad for the directors to learn, so as to enhance the directors' awareness and capability of performing duties.

(IV) Making disclosure of material information on a timely, accurate, true and complete basis to continuously improve transparency of the Company

The Company has closely observed the information disclosure requirements and made disclosure of material information on a timely, accurate, true and complete basis. During the reported period, the Company published its 2007 Annual Report, 1st Quarter Report of 2008 together with more than 20 announcements at the Shanghai Stock Exchange and the Hong Kong Stock Exchange, thereby a series of significant issues, including the acquisition of Wing Lung Bank, the acquisition of CMC Life Insurance, commencement of business operation of CMB Financial Leasing Company Limited, the continuing connected transactions, expiration of the lock-up period, restructuring of board committees, were disclosed and thus all shareholders had equal access to the Company's information. In addition to making statutory disclosures, the Company managed to be more proactive as regards information disclosure. This was done after considering the actual situation of the Company, analyzing the relevant laws and regulations and by reference to the disclosure practice of other banks. The aim is to enhance transparency and availability of the Company's information.

(V) Strengthening the management of investor relations and establishing various platforms to ensure smooth communications with its investors at large

During the first half of 2008, the Company held or participated in various investor promotional conferences and interactive activities, which significantly improved the management of investor relations. On 18 March, the Company held a press conference for the release of 2007 annual operating results, and meetings with securities analysts. Following that the Board of Directors and the senior management team of the Company commenced non-trading international roadshows covering Hong Kong, Japan, the United States and Europe. On 15th April, a special conference on 2007 annual results was held for A Shareholders and securities analysts. In addition, the chairman, senior management and officers in charge of investor relations of the Company participated in 16 investor forums and seminars held by international investment banks and domestic securities companies, and received 65 times visits by investors at home and abroad. The Company's current situation was explained to various domestic and overseas institutional investors through briefings and in-depth idea exchanges. As a result, there were positive interactions between the Company and domestic and overseas institutional investors, higher transparency and integrity, alongside a build-up of good image in the capital market.

On 3 June, the Company held a telephone conference for global investors and securities analysts in relation to the acquisition of Wing Lung Bank in Hong Kong, whereby participants of capital market were aware of the strategic considerations made by the Company regarding the acquisition and questions raised by investors and analysts were answered.

During the reported period, the Company made available a revised website for investor relations in both Chinese and English versions which feature much more information, more user-friendly functions and observance of rules of both the Shanghai Stock Exchange and the Hong Kong Stock Exchange. In addition, the revised website provides investors with various channels to contact with the Company, facilitating investors to enhance communications with the Company by various means.

6.2 Information about general meetings

During the reported period, the Company held its 2007 Annual General Meeting in Shenzhen on 27 June 2008, and the resolutions were announced on *China Securities*, *Shanghai Securities News*, *Securities Times*, the Shanghai Stock Exchange, the Hong Kong Stock Exchange and the Company's website on 28 June 2008.

6.3 Information about meetings held by the Board of Directors and board committees

During the reported period, the Company held the 14th, 15th, 16th, 17th, 18th, 19th, 20th, 21st, 22nd, 23rd meetings of the Seventh Session of the Board of Directors; the 6th meeting of the Seventh Session of the Audit and Related Party Transactions Control Committee (note: this committee was split into the Audit Committee and the Related Party Transactions Control Committee since February 2008); the 7th and 8th meetings of the Seventh Session of the Audit Committee; the 7th, 8th and 9th meetings of the Seventh Session of the Connected Party Transactions Control Committee; the 4th, 5th, 6th and 7th meetings of the Seventh Session of the Risk Management Committee; and the 1st meeting of the Seventh Session of the Nomination Committee.

6.4 The Board of Supervisors

During the reported period, the Company held the 5th and 6th meetings of the Seventh Session of the Board of Supervisors, and held one meeting to review specific reports.

6.5 The Board of Directors' description of the internal control system and its implementation

The Company has established an organizational structure with shareholders' general meeting, the Board of Directors, the Board of Supervisors and the senior management as the key components. The structure realized separation of and check and balance among ownership, operation and management and supervision. Currently, the shareholders' general meeting, the Board of Directors, the Board of Supervisors and the senior management of the Company have clearly defined duties and operate on regulated mode. Meanwhile, under the principle of risk prevention and prudent operation, the Company has established a comprehensive internal control system covering credit risk, treasury operation, financial management, human resources management, information system management, branch operations, anti-money laundering, internal auditing and monitoring and security. A complete system of management rules and regulations was put in place which basically covered every business process and functions of the Company and ensured a complete, logical and effective internal control system. The management of the Company regularly reviews the internal control condition to ensure that internal control measures are consistently enforced and fulfill the requirements of business operations.

The Company established strict internal management control systems, approval procedures and approval authorities for each business functions, ensuring that all units and posts of the Company, their respective duties and rights and division of labor are properly deployed and designated, and that different units and posts have clear cut rights and obligations and there are mutual constraints and mutual supervision among them. The Company's internal management control systems are complete, reasonable and efficient, and are capable of satisfying the current requirements of the Company's practical operation and management. Moreover, these systems can match well among each other. In practice, the Company was able to apply all those internal control systems in every business process including decision-making, execution, supervision and feedback and also keep on refining the systems.

During the first half of 2008, the Company conducted internal audits upon 15 branches and rectification follow-up audits upon 9 branches and completed the audits on treasury business, IT risk assessment and follow-up audits of internal-assessment and special audit on information security during the Olympic Games period. The Company inspected the operation of certain business lines including credit and loans, accounting, retail banking counter services, personal assets, financial management, treasury and computer system operation and management. Meanwhile, the Company conducted audit assessments for its 15 branches on each of the five key aspects of internal control so that the sufficiency, compliance, validity and applicability of their internal control measures were examined. Any identified problems and corresponding rectification measures of the related branches were closely monitored and done under supervision. The roles of the line management of the head office and branches in initiating rectification measures were reinforced. In addition, the Company has its internal control system effectively implemented, supervised and improved through education, training and learning. In the future, the company will continue to amend and optimize the internal control system based on the needs of operation, improve the Company's corporate governance, and continue to drive forward and deepen internal control to ensure the realization of corporate development plans and business goals and to safeguard the healthy development of the Company.

6.6 Rectification of the Corporate Governance of the Company

The Company disclosed the "Rectification Report on Specific Matters in relation to the Corporate Governance of China Merchants Bank Co., Ltd." on 31 October 2007. At the time of disclosing the Rectification Report, the Company implemented the corrective measures and finished the task.

In accordance with the requirements set out in the Notice【2008】No. 27 issued by the China Securities Regulatory Commission and the Notice on Due Performance of Specific Matters relating to Corporate Governance of Listed Companies (Shen Zheng Ju Gong Si Zi【2008】No. 62) issued by the China Securities Regulatory Commission Shenzhen Bureau, a report titled "Explanation of Specific Matters relating to Corporate Governance of China Merchants Bank Co., Ltd." was considered and passed at the 24th meeting of the Seventh Session of the Board of Directors.

During the half month period from 1 July to 15 July 2008, the Company made an internal inspection into the use of funds by the major shareholders and their connected parties. The Summary Report of China Merchants Bank Co., Ltd. on Internal Inspection into the Use of Funds by the Major Shareholders and their Connected Parties was considered and passed at the 24th meeting of the Seventh Session of the Board of Directors of the Company. It was found that neither the major shareholders of the Company nor their related parties had used any funds of the Company (the "Listed Company") for non-operating purposes and none of them had used the funds of the Listed Company through any unfair connected party transactions.

Please refer to the announcements published on the websites of the Shanghai Stock Exchange (www.sse.com.cn), the Hong Kong Stock Exchange (www.hkex.com.hk) and the Company (www.cmbchina.com) on 19 July 2008.

7.1 Implementation of profit appropriation for the year 2007

The resolution regarding the proposed profit appropriation for the year 2007 of the Company was approved by the 2007 annual general meeting of shareholders convened on 27 June 2008, where the cash dividend (including tax) of RMB2.80 was declared for every 10 shares based on the total share capital. An announcement in relation to the resolutions of the general meeting of shareholders was published on *China Securities Journal*, *Shanghai Securities News*, *Securities Times*, and the websites of Shanghai Stock Exchange (www.sse.com.cn), Hong Kong Stock Exchange (www.hkex.com.hk) and the Company (www.cmbchina.com) on 28 June 2008.

An announcement on the implementation of the profit appropriations plan for A shares for the year 2007 was published on *China Securities Journal*, *Shanghai Securities News*, *Securities Times*, and the websites of Shanghai Stock Exchange, Hong Kong Stock Exchange and the Company on 22 July 2008. A further announcement on payment of the final dividend for H shares was published on the websites of Hong Kong Stock Exchange, Shanghai Stock Exchange and the Company on 22 July 2008.

The Company has paid cash dividend for the year 2007 to holders of A Shares and holders of H Shares.

7.2 Interim dividend for the year 2008

The Company did not propose to distribute 2008 interim dividend or bonus shares or did not propose to capitalize the capital reserve (for January – June 2007: Nil).

7.3 Major holding companies and joint-stock companies

Name of companies	Initial investment cost (in millions)	Investment amount at the end of reported period (in millions)	Number of shares held by the Company (in millions)	Shareholding percentage (%)	Carrying value at the end of the period (in millions)	Investment period
China Merchants Fund Management Co., Ltd.	RMB191	RMB191	70	33.4	RMB255	None
CMB International Capital Corporation Limited ("CMBICC")	HKD250	HKD250	250	100.0	RMB251	None
CMB Financial Leasing Co., Ltd	RMB2,000	RMB2,000	N/A	100.0	RMB2,000	None
China UnionPay Co., Ltd.	RMB80	RMB130	100	3.5	RMB88	None
EPS Company (Hong Kong) Limited	HKD8	HKD8	1 share	0.7	RMB8	None
Total					RMB2,602	

Notes:

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

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

(3) CMB Financial Leasing Co., Ltd is a wholly-owned subsidiary of the Company approved by the China Banking Regulatory Commission through its Yin Jian Fu【2008】No. 110 and commenced its operation in April 2008.

(4) Upon approval of the PBOC through its Yin Fu【2001】No. 234 about the Establishment of China UnionPay Co., Ltd., the Company contributed RMB80 million to the establishment. The above contribution included an assessed net value of RMB41.984 million in establishing the bank card network service centers in many cities, and RMB38.016 million as additional cash investment. China UnionPay Co., Ltd. was incorporated on 26 March 2002. The investment of RMB38,016,000 in 2002 and the investment of RMB50,000,000 in 2008 by the Company were accounted as long-term equity investment.

(5) EPS Company (Hong Kong) Limited was incorporated in 1984 by several licensed banks in Hong Kong to provide of e-pay services for customers and merchandises in Hong Kong, Macau and Shenzhen.

7.4 Shareholdings and trading in equity interest of other listed companies

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

7.5 Purchase, sale or redemption of listed securities of the Company

As at 30 June 2008, neither the Company, nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

7.6 Use of fund raised and material non-fund raising investments

Use of fund raised from H Shares

The Company issued 2,200,000,000 H Shares at face value of RMB1 per share at the price of HKD8.55 per share on Hong Kong Stock Exchange on 22 September 2006, and through the exercise of the over-allotment option, issued 220,000,000 H Shares at face value of RMB1 per share at the price of HKD8.55 per share on Hong Kong Stock Exchange on 27 September 2006, raising RMB20.505 billion of net fund, which was all in place on 5 October 2006. In compliance with the commitments stated in the Prospectus, the fund raised was used to supply additional capital to enhance capital adequacy ratio and risk resistance capacity.

Material non-fund raising investments

As at the end of June 2008, the accumulated fund invested in Shanghai Lujiazui Project amounted to RMB576,000,000, of which RMB88,000,000 was invested during the reported period.

7.7 Securities transactions of directors, supervisors and the relevant employees

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 to the Listing Rules as the Code of Conduct for directors and supervisors of the Company in respect of their dealings in the Company's securities. Upon making specific enquiry from all the directors and supervisors, the Company confirmed that they had complied with the aforesaid Model Code throughout the period ended 30 June 2008.

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

7.8 Interest and short positions of directors, supervisors and senior management

As at 30 June 2008, none of the directors, supervisors or senior management of the Company held or was deemed to hold interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), or as being recorded pursuant to section 352 of the SFO or as otherwise notified by the directors or supervisors to the Company and Hong Kong Stock Exchange in accordance with the Model Code as set out in the Listing Rules; neither were the directors, supervisors or senior management of the Company authorized to buy any share or debenture of the Company or any of its connected companies.

7.9 Punishments imposed on the Company, directors or supervisors by CSRC and the Hong Kong Stock Exchange

During the reported period, none of the Company, the Board of the Company and its directors, supervisors or senior management was subject to any investigation by competent authorities, compulsory enforcement of any judicial and disciplinary prosecution departments, nor were they being transferred to any judicial or being sued for criminal responsibilities, nor subject to any investigation, administrative sanction or censure by CSRC, prohibition of securities market access, public criticism or punishment by other administrative departments for improper personnel engagement or public reprimand by the Hong Kong Stock Exchange.

7.10 Undertakings of the Company

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

7.11 Significant connected transactions

7.11.1 Overview of connected transactions

In the first half of 2008, the Company further standardized and optimized, and made greater efforts in the management of connected transactions. It revised the management system of connected transactions and further strengthened its daily supervision, data collection and analysis. As a result, in compliance with the regulatory requirements of both the mainland China and Hong Kong, and taking into account the interests of shareholders and the Bank as a whole, the Company effectively facilitated and assisted its business development through the management of connected transactions.

In respect of the establishment of systems, for the purposes of incorporating the non-credit connected transactions strictly monitored by the Hong Kong Stock Exchange into the scope of management, establishing a comprehensive management system for connected transactions, further standardizing the connected transactions, effectively controlling the risks in connected transaction, and ultimately being in compliance with the relevant regulatory requirements of both the mainland China and Hong Kong, the Company further improved and standardized the management system of connected transactions, and thus the revised edition of *Regulations of China Merchants Bank Co., Ltd. on Connected Transactions* which was approved in the 17th meeting of the seventh session of the Board of the Company was issued for due compliance by the Bank. The new version of regulations on connected transactions stipulates the inclusion of the non-credit connected transactions into the regulations, the definition of the departments relevant to the management of connected transactions and the division of their responsibilities, the regulation governing the classified management of connected transactions, the standardization of the procedure for the approval of connected transactions by the Board as well as the reporting and disclosure thereof, and the prescription of the management procedure and supervisory priorities under different circumstances, all of which help contribute to regularize the management with clearer guidelines.

7.11.2 Occurrence of non-credit connected transactions

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

Exempt continuing connected transactions

The continuing connected transactions between the Company and members of CM Group included providing CM Group with e-Tax – online tax payment service, custody service, corporate annuity account management service, settlement service among CM Group, e-Bond – online bond trading service, property management service provided by CM Group and renting property from CM Group. The above connected transactions followed the general commercial terms and conditions, and were charged according to the normal commercial charging standards and/or government-designated charging standards. As at the end of June 2008, the total service charge for each category of transactions between the Company and CM Group amounted to less than 0.1% of the relevant percentage ratios as set out in Chapter 14 of the Listing Rules. In accordance with rule 14A.33(3) of the Listing Rules, the above transactions were exempt continuing connected transactions and were exempted from compliance with the obligations of reporting, announcement and approval by independent shareholders under the Listing Rules.

The continuing connected transactions between the Company and COSCO members included settlement services and e-Bond services. As at the end of June 2008, the total service charge for each category of transactions between the Company and COSCO amounted to less than 0.1% of the relevant percentage ratios as set out in Chapter 14 of the Listing Rules. In accordance with rule 14A.33(3) of the Listing Rules, the above transactions were exempt continuing connected transactions and were exempted from compliance with the obligations of reporting, announcement and approval by independent shareholders under the Listing Rules.

The continuing connected transactions between the Company and members of Shandong Investment Group included settlement services and consignment loan arrangements. As at the end of June 2008, the total service charge for each category of transactions between the Company and Shandong Investment Group amounted to less than 0.1% of the relevant percentage ratios as set out in Chapter 14 of the Listing Rules. In accordance with rule 14A.33(3) of the Listing Rules, the above transactions were exempt continuing connected transactions and were exempted from compliance with the obligations of reporting, announcement and approval by independent shareholders under the Listing Rules.

Non-exempt continuing connected transactions

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

With the approval of the Board of Directors, the Company announced on 23 January 2008 that the cap of the continuing connected transactions for the year of 2008 for each of CM Securities, CMFM and CMC Life Insurance would be RMB620,000,000. The relevant information was disclosed in the Announcement on Continuing Connected Transactions issued by the Company on 24 January 2008.

CM Securities

The third-party custodian business, the wealth management agency services and the collective investment products services between the Company and CM Securities constituted continuing connected transactions of the Company under the Listing Rules.

The Company entered into a service agreement with CM Securities in 2008, which was concluded in accordance with general commercial terms and conditions, and the agency service fees paid to the Company by CM Securities in accordance with the service agreement were determined through arm's length negotiation with reference to the Company's charging standards for agency services provided to independent third party securities companies.

As at 30 June 2008, the continuing connected transactions in the third-party custodian business, the wealth management agency services and the collective investment products services between the Company and CM Securities amounted to RMB166,082,300.

CMFM

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

The Company entered into a service agreement with CMFM in 2008, which was concluded in accordance with general commercial terms and conditions, and the service fees paid to the Company by CMFM in accordance with the service cooperation agreement were determined through arm's length negotiation with reference to the Company's charging standards for fund services provided to independent third party fund management companies.

As at 30 June 2008, the continuing connected transactions on the fund distribution agency services between the Company and CMFM amounted to RMB27,833,700.

CMC Life Insurance

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

As at 30 June 2008, the continuing connected transactions on the insurance marketing agency services between the Company and CMC Life Insurance amounted to RMB51,020,000.

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

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

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

(3) the transactions were conducted under general commercial terms and conditions which were no more favourable than those to independent third parties; and

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

7.11.3 Exemption as connected persons

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

Accordingly, the Company had applied to the Hong Kong Stock Exchange for an exemption in accordance with Rule 14A.42 of the Listing Rules. Subject to the terms of the exemption, Qinhuangdao Port Group, a promoter of the Company, and other promoters of the Company not holding any equity of the Company, including Shenzhen Huihe Investment and Develop Co., Ltd. and China National Offshore Oil Nanhai East Corporation and their associates, would not be deemed as connected parties to the Company under the Listing Rules, and accordingly all the connected transactions between the Company and the aforesaid companies were exempted from compliance with the provisions under Chapter 14A of the Listing Rules.

7.12 Material litigation and arbitration

As at 30 June 2008, the number of pending litigation and arbitration cases involving the Company totalled at 1,414, involving a total principal sum of RMB1,109,297,000, USD6,558,800, HKD12,498,800, JPY301,685,000 and INR8,766,900; the interest totalled at RMB106,984,300, USD942,700 and JPY7,962,300. In particular, the number of pending litigation and arbitration cases involving the Company totalled at 79, involving a total principal sum of RMB925,476,500, USD6,422,700, HKD12,498,800, JPY301,685,000 and INR8,766,900; the interest totalled at RMB95,345,100, USD863,400 and JPY7,962,300. The number of pending litigation and arbitration cases involving the retail business totalled at 402, involving a total principal sum of RMB151,701,500, USD11,000; the interest totalled at RMB5,735,400. The number of pending litigation and arbitration cases involving the credit card business totalled at 933, involving a total principal sum of RMB32,119,000, USD125,100; the interest totalled at RMB5,903,800 and USD79,300.

As at 30 June 2008, the number of pending litigation and arbitration cases involving the Company totalled at 63, involving a total principal sum of RMB348,523,700, USD163,000, INR8,766,900; the interest totalled at RMB19,212,300 and USD9,900.

There are two pending cases with principal over RMB100,000,000, involving an aggregate principal of RMB260,000,000.

7.13 Material contracts

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

7.14 Significant event in respect of entrusted wealth management

During the reported period, there was no entrusted wealth management which was beyond our ordinary business scope.

7.15 Major asset acquisition, disposal and reorganization

Acquisition of Wing Lung Bank Limited ("WLB")

On 30 May 2008, the Company entered into two sale and purchase agreements in respect of the acquisition of the issued share capital of WLB (collectively "Sale and Purchase Agreements") with Wu Jieh Yee Company Limited, Wu Yee Sun Company Limited and Yee Hong Company Limited respectively in Hong Kong.

In accordance with the Sale and Purchase Agreements, the Company conditionally acquired 65,524,929 shares of WLB held by Wu Jieh Yee Company Limited (representing approximately 28.22% of the total issued share capital of WLB), and 57,811,241 shares of WLB held by Wu Yee Sun Company Limited and Yee Hong Company Limited (representing approximately 24.90% of the total issued share capital of WLB), at an aggregate consideration of HKD19,302,110,605.00 (equivalent to HKD156.50 per share).

Based on the audited financial statements of WLB, as at 31 December 2007, WLB had total assets of HKD93,048,139,000, total liabilities of HKD80,568,036,000 and net assets of HKD12,480,103,000. The operating income and net profit of WLB were HKD2,798,652,000 and HKD1,371,514,000 respectively in 2007.

The consideration in the aggregate sum of HKD19,302,110,605.00 (representing HKD156.50 per share) was negotiated and determined on an arm's length basis between the Company and the vendors with reference to (i) the recent price performance of the WLB shares on the Hong Kong Stock Exchange, (ii) the audited consolidated net profits attributable to the WLB shareholders of approximately HKD1,371,514,000.00 for the year ended 31 December 2007, (iii) the audited consolidated net assets of the WLB Group of approximately HKD12,480,103,000.00 as at 31 December 2007, and (iv) necessary adjustment after the Company's due diligence check on WLB. Based on the audited net assets of WLB for 2007, HKD156.50 per share represented a P/B ratio of 2.91 times.

Under Hong Kong laws, upon completion of the acquisition of the target shares, the Company is required to make a general offer in respect of all issued shares of WLB (other than those shares already owned by or agreed to be acquired by the Company and parties acting in concert with it at the time when the offer is made).

In connection with the details of the said acquisition, please refer to the announcements published by the Company on *China Securities Journal*, *Securities Times*, *Shanghai Securities News*, the website of Shanghai Stock Exchange (www.sse.com.cn), the website of Hong Kong Stock Exchange (www.hkex.com.hk) and the website of the Company (www.cmbchina.com) on 3 June 2008.

The resolution regarding the acquisition was passed at the 2007 Annual General Meeting held by the Company on 27 June 2008. The Company has submitted applications to CBRC, the Hong Kong Monetary Authority and the Hong Kong Securities and Futures Commission in respect of the acquisition of 53.12% equity interests of WLB.

At the same time, the Company has been concentrating on the study and progress of the merger and acquisition of and integration with WLB. By conscientiously conducting investigation and research, and communications among dedicated departments, the Company further enhances communication and understanding between both parties, and reaches initial consensus in respect of future integration that may lead to synergies. Meanwhile, the company also maintains close contact with consultancy firms and hopes to better proceed with the integration through their expertise.

Acquisition of CMC Life Insurance

In order to further optimize revenue structure, broaden operation channels and enhance comprehensive competitive edges, the Company and Shenzhen Dingzun Investment Advisory Company, Ltd. ("Dingzun") entered into a Share Transfer Agreement on 5 May 2008, pursuant to which the Company agreed to acquire from Dingzun its 50% equity interests in CMC Life Insurance for a consideration of RMB141,865,000.

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

The resolution regarding the acquisition was passed at the 2007 Annual General Meeting held by the Company on 27 June 2008, and is still subject to the approval from relevant regulators.

In connection with the details of the said acquisition, please refer to the announcements published by the Company on the website of Hong Kong Stock Exchange (www.hkex.com.hk), the website of Shanghai Stock Exchange (www.sse.com.cn), and the website of the Company (www.cmbchina.com) on 6 May 2008.

7.16 Implementation of the Share Appreciation Rights Incentive Scheme

To further establish and enhance our incentive system for the combined interest of shareholders, the Company and the interest of the management, the Company approved the H Share Appreciation Rights Incentive Scheme for senior management at the 1st extraordinary general meeting for 2007 held on 22 October 2007. On 30 October 2007, the Board of the Company made the first grant under the plan at the granting price of HKD39.30. The target and proportion for the grants are as follows:

No.	Name	Title	Number of share appreciation rights granted (in ten thousand)	Percentage of target shares in respect of granted appreciation rights to total shares	Percentage of granted appreciation rights to total appreciation rights for the period
1	Ma Weihua	President	30	0.0020%	23.26%
2	Zhang Guanghua	Executive Vice President	15	0.0010%	11.63%
3	Li Hao	Executive Vice President	15	0.0010%	11.63%
4	Tang Zhihong	Executive Vice President	15	0.0010%	11.63%
5	Yin Fenglan	Executive Vice President	15	0.0010%	11.63%
6	Ding Wei	Executive Vice President	12	0.0008%	9.30%
7	Xu Lianfeng	Chief Technology Officer	9	0.0006%	6.98%
8	Fan Peng	Chief Audit Officer	9	0.0006%	6.98%
9	Lan Qi	Secretary of Board of Directors	9	0.0006%	6.98%
	Total		129	0.0088%	100.00%

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

The closing price of the Company's H Shares was HKD24.50 as at 30 June 2008.

7.17 Liabilities, changes in repayment ability and cash arrangement for the repayment of convertible bonds in the coming years

As at the end of the reported period, the Company had only RMB1,889,000 of convertible bonds remained outstanding, the Company will be capable of repaying the principal and interests of the convertible bonds.

7.18 Social Responsibilities

As an enterprise highly aware of its responsibilities, the Company is dedicated to performing its social responsibilities in various ways in addition to the full performance of its banking functions and contribution to social and economic development. In the first half of 2008, the charity donations and other donations from the Company and its employees amounted to approximately RMB32,700,000.

(I) Providing relief assistance to earthquake-stricken area through donations

Within 20 hours after an earthquake struck Wenchuan on 12 May, the Company immediately arranged emergency donations of RMB8,000,000 to the disaster areas through the Headquarters of Red Cross Society of China. As of 30 June, the cash donations of the Company exceeded RMB23,854,000. Donations of customers made through such channels as the counters, online banking, credit-card-based short messages and telephone banking services of the Company amounted to over RMB130 million. At the same time, the Company strengthened its credit support for personal and corporate clients in the earthquake stricken area, so as to help the affected population with reconstruction and rehabilitation.

Earlier this year, when parts of southern China were hit by snowstorm disasters, the Company made an initial donation of RMB6,000,000 through the Headquarters of Red Cross Society of China, and the employees of the Company donated an aggregate amount of RMB28,450,000 through the Sunflower Children Growth Fund established by CMB and the China Children and Teenagers' Fund. Meanwhile, the branches of the Company located in the disaster areas also organized voluntary teams to offer relief materials to the affected people at train stations, inter-city bus stations, airports and devastated communities.

(II) Improving Olympic service quality and managing to provide sound financial service

In respect of financial services for the Olympics, through the optimization of foreign exchange service, the strengthening of the support services for the Olympics and the management of ATM machines, the improvement of efficiency and quality in dealing with customer complaints and the implementation of various contingency measures, the Company put emphasis to ensure the efficient and smooth provision of financial services in the five Olympic cities, namely Beijing, Qingdao, Shanghai, Tianjin and Shenyang.

(III) Implementing Green Finance Strategy and protecting resources and ecological environment

The Company entered into the intermediate loan agreement for energy efficiency projects with the French Development Agency, acquired a transferred loan amount of Euro 20 million with 10-year maturity, especially for energy efficiency projects and renewable energy projects in specified provinces. In addition, after making the environment protection and carbon trade as its targeted industries, the Company launched a credit policy specific to renewable energy industry to enhance the support for such industry.

(IV) Sponsoring Culture and Sports Industries and Promoting Social Civilization and Progress

The Company successively sponsored the "National Grand Theater Opening Performance", "Commemoration of the 30th Anniversary of the Establishment of Diplomatic Relations between China and the United States – Philadelphia Orchestra China Tour" and "Lang Lang Earthquake Relief Charity Performance in Qingdao". In addition, the Company is also a sponsor of the Chinese national sailing team, national rowing team, and TV Fast Speed Chess Match, making all out to support the development of Chinese cultural and sports industries. The Company initiated a nationwide physical fitness and mountaineering campaign named "China Merchants Bank: Dreams Culminating across Charming China", integrating the sport spirit of "faster, higher and stronger" into dedicated services for our customers.

7.19 Compliance statement for corporate governance

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

7.20 Compliance with Banking (Disclosure) Rules

The Company's interim financial statements for the six-month period ended 30 June 2008 included all disclosures required in Banking (Disclosure) Rules issued by Hong Kong Monetary Authority.

7.21 Review on interim results

KPMG, Certified Public Accountants, our external auditor, has reviewed the interim financial statements of the Company as at 30 June 2008 prepared in accordance with the disclosure requirements under the Listing Rules of the Hong Kong Stock Exchange and International Accounting Standard 34 "Interim Financial Reporting" promulgated by the International Accounting Standards Board. At the same time, the Audit Committee of the Company has reviewed and agreed to the results and financial report of the Company for the six-month period ended 30 June 2008.

7.22 Publication of Interim Report

The Company prepared the interim report in both English and Chinese versions in accordance with the Listing Rules and the International Accounting Standards. These reports are available on the website of Hong Kong Stock Exchange (www.hkex.com.hk) and the website of the Company (www.cmbchina.com). In the event of any discrepancies in interpretation between the English version and Chinese version, the Chinese version shall prevail.

The Company also prepared the half-year report in Chinese in accordance with the related requirements of CSRC and Shanghai Stock Exchange, and the PRC Generally Accepted Accounting Principles, which is available on the website of Shanghai Stock Exchange (www.sse.com.cn) and the website of the Company (www.cmbchina.com).

By order of the Board
Qin Xiao
Chairman of Board of Directors

18 August 2008

VIII Review Report to the Board of Directors and 2008 Interim Financial Report

Contents

KPMG

Review report to the Board of Directors of China Merchants Bank Co., Ltd.

Introduction

We have reviewed the interim financial report set out on pages 86 to 131 which comprises the consolidated balance sheet of China Merchants Bank Co., Ltd as of 30 June 2008 and the related consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the six months period then ended and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and International Accounting Standard 34 "Interim financial reporting" issued by the International Accounting Standards Board. The directors are responsible for the preparation and presentation of the interim financial report in accordance with International Accounting Standard 34.

Our responsibility is to form a conclusion, based on our review, on the interim financial report 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 the interim financial report consists of making enquiries, 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 report as at 30 June 2008 is not prepared, in all material respects, in accordance with International Accounting Standard 34 "Interim financial reporting".

KPMG
Certified Public Accountants

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

18 August 2008

Unaudited Consolidated Income Statement

for the six months ended 30 June 2008

(Expressed in millions of Renminbi unless otherwise stated)

	Note	Six months ended 30 June 2008	2007
Interest income	3	**35,778**	22,284
Interest expense	4	**(11,653)**	(7,588)
Net interest income		**24,125**	14,696
Fee and commission income	5	**4,534**	3,012
Fee and commission expense		**(440)**	(348)
Net fee and commission income		**4,094**	2,664
Other net income	6	**568**	194
Operating income		**28,787**	17,554
Operating expenses	7	**(10,306)**	(6,968)
Operating profit before impairment losses		**18,481**	10,586
Impairment losses	8	**(1,392)**	(1,579)
Share of profit of an associate		**33**	–
Profit before tax		**17,122**	9,007
Income tax	9	**(3,877)**	(2,887)
Net profit attributable to equity holders of the Bank		**13,245**	6,120
Dividends			
Declared and paid	24(a)	**4,117**	1,764
		RMB	RMB
Earnings per share			
Basic	10(a)	**0.90**	0.42
Diluted	10(b)	**0.90**	0.42

The notes on pages 91 to 131 form part of this interim financial report.

Unaudited Consolidated Balance Sheet

for the six months ended 30 June 2008

(Expressed in millions of Renminbi unless otherwise stated)

	Note	**30 June 2008**	31 December 2007
Assets			
Cash and balances with banks and other financial institutions	11	**18,940**	20,276
Balances with central bank	12	**190,929**	146,266
Placements with banks and other financial institutions	13	**182,114**	225,669
Loans and advances to customers	14	**722,584**	654,417
Investments	15	**258,235**	244,123
Interest in an associate	16	**255**	225
Fixed assets	17	**9,616**	8,722
Deferred tax assets	18(a)	**2,123**	2,162
Other assets		**10,995**	8,692
Total assets		**1,395,791**	1,310,552
Liabilities			
Deposits from banks and other financial institutions	19	**202,257**	218,520
Placements from banks and other financial institutions	20	**21,972**	46,603
Deposits from customers	21	**1,046,626**	943,534
Financial liabilities at fair value through profit or loss	15(e)	**3,794**	2,945
Certificates of deposit issued	22(a)	**1,661**	1,095
Convertible bonds issued	22(b)	**2**	13
Other debts issued	22(c)	**9,994**	9,992
Current taxation		**2,446**	2,588
Other liabilities		**26,043**	13,778
Subordinated notes issued	22(d)	**3,500**	3,500
Total liabilities		**1,318,295**	1,242,568
Shareholders' equity			
Share capital	23	**14,707**	14,705
Capital reserve		**27,556**	27,545
Surplus reserve		**4,612**	3,088
Investment revaluation reserve		**(100)**	(471)
Regulatory general reserve		**9,500**	9,500
Retained profits		**21,221**	7,976
Proposed profit appropriations	24(b)	**–**	5,641
Total shareholders' equity		**77,496**	67,984
Total shareholders' equity and liabilities		**1,395,791**	1,310,552

The notes on pages 91 to 131 form part of this interim financial report.

Unaudited Consolidated Statement of Changes in Equity

for the six months ended 30 June 2008

(Expressed in millions of Renminbi unless otherwise stated)

	Note	Share capital	Capital reserve	Surplus reserve	Investment revaluation reserve	Regulatory general reserve	Retained profits	Proposed profit appropriations	Total
		For the six months ended 30 June 2008							
At 1 January 2008		**14,705**	**27,545**	**3,088**	**(471)**	**9,500**	**7,976**	**5,641**	**67,984**
Net profit for the period		**–**	**–**	**–**	**–**	**–**	**13,245**	**–**	**13,245**
Appropriations to statutory surplus reserve for the year 2007		**–**	**–**	**1,524**	**–**	**–**	**–**	**(1,524)**	**–**
Dividend paid for the year 2007	24(a)	**–**	**–**	**–**	**–**	**–**	**–**	**(4,117)**	**(4,117)**
Conversion of convertible bonds		**2**	**11**	**–**	**–**	**–**	**–**	**–**	**13**
Share of investment revaluation reserve of an associate		**–**	**–**	**–**	**(3)**	**–**	**–**	**–**	**(3)**
Realised on disposal of available-for-sale financial assets, net of deferred tax		**–**	**–**	**–**	**60**	**–**	**–**	**–**	**60**
Changes in fair value of available-for-sale financial assets, net of deferred tax		**–**	**–**	**–**	**314**	**–**	**–**	**–**	**314**
At 30 June 2008		**14,707**	**27,556**	**4,612**	**(100)**	**9,500**	**21,221**	**–**	**77,496**

	Note	Share capital	Capital reserve	Surplus reserve	Investment revaluation reserve	Regulatory general reserve	Retained profits	Proposed profit appropriations	Total
		For the six months ended 30 June 2007							
At 1 January 2007		14,703	27,536	2,377	195	6,500	1,374	2,475	55,160
Net profit for the period		–	–	–	–	–	6,120	–	6,120
Appropriations to statutory surplus reserve for the year 2006		–	–	711	–	–	–	(711)	–
Dividend paid for the year 2006	24(a)	–	–	–	–	–	–	(1,764)	(1,764)
Conversion of convertible bonds		1	2	–	–	–	–	–	3
Realised on disposal of available-for-sale financial assets, net of deferred tax		–	–	–	63	–	–	–	63
Changes in fair value of available-for-sale financial assets, net of deferred tax		–	–	–	(346)	–	–	–	(346)
At 30 June 2007		14,704	27,538	3,088	(88)	6,500	7,494	–	59,236

The notes on pages 91 to 131 form part of this interim financial report.

Unaudited Consolidated Cash Flow Statement

for the six months ended 30 June 2008

(Expressed in millions of Renminbi unless otherwise stated)

	Note	Six months ended 30 June **2008**	2007
Operating activities			
Profit before tax		**17,122**	9,007
Adjustments for:			
– Impairment losses charged on loans and advances		**1,571**	1,521
– Impairment losses (released)/charged on balances and placements with banks and other financial institutions		**(274)**	46
– Impairment losses charged on other assets		**95**	12
– Unwind of interest income on impaired loans		**(48)**	(66)
– Depreciation		**617**	492
– Amortisation of discount and premium of debt investments		**(985)**	(787)
– Amortisation of discount and premium of issued debts		**2**	3
– Write-off of loans and advances, net of recoveries		**(34)**	39
– Net gain on debt investments		**(146)**	(316)
– Interest income on debt investments		**(3,276)**	(2,180)
– Interest expense on issued debts		**227**	230
– Share of profit of an associate		**(33)**	–
Changes in operating assets and liabilities:			
Increase in balances with central bank		**(37,858)**	(22,704)
Increase in balances and placements with banks and other financial institutions with original maturity over 3 months		**(11,074)**	(7,341)
Increase in loans and advances to customers		**(69,404)**	(63,851)
Increase in other assets		**(3,808)**	(3,431)
Increase in deposits from customers		**103,092**	70,814
(Decrease)/increase in deposits and placements from banks and other financial institutions		**(40,894)**	92,054
Increase in other liabilities		**8,463**	7,175
Net cash (outflow)/inflow from operating activities		**(36,645)**	80,717
Income tax paid		**(3,977)**	(2,798)

Unaudited Consolidated Cash Flow Statement (Continued)

for the six months ended 30 June 2008

(Expressed in millions of Renminbi unless otherwise stated)

	Note	Six months ended 30 June 2008	2007
Investing activities			
Payment for purchase of debt investments		**(1,186,935)**	(103,191)
Proceeds from redemption or disposal of debt investments		**1,179,541**	74,689
Interest received from debt investments		**2,830**	2,280
Payment for purchase of fixed assets		**(1,780)**	(738)
Proceeds from sale of fixed assets		**268**	50
Prepayment of equity investments		**(876)**	–
Net cash outflow from investing activities		**(6,952)**	(26,910)
Net cash (outflow)/inflow before financing activities		**(47,574)**	51,009
Financing activities			
Issue of certificates of deposit		**662**	–
Repayment of certificates of deposit issued		**–**	(1,142)
Dividends paid		**(5)**	(7)
Interest paid on issued debts		**(26)**	(31)
Net cash inflow/(outflow) from financing activities		**631**	(1,180)
Net (decrease)/increase in cash and cash equivalents		**(46,943)**	49,829
Cash and cash equivalents at 1 January		**167,031**	118,246
Effect of foreign exchange rate changes		**(1,301)**	(842)
Cash and cash equivalents at 30 June	25(a)	**118,787**	167,233
Cash flows from operating activities include:			
Interest received		**31,234**	18,482
Interest paid		**10,155**	7,122

The notes on pages 91 to 131 form part of this interim financial report.

(Expressed in millions of Renminbi unless otherwise stated)

1 REPORTING ENTITY

China Merchants Bank Co., Ltd. (the "Bank") is a bank domiciled in the People's Republic of China (the "PRC"). The condensed consolidated interim financial statements of the Bank as at and for the six months ended 30 June 2008 comprise the Bank and its subsidiaries (together referred to as the "Group").

The consolidated financial statements of the Group as at and for the year ended 31 December 2007 are available upon request from the Bank's registered office at China Merchants Bank Tower, Shenzhen, the PRC.

The particulars of the Bank's subsidiaries as at 30 June 2008 are set out below.

Name of company	Place of incorporation and operation	Particulars of the issued and paid up capital (in million)	% of ownership held by the Bank	Principal activities
CMB International Capital Corporation Limited	Hong Kong	HK$ 250	100%	Investment advisory services
CMB Finance Lease Co., Ltd.	Shanghai	RMB2,000	100%	Finance lease

2 BASIS OF PREPARATION

The interim financial report has been prepared in accordance with the disclosure requirements of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited, including compliance with International Financial Reporting Standards ("IFRSs") IAS 34 "Interim Financial Reporting" issued by the International Accounting Standards Board ("IASB").

This interim financial report has been prepared in accordance with the same accounting policies adopted by the Group as set out in the financial statements for the year ended 31 December 2007 ("2007 annual financial statements") included in the Annual Report and Financial Statements for 2007.

The preparation of interim financial report in conformity with IAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year-to-date basis. Actual results may differ from these estimates.

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since 2007 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with IFRSs and should be read in conjunction with the consolidated financial statements of the Group as at and for the year ended 31 December 2007.

This interim financial report is unaudited, but has been reviewed by the Audit Committee of the Bank. The interim financial report has also been reviewed by the Bank's auditor, KPMG, 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.

(Expressed in millions of Renminbi unless otherwise stated)

3 INTEREST INCOME

	Six months ended 30 June	
	2008	2007
Loans and advances (note)	**27,523**	17,002
Balances with central bank	**1,313**	731
Balances and placements with		
– banks	**2,267**	1,385
– other financial institutions	**414**	199
Debt investments	**4,261**	2,967
Interest income on financial assets that are not at fair value through profit or loss	**35,778**	22,284

Note: Included in the above is interest income of RMB48 million accrued on impaired loans (for the six months ended 30 June 2007: RMB66 million).

4 INTEREST EXPENSE

	Six months ended 30 June	
	2008	2007
Deposits from customers	**8,742**	5,798
Deposits and placements from		
– banks	**591**	434
– other financial institutions	**2,091**	1,123
Issued debts	**229**	233
Interest expense on financial liabilities that are not at fair value through profit or loss	**11,653**	7,588

5 FEE AND COMMISSION INCOME

	Six months ended 30 June	
	2008	2007
Bank cards fees	**1,277**	776
Remittance and settlement fees	**487**	375
Agency services fees	**916**	1,365
Commissions from credit commitment and loan business	**295**	193
Trust services fees	**1,099**	94
Others	**460**	209
	4,534	3,012

Note: Included above is fee and commission income earned by the Group arising from:

(i) trust and fiduciary activities of RMB1,099 million (for the six months ended 30 June 2007: RMB94 million) relating to where the Group holds or invests assets on behalf of its customers; and

(ii) financial assets and liabilities not carried at fair value through profit or loss (other than amount included in determining the effective interest rate) of RMB1,135 million (for the six months ended 30 June 2007: RMB800 million).

(Expressed in millions of Renminbi unless otherwise stated)

6 OTHER NET INCOME

	Six months ended 30 June 2008	2007
Trading profits arising from		
– foreign exchange	**287**	18
– securities, derivatives and other trading activities	**167**	71
Net gain on financial instruments designated at fair value through profit or loss	**11**	30
Net gain on disposal of available-for-sale financial assets	**32**	9
Rental income	**26**	23
Others	**45**	43
	568	194

7 OPERATING EXPENSES

	Six months ended 30 June 2008	2007
Staff costs		
– salaries, bonuses and staff welfare	**4,566**	2,795
– contributions to defined contribution retirement schemes	**497**	355
– housing allowances	**235**	179
– others	**257**	172
	5,555	3,501
Business tax and surcharges	**1,619**	1,052
Depreciation	**617**	492
Rental expenses	**626**	486
Other general and administrative expenses	**1,889**	1,437
	10,306	6,968

8 IMPAIRMENT LOSSES

	Six months ended 30 June 2008	2007
Impairment losses charged/(released) on:		
– loans and advances (note 14(c))	**1,571**	1,521
– balances and placements with banks and other financial institutions	**(274)**	46
– other assets	**95**	12
	1,392	1,579

(Expressed in millions of Renminbi unless otherwise stated)

9 INCOME TAX

Income tax in the consolidated income statement represents:

	Six months ended 30 June	
	2008	2007
Current tax	**3,917**	2,533
Deferred tax (note 18(b))	**(40)**	354
	3,877	2,887

The current tax provision is based on the estimated assessable profit for 2008, and is determined by using tax rates applicable to the Group's operations in different areas.

10 EARNINGS PER SHARE

Movements of the share capital are included in note 23.

(a) Basic earnings per share

The calculation of basic earnings per share is based on the net profit attributable to equity holders of the Bank and the weighted average number of shares in issue, calculated as follows:

	Six months ended 30 June	
	2008	2007
Net profit	**13,245**	6,120
Weighted average number of shares in issue (in million)	**14,707**	14,704
Basic earnings per share (in RMB)	**0.90**	0.42

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the diluted net profit and the weighted average number of shares in issue after adjusting for the effect of all dilutive potential shares, calculated as follows:

	Six months ended 30 June	
	2008	2007
Net profit	**13,245**	6,120
Interest expense on convertible bonds issued	**–**	1
Diluted net profit	**13,245**	6,121
Weighted average number of shares in issue (in million)	**14,707**	14,704
Effect of deemed conversion of convertible bonds (in million)	**1**	4
Weighted average number of shares in issue after dilution (in million)	**14,708**	14,708
Diluted earnings per share (in RMB)	**0.90**	0.42

(Expressed in millions of Renminbi unless otherwise stated)

11 CASH AND BALANCES WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

	30 June 2008	31 December 2007
Cash	**5,838**	6,381
Balances with banks	**13,128**	13,922
Balances with other financial institutions	**6**	6
	18,972	20,309
Less: Impairment allowances		
– banks	**(28)**	(29)
– other financial institutions	**(4)**	(4)
	(32)	(33)
	18,940	20,276

12 BALANCES WITH CENTRAL BANK

	30 June 2008	31 December 2007
Statutory deposit reserve funds	**146,200**	108,342
Surplus deposit reserve funds	**43,179**	36,521
Fiscal deposits	**1,550**	1,403
	190,929	146,266

The statutory deposit reserve funds are not available for the Group's daily operations. The statutory deposit reserve funds are calculated at 17.5% and 5% for eligible Renminbi deposits and foreign currency deposits respectively as at 30 June 2008 (31 December 2007: 14.5% and 5% for eligible Renminbi deposits and foreign currency deposits respectively). Eligible deposits include deposits from government authorities and other organisations, fiscal deposits (other than budgets), retail deposits, corporate deposits, net credit balances of entrusted business and other deposits.

(Expressed in millions of Renminbi unless otherwise stated)

13 PLACEMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

	30 June 2008	31 December 2007
Money market placements		
– banks	**32,656**	42,697
– other financial institutions	**800**	300
	33,456	42,997
Balances under resale agreements		
– banks	**141,398**	164,356
– other financial institutions	**7,265**	18,595
	148,663	182,951
	182,119	225,948
Less: Impairment allowances		
– banks	**–**	(274)
– other financial institutions	**(5)**	(5)
	(5)	(279)
	182,114	225,669
Maturing		
– within one month	**74,483**	136,582
– between one month and one year	**107,607**	89,025
– after one year	**24**	62
	182,114	225,669

(Expressed in millions of Renminbi unless otherwise stated)

14 LOANS AND ADVANCES TO CUSTOMERS

(a) Loans and advances to customers

	30 June 2008	31 December 2007
Corporate loans	**497,614**	445,865
Discounted bills	**55,012**	52,276
Retail loans	**190,034**	175,026
Gross loans and advances to customers	**742,660**	673,167
Less: impairment allowances		
– individually-assessed	**(6,662)**	(7,685)
– collectively-assessed	**(13,414)**	(11,065)
Net loans and advances to customers	**722,584**	654,417

(b) Analysis of loans and advances to customers

(i) Analysed by legal form of borrowers:

	30 June 2008	31 December 2007
Domestic enterprises:		
State-owned enterprises	**195,145**	179,192
Joint-stock enterprises	**66,969**	56,619
Other limited liability enterprises	**91,203**	77,186
Others	**58,434**	56,831
	411,751	369,828
Foreign-invested enterprises	**77,378**	69,522
Enterprises operating in the Mainland	**489,129**	439,350
Enterprises operating outside the Mainland	**8,485**	6,515
Corporate loans	**497,614**	445,865
Discounted bills	**55,012**	52,276
Retail loans	**190,034**	175,026
Gross loans and advances to customers	**742,660**	673,167

(Expressed in millions of Renminbi unless otherwise stated)

14 LOANS AND ADVANCES TO CUSTOMERS *(continued)*

(b) Analysis of loans and advances to customers *(continued)*

(ii) Analysed by borrowers' industry sector (note)

	30 June 2008		31 December 2007	
	Total	**% of gross loans and advances covered by collateral or other security**	Total	% of gross loans and advances covered by collateral or other security
Manufacturing and processing	**149,421**	**25**	132,652	25
Transportation, storage and postal services	**90,041**	**21**	75,827	20
Wholesale and retail	**62,533**	**49**	58,441	48
Production and supply of electric power, gas and water	**54,938**	**6**	40,901	8
Property development	**43,133**	**57**	43,181	54
Leasing and commercial services	**26,249**	**25**	29,789	24
Construction	**19,771**	**17**	17,145	17
Mining	**13,876**	**7**	10,310	4
Water, environment and public utilities management	**9,462**	**11**	6,262	13
Financial services	**7,229**	**3**	6,952	2
Others	**20,961**	**22**	24,405	20
Corporate loans	**497,614**	**26**	445,865	27
Discounted bills	**55,012**	**100**	52,276	100
Credit cards	**25,087**	**–**	21,324	–
Mortgages	**138,214**	**100**	131,138	100
Others	**26,733**	**100**	22,564	93
Retail loans	**190,034**	**87**	175,026	87
Gross loans and advances to customers	**742,660**	**47**	673,167	48

Note: Majority of loans granted by the Bank were used in the PRC. Loans used in Hong Kong represented an insignificant portion of the gross loans portfolio (30 June 2008: 1.4%; 31 December 2007: 0.8%) and therefore no further analyses by borrower's industry sector was made.

(Expressed in millions of Renminbi unless otherwise stated)

14 LOANS AND ADVANCES TO CUSTOMERS *(continued)*

(b) Analysis of loans and advances to customers *(continued)*

(ii) Analysed by borrowers' industry sector (continued)

Overdue loans, impaired loans and advances and the individual and collective assessment allowances made on the following industry sectors which constitute not less than 10% of total loans and advances to customers are:

	30 June 2008			
	Overdue loans and advances	**Impaired loans and advances**	**Individually assessed impairment allowance**	**Collectively assessed impairment allowance**
Manufacturing and processing	**2,910**	**2,839**	**2,083**	**3,230**
Transportation, storage and postal services	**499**	**533**	**500**	**2,207**
Mortgages	**3,767**	**352**	**–**	**1,506**

	31 December 2007			
	Overdue loans and advances	Impaired loans and advances	Individually assessed impairment allowance	Collectively assessed impairment allowance
Manufacturing and processing	3,058	3,227	2,267	2,544
Transportation, storage and postal services	783	637	557	1,436
Mortgages	2,788	335	–	1,502

(iii) Analysed by borrowers' geographical areas

Loans and advances to customers by geographical area are classified according to the location of the counterparties after taking into account the transfer of risk. In general, risk transfer applies when a loan and advance is guaranteed by a party located in an area that is different from that of the counterparty. At 30 June 2008, over 90% of the Group's loans and advances to customers was classified under People's Republic of China (unchanged from the positions at 31 December 2007).

(Expressed in millions of Renminbi unless otherwise stated)

14 LOANS AND ADVANCES TO CUSTOMERS *(continued)*

(c) Movements of allowances for impairment losses

	Six months ended 30 June 2008			
	Loans and advances	Impaired loans and advances		
	for which impairment losses are collectively assessed	For which impairment losses are collectively assessed	For which impairment losses are individually assessed	Total
At 1 January	**10,434**	**631**	**7,685**	**18,750**
Charge for the period (note 8)	**2,173**	**258**	**242**	**2,673**
Releases for the period (note 8)	**–**	**–**	**(1,102)**	**(1,102)**
Unwinding of discount	**–**	**–**	**(48)**	**(48)**
Recoveries of loans and advances previously written off	**–**	**–**	**17**	**17**
Write-offs	**–**	**–**	**(51)**	**(51)**
Exchange difference	**(82)**	**–**	**(81)**	**(163)**
At 30 June	**12,525**	**889**	**6,662**	**20,076**

	Year ended 31 December 2007			
	Loans and advances	Impaired loans and advances		
	for which impairment losses are collectively assessed	For which impairment losses are collectively assessed	For which impairment losses are individually assessed	Total
At 1 January	8,005	404	7,873	16,282
Charge for the year	2,551	229	1,432	4,212
Releases for the year	–	–	(1,206)	(1,206)
Unwinding of discount	–	–	(118)	(118)
Recoveries of loans and advances previously written off	–	–	48	48
Write-offs	–	(2)	(526)	(528)
Transfers in	–	–	238	238
Exchange difference	(122)	–	(56)	(178)
At 31 December	10,434	631	7,685	18,750

(Expressed in millions of Renminbi unless otherwise stated)

14 LOANS AND ADVANCES TO CUSTOMERS *(continued)*

(d) Loans and advances to customers and allowances for impairment losses

	30 June 2008					
		Impaired loans and advances				
	Loans and advances for which impairment losses are collectively assessed (note (i))	for which impairment losses are collectively assessed (note (ii))	for which impairment losses are individually assessed (note (ii))	Total	Gross impaired loans and advances as a % of gross loans and advances	Fair value of collaterals held against individually assessed impaired loans and advances (note (iii))
Gross loans and advances to						
– financial institutions	**2,938**	**–**	**7**	**2,945**	**0.24**	**–**
– non-financial institution customers	**730,433**	**1,131**	**8,151**	**739,715**	**1.25**	**922**
	733,371	**1,131**	**8,158**	**742,660**	**1.25**	**922**
Less:						
Allowances for impairment losses on loans and advances to						
– financial institutions	**(21)**	**–**	**(4)**	**(25)**		
– non-financial institution customers	**(12,504)**	**(889)**	**(6,658)**	**(20,051)**		
	(12,525)	**(889)**	**(6,662)**	**(20,076)**		
Net loans and advances to						
– financial institutions	**2,917**	**–**	**3**	**2,920**		
– non-financial institution customers	**717,929**	**242**	**1,493**	**719,664**		
	720,846	**242**	**1,496**	**722,584**		

(Expressed in millions of Renminbi unless otherwise stated)

14 LOANS AND ADVANCES TO CUSTOMERS *(continued)*

(d) Loans and advances to customers and allowances for impairment losses *(continued)*

	31 December 2007					
	Loans and advances for which impairment losses are collectively assessed (note (i))	Impaired loans and advances: for which impairment losses are collectively assessed (note (ii))	Impaired loans and advances: for which impairment losses are individually assessed (note (ii))	Total	Gross impaired loans and advances as a % of gross loans and advances	Fair value of collaterals held against individually assessed impaired loans and advances (note (iii))
Gross loans and advances to						
– financial institutions	3,660	–	7	3,667	0.19	–
– non-financial institution customers	659,113	809	9,578	669,500	1.55	1,119
	662,773	809	9,585	673,167	1.54	1,119
Less:						
Allowances for impairment losses on loans and advances to						
– financial institutions	(16)	–	(3)	(19)		
– non-financial institution customers	(10,418)	(631)	(7,682)	(18,731)		
	(10,434)	(631)	(7,685)	(18,750)		
Net loans and advances to						
– financial institutions	3,644	–	4	3,648		
– non-financial institution customers	648,695	178	1,896	650,769		
	652,339	178	1,900	654,417		

Notes: (i) These loans and advances include those for which no objective evidence of impairment has been identified on individual basis (i.e. loans which are graded as normal or special mention).

(ii) Impaired loans and advances include loans for which objective evidence of impairment has been identified:

– individually (comprising corporate loans and advances which are graded substandard, doubtful and loss); or

– collectively; that is portfolios of homogeneous loans (comprising retail loans which are graded substandard, doubtful and loss).

(iii) The fair value of collaterals was estimated by management based on the latest available external valuations adjusted by taking into account the current realisation experience as well as market situation.

(Expressed in millions of Renminbi unless otherwise stated)

15 INVESTMENTS

	30 June 2008	31 December 2007
Financial assets at fair value through profit or loss (note 15(a))	**13,252**	10,838
Available-for-sale investments (note 15(b))	**155,325**	142,116
Held-to-maturity debt securities (note 15(c))	**72,986**	74,632
Receivables (note 15(d))	**16,672**	16,537
	258,235	244,123

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

	30 June 2008	31 December 2007
(i) Trading assets		
Listed/quoted		
In the Mainland		
– PRC government bonds	**160**	340
– bonds issued by People's Bank of China (the "PBOC")	**1,227**	986
– bonds issued by policy banks	**2,317**	2,146
– other debt securities	**3,478**	2,932
– equity investments	**15**	–
Outside the Mainland		
– other debt securities	**530**	788
– equity investments	**18**	8
	7,745	7,200
Unlisted/unquoted		
Outside the Mainland		
– other debt securities	**–**	100
	7,745	7,300
Derivative financial instruments (note 27(b))	**5,120**	3,293
	12,865	10,593

(Expressed in millions of Renminbi unless otherwise stated)

15 INVESTMENTS *(continued)*

(a) Financial assets at fair value through profit or loss *(continued)*

	30 June 2008	31 December 2007
(ii) Financial assets designated at fair value through profit or loss		
Listed/quoted		
In the Mainland		
– PRC government bonds	**246**	245
Unlisted/unquoted		
Outside the Mainland		
– other debt securities	**141**	–
	387	245
	13,252	10,838
Financial assets at fair value through profit or loss (excluding derivative financial instruments)		
Issued by:		
Sovereigns	**1,633**	1,571
Banks and other financial institutions	**2,846**	2,836
Public sector entities	**–**	198
Corporates	**3,653**	2,940
	8,132	7,545

(Expressed in millions of Renminbi unless otherwise stated)

15 INVESTMENTS *(continued)*

(b) Available-for-sale investments

	30 June 2008	31 December 2007
Listed/quoted		
In the Mainland		
– PRC government bonds	**4,548**	6,858
– bonds issued by the PBOC	**58,275**	53,338
– bonds issued by policy banks	**51,962**	45,763
– other debt securities	**32,775**	25,109
Outside the Mainland		
– other debt securities	**6,717**	9,325
– equity investment	**174**	–
	154,451	140,393
Unlisted/unquoted		
In the Mainland		
– other debt securities	**401**	401
– equity investments	**88**	38
Outside the Mainland		
– other debt securities	**377**	1,141
– equity investments	**8**	143
	874	1,723
	155,325	142,116
Issued by:		
Sovereigns	**63,086**	60,475
Banks and other financial institutions	**59,979**	56,282
Public sector entities	**1,374**	1,970
Corporates	**30,886**	23,389
	155,325	142,116

(Expressed in millions of Renminbi unless otherwise stated)

15 INVESTMENTS *(continued)*

(c) Held-to-maturity debt securities

	30 June 2008	31 December 2007
Listed/quoted		
In the Mainland		
– PRC government bonds	**15,446**	16,444
– bonds issued by the PBOC	**12,210**	10,810
– bonds issued by policy banks	**34,476**	34,582
– other debt securities	**4,750**	4,042
Outside the Mainland		
– other debt securities	**6,104**	8,754
	72,986	74,632
Fair value	**72,385**	74,037
Issued by:		
Sovereigns	**32,026**	31,923
Banks and other financial institutions	**38,084**	39,594
Public sector entities	**380**	849
Corporates	**2,496**	2,266
	72,986	74,632

(d) Receivables

	30 June 2008	31 December 2007
Unlisted/unquoted		
In the Mainland		
– PRC government bonds	**6,735**	7,962
– bonds issued by the PBOC	**8,000**	8,000
– others	**1,550**	50
Outside the Mainland		
– others	**387**	525
	16,672	16,537

(Expressed in millions of Renminbi unless otherwise stated)

15 INVESTMENTS *(continued)*

(d) Receivables *(continued)*

	30 June 2008	31 December 2007
Issued by:		
Sovereigns	14,735	15,962
Banks and other financial institutions	1,679	282
Corporates	258	293
	16,672	16,537

Receivables are unlisted/unquoted bearer's national bonds issued by the PRC government and other investments which are not quoted in an active market in the PRC or overseas. Accordingly, the Group is unable to disclose their market values. The Group considers the recoverable amounts from these assets upon their maturities are the same as their carrying values and no provision for impairment losses is required.

(e) Financial liabilities at fair value through profit or loss

	30 June 2008	31 December 2007
Derivative financial instruments (note 27(b))	3,794	2,945

(f)

(i) Taizhou Commercial Bank

In November 2007, the Bank entered into an agreement with two independent third parties to acquire 10% equity interest in Taizhou Commercial Bank ("TCB") for a total consideration of RMB272.1 million. As of 30 June 2008, the proposed acquisition has yet to be approved by the China Banking Regulatory Commission (the "CBRC").

(ii) Wing Lung Bank

On 30 May 2008, the Bank entered into two agreements with Wu Jieh Yee Company Limited and Wu Yee Sun Company Limited and Yee Hong Company Limited (the "Vendors") to acquire 53.12% equity interest in Wing Lung Bank Limited ("Wing Lung") for a total consideration of HK$19,302 million. The completion of the acquisition is subject to obtaining approvals from relevant regulatory authorities including the China Securities Regulatory Commission (the "CSRC"), the CBRC, the Hong Kong Monetary Authority (the "HKMA"), the Securities and Futures Commission of Hong Kong (the "SFC") and the Insurance Authority of Hong Kong (the "IAHK"). As of 30 June 2008, the proposed acquisition is not yet approved by the CSRC, the CBRC, the HKMA, the SFC and the IAHK.

(Expressed in millions of Renminbi unless otherwise stated)

15 INVESTMENTS *(continued)*

(f) *(ii)* ***Wing Lung Bank*** *(continued)*

Upon signing of the above agreements, a deposit amounted to HK$965 million (the "Deposit") was paid by the Bank to the Vendors. If the transaction cannot be completed due to the Bank's default, the Vendors shall be entitled to forfeit and retain the Deposit in full (together with any interest income earned on the Deposit from the date of receipt of the Deposit by the Vendors). Otherwise, the Deposit shall be refunded to CMB in full, together with any interest income earned on the Deposit from the date of receipt of the Deposit by the Vendors.

Under Rule 26.1 of the Hong Kong Code on Takeovers and Mergers (the "Takeovers Code"), upon completion of acquisition, the Bank will be required to make an unconditional mandatory cash offer (the "Offer") for all the issued Wing Lung Shares, other than those Wing Lung Shares already owned by or agreed to be acquired by the Bank or parties acting in concert with it at the time when the Offer is made. The Offer, if and when made, will be unconditional in all respects.

Upon completion of the transaction, the Group's investment in Wing Lung will be recognised as an investment in a subsidiary. The investment in a subsidiary, any intangible assets and goodwill arising will be accounted for in the consolidated financial statements in accordance with IFRSs.

(iii) ***CIGNA & CMC Life Insurance Company Limited***

On 5 May 2008, the Bank entered into an agreement with Shenzhen Municipal Dingzun Investment Advisory Company ("Dingzun") to acquire 50% equity interest in CIGNA & CMC Life Insurance Company Limited ("CIGNA & CMC Life Insurance") for a total consideration of RMB141.9 million. The completion of the acquisition is subject to obtaining approvals from relevant regulatory authorities including the CSRC, the CBRC and the China Insurance Regulatory Commission ("CIRC"). As of 30 June 2008, the proposed acquisition is not yet approved by the relevant regulatory authorities.

16 INTEREST IN AN ASSOCIATE

	30 June 2008	31 December 2007
Share of net assets	**141**	111
Goodwill	**114**	114
	255	225

The following list contains only the particulars of an associate as of 30 June 2008, which is an unlisted corporate entity and principally affected the results or assets of the Group:

				Proportion of ownership interest		
Name of associate	**Form of business structure**	**Place of incorporation and operation**	**Particulars of issued and paid up capital**	**Group's effective interest**	**Held by the bank**	**Principal activity**
China Merchants Fund Management Company Limited	Incorporated	Shenzhen	210	33.4%	33.4%	Asset management

(Expressed in millions of Renminbi unless otherwise stated)

17 FIXED ASSETS

2008

	Land and buildings	Investment properties	Construction in progress	Computer equipment	Leasehold improvements	Motor vehicles and other equipment	Total
Cost:							
At 1 January 2008	5,065	531	1,411	3,828	1,801	1,202	13,838
Additions	193	–	726	644	123	94	1,780
Transfers	109	(60)	(63)	–	14	4	4
Disposals/write-offs	(35)	–	–	(303)	–	(26)	(364)
At 30 June 2008	5,332	471	2,074	4,169	1,938	1,274	15,258
Accumulated depreciation:							
At 1 January 2008	1,385	137	–	1,927	935	732	5,116
Depreciation	132	12	–	289	110	74	617
Transfers	5	(5)	–	–	–	–	–
Written back on disposals/ write-offs	(20)	–	–	(56)	–	(15)	(91)
At 30 June 2008	1,502	144	–	2,160	1,045	791	5,642
Net book value:							
At 30 June 2008	3,830	327	2,074	2,009	893	483	9,616

2007

	Land and buildings	Investment properties	Construction in progress	Computer equipment	Leasehold improvements	Motor vehicles and other equipment	Total
Cost:							
At 1 January 2007	4,558	584	766	3,014	1,411	1,013	11,346
Additions	48	–	1,154	1,162	366	245	2,975
Transfers	543	(53)	(508)	–	25	2	9
Disposals/write-offs	(84)	–	(1)	(348)	(1)	(58)	(492)
At 31 December 2007	5,065	531	1,411	3,828	1,801	1,202	13,838
Accumulated depreciation:							
At 1 January 2007	1,153	146	–	1,633	761	647	4,340
Depreciation	229	28	–	461	174	128	1,020
Transfers	37	(37)	–	–	–	–	–
Written back on disposals/ write-offs	(34)	–	–	(167)	–	(43)	(244)
At 31 December 2007	1,385	137	–	1,927	935	732	5,116
Net book value:							
At 31 December 2007	3,680	394	1,411	1,901	866	470	8,722

(Expressed in millions of Renminbi unless otherwise stated)

18 DEFERRED TAX

(a) Recognised deferred tax assets

The components of deferred tax assets/(liabilities) are as follows:

	30 June 2008	31 December 2007
Impairment losses on loans and advances to customers and other assets	**2,361**	2,038
Investment revaluation reserve	**24**	103
Deductible salary expenses	**–**	144
Others	**(262)**	(123)
	2,123	2,162

(b) Movements of deferred tax

	Impairment losses on loans and advances to customers and other assets	**Investment revaluation reserve**	**Deductible salary expenses**	**Others**	**Total**
At 1 January 2008	**2,038**	**103**	**144**	**(123)**	**2,162**
Recognised in the consolidated income statement	**323**	**–**	**(144)**	**(139)**	**40**
Recognised in reserves	**–**	**(79)**	**–**	**–**	**(79)**
At 30 June 2008	**2,361**	**24**	**–**	**(262)**	**2,123**
At 1 January 2007	2,384	(34)	–	(90)	2,260
Recognised in the consolidated income statement	(346)	–	144	(33)	(235)
– due to timing differences	116	–	144	(15)	245
– due to income tax rate change	(462)	–	–	(18)	(480)
Recognised in reserves	–	137	–	–	137
– due to timing differences	–	144	–	–	144
– due to income tax rate change	–	(7)	–	–	(7)
At 31 December 2007	2,038	103	144	(123)	2,162

(Expressed in millions of Renminbi unless otherwise stated)

18 DEFERRED TAX *(continued)*

(b) Movements of deferred tax *(continued)*

On 16 March 2007, the Fifth Plenary Session of the Tenth National People's Congress passed the Corporate Income Tax Law of the People's Republic of China ("new tax law") which has taken effect on 1 January 2008. As a result of the new tax law, the income tax rate applicable to the Bank's business in areas other than Shenzhen is reduced from 33% to 25% from 1 January 2008; the income tax rate for the Bank's business in Shenzhen is gradually increased from 15% to the standard rate of 25% over a five-year transition period (being 18% in 2008, 20% in 2009, 22% in 2010, 24% in 2011 and 25% in 2012).

19 DEPOSITS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	30 June 2008	31 December 2007
Deposits from banks	**6,210**	6,951
Deposits from other financial institutions	**196,047**	211,569
	202,257	218,520

20 PLACEMENTS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	30 June 2008	31 December 2007
Money market takings		
– banks	**9,479**	5,555
Balances under repurchase agreements		
– banks	**8,045**	21,922
– other financial institutions	**4,448**	19,126
	12,493	41,048
	21,972	46,603

(Expressed in millions of Renminbi unless otherwise stated)

21 DEPOSITS FROM CUSTOMERS

	30 June 2008	31 December 2007
Demand deposits		
– corporate customers	**359,147**	350,951
– retail customers	**201,511**	190,697
	560,658	541,648
Time deposits		
– corporate customers	**314,697**	266,050
– retail customers	**171,271**	135,836
	485,968	401,886
	1,046,626	943,534

22 ISSUED DEBT SECURITIES

(a) Certificates of deposits issued

On 1 November 2007, the Bank issued 1-year certificates of deposits at a nominal value of US$150 million with interest at LIBOR+0.15% per annum payable quarterly.

On 17 January 2008, the Bank issued 1-year certificates of deposits at a nominal value of HK$500 million with fixed interest at 3.5% per annum payable quarterly.

On 23 April 2008, the Bank issued 2-year certificates of deposits at a nominal value of HK$220 million with interest at LIBOR+0.4% per annum payable quarterly.

(b) Convertible bonds issued

On 10 November 2004, the Bank issued a 5-year convertible bond with a nominal value of RMB6.5 billion. The interest rates are 1.0% for the first year, 1.375% for the second year, 1.75% for the third year, 2.125% for the forth year and 2.5% for the fifth year, payable on 10 November each year. The convertible bonds can be converted into the Bank's shares at the holder's option at RMB9.34 per share during the period from 10 May 2005 to 10 November 2009. Upon maturity, an additional 6% interest will be given to bond holders who have not converted the bonds into shares.

The conversion price of the bonds was revised from RMB9.34 per share to RMB6.23 per share with effect from 17 June 2005 following the issue of bonus shares by the Bank in 2005.

The conversion price of the bonds has been further revised from RMB6.23 per share to RMB5.74 per share with effect from 24 February 2006 following the issue of bonus shares by the Bank in 2006.

On 25 September 2006, the convertible bonds of the Bank in circulation were less than RMB30 million. Pursuant to the relevant requirements, the convertible bonds were suspended for trading with effect from 29 September 2006. Holders of convertible bonds can convert the bonds into share anytime before the conversion period expires.

(Expressed in millions of Renminbi unless otherwise stated)

22 ISSUED DEBT SECURITIES *(continued)*

(b) Convertible bonds issued *(continued)*

The Bank has an early redemption option which commences six months after the bonds' issue date and lapses on the maturity date. During that period, the Bank may redeem any outstanding convertible bonds at 103% of the nominal value of the convertible bonds plus the accrued interest if the closing price of the Bank's listed A shares is more than 125% of the then applicable conversion price for 20 consecutive business days.

During the final year before the maturity date of the convertible bonds, if the last traded price of the Bank's listed A shares falls below 75% of the conversion price for 20 consecutive trading days, the bond holders can exercise the put option to sell to the Bank all or a portion of the outstanding bonds at 108.5% of the nominal value of the convertible bonds plus accrued interest.

Details of the convertible bonds are as follows:

	30 June 2008	31 December 2007
Initial recognition:		
– Nominal value	**6,500**	6,500
– Issuance cost	**(65)**	(65)
– Equity component	**(918)**	(918)
Liability component at issue date	**5,517**	5,517
Accretion	**235**	235
Amounts converted to shares	**(5,750)**	(5,739)
Liability component as at 30 June/31 December	**2**	13

(c) Other debts issued

Particulars	**Terms**	**Date of issue**	**Annual fixed interest rate** (%)	**Nominal value** (in million)
Fixed term notes	36 months	From 13 October 2005 to 26 October 2005	2.13	5,000
Fixed term notes	60 months	From 13 October 2005 to 26 October 2005	2.56	5,000

The CBRC and the PBOC approved the Bank's issuance of a total of RMB15 billion fixed term notes on 29 September 2005 (Yin Jian Fu [2005] No. 252) and 9 October 2005 (Yin Fu [2005] No. 75) respectively. The Bank issued a total of RMB10 billion fixed rate term notes during the period from 13 October 2005 to 26 October 2005. Interest on these notes is payable annually.

(Expressed in millions of Renminbi unless otherwise stated)

22 ISSUED DEBT SECURITIES *(continued)*

(d) Subordinated notes issued

Particulars	**Terms**	**Date of issue**	**Annual fixed interest rate** (%)	**Nominal value** (in million)
Fixed rate notes	61 months	31 March 2004 and 10 June 2004	4.59 to 5.1	3,500

The CBRC approved the Bank's issuance of RMB3,500 million subordinated notes on 30 March 2004 (Yin Jian Fu [2004] No. 36), and the amount has been included as supplementary capital in calculating the Bank's capital adequacy ratio. Interest on the subordinated notes is payable annually.

23 SHARE CAPITAL

	Registered and issued share capital	
	No. of shares (in million)	**Amount**
At 1 January 2008	**14,705**	**14,705**
Conversion of convertible bonds	**2**	**2**
At 30 June 2008	**14,707**	**14,707**
At 1 January 2007	14,703	14,703
Conversion of convertible bonds	2	2
At 31 December 2007	14,705	14,705

By type of share:

	No. of shares (in million)	
	30 June 2008	31 December 2007
Listed shares		
– A-Shares		
– with trading moratorium	**4,799**	7,331
– without trading moratorium	**7,246**	4,712
– H-Shares	**2,662**	2,662
	14,707	14,705

The Bank issued 2 million shares upon conversion of the convertible bonds of RMB13 million during the six months period ended 30 June 2008, resulting in the increase in share capital and capital reserve of RMB2 million and RMB11 million respectively. As a result, the Bank's registered and issued capital increased from RMB14,705 million to RMB14,707 million.

(Expressed in millions of Renminbi unless otherwise stated)

24 PROFIT APPROPRIATIONS

(a) Dividends declared and paid

	Six months ended 30 June 2008	Year ended 31 December 2007	Six months ended 30 June 2007
Dividends in respect of the previous year, approved, declared and paid during the period of RMB2.8 (2007: RMB1.2) per every 10 shares	**4,117**	1,764	1,764

(b) Proposed profit appropriations

	Amount appropriated in respect of		
Items	**the six months ended 30 June 2008**	the year ended 31 December 2007	the six months ended 30 June 2007
Statutory surplus reserve	**–**	1,524	–
Final dividends:			
– Nil (2007: RMB2.8) per every 10 shares	**–**	4,117	–
Total	**–**	5,641	–

2007 profit was appropriated in accordance with the resolution passed at the seventeenth meeting of the seventh Board of Directors held on 18 March 2008 and as approved in the annual general meeting held on 27 June 2008.

25 NOTES TO CONSOLIDATED CASH FLOW STATEMENTS

(a) Analysis of the balances of cash and cash equivalents

	30 June 2008	30 June 2007
Cash	**5,838**	5,028
With original maturity within 3 months:		
– balances with banks and other financial institutions	**11,467**	11,765
– balances with central bank	**44,729**	55,393
– placements with banks and other financial institutions	**52,340**	93,257
– investment securities:		
– at fair value through profit or loss	**52**	–
– available-for-sale	**4,361**	1,790
	118,787	167,233

25 NOTES TO CONSOLIDATED CASH FLOW STATEMENTS *(continued)*

(b) Significant non-cash transactions

Apart from the non-cash transactions relating to the conversion of convertible bonds to share capital during the period of which the details are included in note 22(b), there were no other significant non-cash transactions.

26 SEGMENTAL REPORTING

The Group's principal activities are commercial lending and deposits taking. The funding of existing retail and corporate loans are mainly from customer deposits.

Segment information is presented in respect of the Group's business and geographical segments. Business segment information is chosen as the primary reporting format as it is more relevant to the Group's operating activities.

For the purpose of segmental analysis, external net interest income/expense represents the net interest income earned or expense incurred on banking businesses originated by these segments. Internal net interest income/expense represents the allocation of revenue to reflect the benefits of funding sources allocated to the business segments by way of internal funds transfer pricing mechanism. The internal funds transfer pricing mechanism has taken into account the structure and market returns of the assets and liabilities portfolio. Cost allocation is based on the direct cost incurred by the respective business segments and apportionment of management overheads. Inter-segment interest income and expense recognised through the internal funds transfer pricing mechanism are eliminated in the consolidated results of the operations.

(a) Business segments

The Group comprises the following main business segments:

– ***Corporate banking***

The provision of financial services to corporations and institutions includes lending and deposit taking activities, project and structured finance products, syndicated loans, cash management, investment advice and other investment services.

– ***Retail banking***

The provision of financial services to retail customers includes lending and deposit taking activities, credit card facilities and investment services.

– ***Treasury business***

It covers interbank and capital market activities and proprietary trading.

– ***Others and unallocated***

These represent equity investments, and assets, liabilities, income and expenses of the head office that are not directly attributable to a segment or cannot be allocated on a reasonable basis.

(Expressed in millions of Renminbi unless otherwise stated)

26 SEGMENTAL REPORTING *(continued)*

(a) Business segments *(continued)*

	Six months ended 30 June 2008				
	Corporate banking	Retail banking	Treasury business	Others and unallocated	Total
External net interest income	12,104	3,535	8,486	–	24,125
Internal net interest (expense)/income	(266)	2,234	(1,968)	–	–
Net interest income	11,838	5,769	6,518	–	24,125
Net fee and commission income	1,474	2,529	–	91	4,094
Other net income/(expense)	503	143	(148)	70	568
Operating income	13,815	8,441	6,370	161	28,787
Operating expenses					
– depreciation	(226)	(371)	(20)	–	(617)
– others	(4,469)	(4,692)	(527)	(1)	(9,689)
	(4,695)	(5,063)	(547)	(1)	(10,306)
Operating profit before impairment losses	9,120	3,378	5,823	160	18,481
Impairment losses	(1,150)	(508)	273	(7)	(1,392)
Share of profit of an associate	–	–	–	33	33
Profit before tax	7,970	2,870	6,096	186	17,122
Capital expenditure (note)	653	1,070	57	–	1,780
	30 June 2008				
Segment assets	538,786	193,208	651,059	12,738	1,395,791
Segment liabilities	673,845	372,780	243,213	28,457	1,318,295
Interest in an associate	–	–	–	255	255

(Expressed in millions of Renminbi unless otherwise stated)

26 SEGMENTAL REPORTING *(continued)*

(a) Business segments *(continued)*

	Six months ended 30 June 2007				
	Corporate banking	Retail banking	Treasury business	Others and unallocated	Total
External net interest income	8,845	1,466	4,385	–	14,696
Internal net interest (expense)/income	(298)	2,686	(2,388)	–	–
Net interest income	8,547	4,152	1,997	–	14,696
Net fee and commission income	678	1,915	–	71	2,664
Other net income/(expense)	387	126	(359)	40	194
Operating income	9,612	6,193	1,638	111	17,554
Operating expenses					
– depreciation	(261)	(215)	(16)	–	(492)
– others	(3,422)	(2,693)	(358)	(3)	(6,476)
	(3,683)	(2,908)	(374)	(3)	(6,968)
Operating profit before impairment losses	5,929	3,285	1,264	108	10,586
Impairment losses	(901)	(616)	(46)	(16)	(1,579)
Profit before tax	5,028	2,669	1,218	92	9,007
Capital expenditure (note)	305	405	28	–	738
	31 December 2007				
Segment assets	485,525	177,425	636,731	10,871	1,310,552
Segment liabilities	617,143	326,391	282,684	16,350	1,242,568
Interest in an associate	–	–	–	225	225

Note: Capital expenditure represents total amount incurred for acquiring assets that are expected to be used for some periods

26 SEGMENTAL REPORTING *(continued)*

(b) Geographical segments

The Group operates principally in the PRC with subsidiaries, associate and branches located in major provinces, autonomous regions and municipalities directly under the central government.

In presenting information on the basis of geographical segments, operating income is allocated based on the location of the subsidiaries, associate and branches that generated the revenue. Segment assets and capital expenditure are allocated based on the geographical location of the underlying assets.

Geographical segments, as defined for management reporting purposes, are as follows:

– "Eastern China" region refers to the following areas serviced by the subsidiary and branches of the Group: Shanghai Municipality, Jiangsu Province, Zhejiang Province, Shandong Province, Fujian Province and Anhui Province;

– "Southern and Central China" region refers to the Head Office and the following areas serviced by the associate and branches of the Group: Guangdong Province, Hunan Province, Jiangxi Province, Hubei Province, and Henan Province;

– "Western China" region refers to the following areas serviced by the branches of the Group: Sichuan Province, Chongqing Municipality, Yunnan Province, Shaanxi Province, Gansu Province and Xinjiang Autonomous Region;

– "Northern China" region refers to the following areas serviced by the branches of the Group: Beijing Municipality, Tianjin Municipality, Liaoning Province, Heilongjiang Province and Shanxi Province and Inner Mongolia Autonomous Region; and

– "Others" refer to operations of Hong Kong branch and the subsidiary.

(Expressed in millions of Renminbi unless otherwise stated)

26 SEGMENTAL REPORTING *(continued)*

(b) Geographical segments *(continued)*

	Six months ended 30 June 2008					
	Eastern China	Southern and Central China	Western China	Northern China	Others	Total
Net interest income	8,377	10,095	2,300	3,308	45	24,125
Net fee and commission income	1,435	2,220	168	244	27	4,094
Other net income	201	126	34	138	69	568
Operating income	10,013	12,441	2,502	3,690	141	28,787
Operating expenses						
– depreciation	(201)	(243)	(73)	(98)	(2)	(617)
– others	(3,031)	(4,629)	(770)	(1,212)	(47)	(9,689)
	(3,232)	(4,872)	(843)	(1,310)	(49)	(10,306)
Operating profit before impairment losses	6,781	7,569	1,659	2,380	92	18,481
Impairment losses	(1,220)	710	(709)	(160)	(13)	(1,392)
Share of profit of an associate	–	33	–	–	–	33
Profit before tax	5,561	8,312	950	2,220	79	17,122
Capital expenditure (note)	602	860	247	67	4	1,780
	30 June 2008					
Segment assets	377,684	749,755	104,862	148,245	15,245	1,395,791
Of which: gross loans and advances to customers	311,564	216,890	80,061	125,659	8,486	742,660
Segment liabilities	384,385	644,419	107,465	167,010	15,016	1,318,295
Interest in an associate	–	255	–	–	–	255

(Expressed in millions of Renminbi unless otherwise stated)

26 SEGMENTAL REPORTING *(continued)*

(b) Geographical segments *(continued)*

	Six months ended 30 June 2007					
	Eastern China	Southern and Central China	Western China	Northern China	Others	Total
Net interest income	5,074	5,861	1,399	2,340	22	14,696
Net fee and commission income	804	1,605	91	143	21	2,664
Other net income/(expense)	169	(236)	24	107	130	194
Operating income	6,047	7,230	1,514	2,590	173	17,554
Operating expenses						
– depreciation	(150)	(202)	(55)	(84)	(1)	(492)
– others	(2,070)	(2,977)	(539)	(857)	(33)	(6,476)
	(2,220)	(3,179)	(594)	(941)	(34)	(6,968)
Operating profit before impairment losses	3,827	4,051	920	1,649	139	10,586
Impairment losses	(947)	(190)	(174)	(263)	(5)	(1,579)
Profit before tax	2,880	3,861	746	1,386	134	9,007
Capital expenditure (note)	157	484	44	53	–	738
	31 December 2007					
Segment assets	326,857	717,382	90,644	156,281	19,388	1,310,552
Of which: gross loans and advances to customers	275,956	197,324	71,898	121,474	6,515	673,167
Segment liabilities	334,084	612,478	93,978	182,800	19,228	1,242,568
Interest in an associate	–	225	–	–	–	225

Note: Capital expenditure represents total amount incurred for acquiring assets that are expected to be used for some periods.

(Expressed in millions of Renminbi unless otherwise stated)

27 OFF-BALANCE SHEET EXPOSURES

(a) Contingent liabilities and commitments

(i) Credit commitments

At any given time the Group has outstanding commitments to extend credit. These commitments take the form of approved loans and credit card limits. The Group provides financial guarantees and letters of credit to guarantee the performance of customers to third parties. Acceptances comprise undertakings by the Group to pay bills of exchange drawn on customers. The Group expects most acceptances to be settled simultaneously with the reimbursement from the customers.

The contractual amounts of commitments and contingent liabilities are set out in the following table by category. The amounts reflected in the table for commitments assume that amounts are fully advanced. The amount reflected in the table for guarantees and letters of credit represents the maximum potential loss that would be recognised at the balance sheet date if counterparties failed completely to perform as contracted.

	30 June 2008	31 December 2007
Contractual amount:		
Irrevocable guarantees	**67,198**	55,263
Irrevocable letters of credit	**26,671**	23,937
Bills of acceptances	**217,860**	180,002
Irrevocable loan commitments		
– with an original maturity of under one year	**656**	1,210
– with an original maturity of one year or over	**10,434**	8,620
Credit card commitments	**67,942**	50,881
Shipping guarantees	**7**	12
	390,768	319,925

Irrevocable loan commitments only include credit limits granted to offshore customers, and onshore and offshore syndicated loans. The Directors are of the opinion that the Group will not assume any risks on the unused credit limits for other loan customers as such limits are revocable and subject to the loan approval process. As a result, such balances are not included in the above contingent liabilities and commitments.

Apart from the irrevocable loan commitments, the Group had loan commitments of RMB531,040 million at 30 June 2008 (31 December 2007: RMB454,490 million) which are unconditionally cancellable by the Group or automatically cancellable due to deterioration in the creditworthiness of the borrower as stipulated in respective loan agreements.

(Expressed in millions of Renminbi unless otherwise stated)

27 OFF-BALANCE SHEET EXPOSURES *(continued)*

(a) Contingent liabilities and commitments *(continued)*

(i) Credit commitments *(continued)*

These commitments and contingent liabilities have off-balance sheet credit risk. Before the commitments are fulfilled or expire, management assesses and makes allowances for any probable losses accordingly. As the facilities may expire without being drawn upon, the total of the contractual amounts is not representative of expected future cash outflows.

	30 June 2008	31 December 2007 (restated) (Note)
Credit risk weighted amounts of contingent liabilities and commitments:		
Contingent liabilities and commitments	**139,333**	119,761

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

There are no relevant standards prescribed by IFRSs in calculating the above credit risk weighted amounts.

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

Note: The Credit risk weighted amounts of contingent liabilities and commitments of the Bank as at 31 December 2007 were restated according to the guidance set out in Yin Jian Fu 2008 No.123.

(ii) Capital commitments

Authorised capital commitments not provided for were as follows:

	30 June 2008	31 December 2007
For purchase of fixed assets:		
– Contracted for	**878**	801

(Expressed in millions of Renminbi unless otherwise stated)

27 OFF-BALANCE SHEET EXPOSURES *(continued)*

(a) Contingent liabilities and commitments *(continued)*

(iii) Operating lease commitments

Total future minimum lease payments under non-cancellable operating leases of properties are payable as follows:

	30 June 2008	31 December 2007
Within 1 year	**925**	816
After 1 year but within 5 years	**2,553**	2,241
After 5 years	**805**	649
	4,283	3,706

(iv) Outstanding litigations

At 30 June 2008, the Group was a defendant in certain pending litigations with gross claims of RMB370 million (31 December 2007: RMB246 million) arising from their banking activities. Many of these proceedings are in relation to steps taken by the Bank to collect delinquent loans and enforce rights in collateral securing such loans. The Directors consider that no material losses would be incurred by the Group as a result of these pending litigations and therefore no provision has been made in the interim financial report.

(v) Redemption obligations

As an underwriting agent of PRC government bonds, the Group has the responsibility to buy back those bonds sold by it should the holders decide to early redeem the bonds held. The redemption price for the bonds at any time before their maturity date is based on the coupon value plus any interest unpaid and accrued up to the redemption date. Accrued interest payables to the bond holders are calculated in accordance with relevant rules of the Ministry of Finance (the "MOF") and the PBOC. The redemption price may be different from the fair value of similar instruments traded at the redemption date.

The redemption obligations below represent the nominal value of government bonds underwritten and sold by the Group, but not yet matured at the balance sheet date:

	30 June 2008	31 December 2007
Redemption obligations	**7,915**	7,488

The Group expects the amount of redemption before the maturity date of these government bonds through the Group will not be material.

(Expressed in millions of Renminbi unless otherwise stated)

27 OFF-BALANCE SHEET EXPOSURES *(continued)*

(b) Derivatives

Derivatives are off-balance sheet financial instruments which mainly include forward, swap and option transactions undertaken by the Group in the foreign exchange and interest rate markets.

The Group enters into financial derivative transactions for treasury business and its assets and liabilities management purpose.

The following tables provide an analysis of the notional amounts of derivatives of the Group and the corresponding fair values at the balance sheet date. The notional amounts of the derivatives indicate the transaction volume outstanding at the balance sheet date; they do not represent amounts at risk.

	30 June 2008		
	Notional amounts	Fair values	
	Total	Assets	Liabilities
Derivatives held for trading			
Interest rate derivatives			
Interest rate swaps	**28,841**	**1,235**	**(293)**
Forward rate agreement	**343**	**–**	**(1)**
	29,184	**1,235**	**(294)**
Currency derivatives			
Spot	**22,778**	**10**	**(9)**
Forwards	**89,970**	**3,233**	**(3,019)**
Foreign exchange swaps	**44,395**	**364**	**(185)**
Options	**12,377**	**115**	**(112)**
	169,520	**3,722**	**(3,325)**
Other derivatives			
Equity swaps	**12,038**	**160**	**(160)**
Credit default swaps	**1,440**	**3**	**(8)**
	13,478	**163**	**(168)**
Derivatives managed in conjunction with financial instruments designated at fair value through profit or loss			
Interest rate derivatives			
Interest rate swaps	**137**	**–**	**(7)**
Total		**5,120**	**(3,794)**
		(Note 15(a))	(Note 15(e))

(Expressed in millions of Renminbi unless otherwise stated)

27 OFF-BALANCE SHEET EXPOSURES *(continued)*

(b) Derivatives *(continued)*

	31 December 2007		
	Notional amounts	Fair values	
	Total	Assets	Liabilities
Derivatives held for trading			
Interest rate derivatives			
Interest rate swaps	33,511	16	(31)
Currency derivatives			
Spot	6,360	3	–
Forwards	106,606	2,543	(2,374)
Foreign exchange swaps	21,192	249	(62)
Options	45,920	374	(371)
	180,078	3,169	(2,807)
Other derivatives			
Equity swaps	11,011	104	(104)
Credit default swaps	480	4	(3)
	11,491	108	(107)
Total		3,293	(2,945)
		(Note 15(a))	(Note 15(e))

The credit risk weighted amounts in respect of these derivatives are as follows. These amounts take into account the effects of bilateral netting arrangements.

Credit risk weighted amounts

	30 June 2008	31 December 2007
Interest rate derivatives	**78**	18
Currency derivatives	**737**	428
Other derivatives	**3**	1
	818	447

The credit risk weighted amount refers to the amount as computed in accordance with the rules set out by the CBRC and depends on the status of the counterparty and the maturity characteristics.

(Expressed in millions of Renminbi unless otherwise stated)

28 TRANSACTIONS ON BEHALF OF CUSTOMERS

(a) Entrusted lending business

The Group provides entrusted lending business services to corporations and individuals. All entrusted loans are made under the instruction or at the direction of these entities or individuals and are funded by entrusted funds from them.

For entrusted assets and liabilities business, the Group generally does not take on credit risk in relation to these transactions. The Group acts as an agent to hold and manage these assets and liabilities at the direction of the entrustor and receives fee income for the services provided.

Trust assets are not assets of the Group and are not recognised in the balance sheet. Surplus funding is accounted for as deposits from customers. Income received and receivable for providing these services is included in the income statement as fee income.

At the balance sheet date, the entrusted assets and liabilities were as follows:

	30 June 2008	31 December 2007
Entrusted loans	**78,699**	67,824
Entrusted funds	**78,699**	67,824

(b) Wealth management services

The Group's wealth management services to customers mainly represent sales of wealth management products to corporate and personal banking customers. The funds obtained from wealth management services are invested in investment products, including government bonds, PBOC bills, notes issued by policy banks, short-dated corporate notes, entrusted loans and IPO shares. The credit risk, liquidity risk and interest rate risk associated with these products are borne by the customers who invest in these products. The Group only earns commission which represents the charges on customers in relation to the provision of custody, sales and management services. The income is recognised in the income statement as commission income.

The wealth management products and funds obtained are not assets and liabilities of the Group and are not recognised in the balance sheet. The funds obtained from wealth management services that have not yet been invested are recorded under deposits from customers.

At the balance sheet date, funds received from customers under wealth management services were as follows:

	30 June 2008	31 December 2007
Funds received from customers under wealth management services	**111,203**	69,111

(Expressed in millions of Renminbi unless otherwise stated)

29 MATURITY PROFILE

	30 June 2008							
	Repayable on demand	Within 1 month	After 1 month but within 3 months	After 3 months but within 1 year	After 1 year but within 5 years	After 5 years	Indefinite	Total
Cash and balances with central bank (note (i))	49,017	–	–	–	–	–	147,750	196,767
Amounts due from banks and other financial institutions	8,058	79,086	64,652	43,387	33	–	–	195,216
Loans and advances to customers (note (ii))	303	51,220	110,774	311,337	134,371	112,026	2,553	722,584
Investments (note (iii))	–	9,581	17,402	67,320	127,903	30,606	5,423	258,235
– at fair value through profit or loss	–	222	590	2,996	4,229	62	5,153	13,252
– available-for-sale	–	8,189	13,673	54,426	61,593	17,174	270	155,325
– held-to-maturity	–	910	1,551	7,607	49,723	13,195	–	72,986
– receivables	–	260	1,588	2,291	12,358	175	–	16,672
Other assets	6,368	875	1,018	1,840	311	11	12,566	22,989
Total assets	63,746	140,762	193,846	423,884	262,618	142,643	168,292	1,395,791
Amounts due to banks and other financial institutions	196,561	15,967	4,494	6,207	1,000	–	–	224,229
Deposits from customers	633,541	82,290	114,862	190,579	24,747	607	–	1,046,626
Financial liabilities at fair value through profit or loss	–	–	–	–	–	–	3,794	3,794
Certificates of deposit issued	–	–	–	1,468	193	–	–	1,661
Convertible bonds issued	–	–	–	–	2	–	–	2
Other debts issued	–	–	–	4,999	4,995	–	–	9,994
Subordinated notes issued	–	–	–	2,500	1,000	–	–	3,500
Other liabilities	25,657	415	567	1,579	234	37	–	28,489
Total liabilities	855,759	98,672	119,923	207,332	32,171	644	3,794	1,318,295
Long/(short) position	(792,013)	42,090	73,923	216,552	230,447	141,999	164,498	77,496

(Expressed in millions of Renminbi unless otherwise stated)

29 MATURITY PROFILE *(continued)*

	31 December 2007							
	Repayable on demand	Within 1 month	After 1 month but within 3 months	After 3 months but within 1 year	After 1 year but within 5 years	After 5 years	Indefinite	Total
Cash and balances with central bank (note (i))	42,902	–	–	–	–	–	109,745	152,647
Amounts due from banks and other financial institutions	8,994	138,018	54,889	37,593	70	–	–	239,564
Loans and advances to customers (note (ii))	774	51,577	107,653	276,036	117,932	95,981	4,464	654,417
Investments (note (iii))	–	8,780	20,907	65,852	113,114	31,988	3,482	244,123
– at fair value through profit or loss	–	324	738	2,992	2,260	1,223	3,301	10,838
– available-for-sale	–	8,383	19,240	48,478	51,062	14,772	181	142,116
– held-to-maturity	–	–	194	12,292	46,346	15,800	–	74,632
– receivables	–	73	735	2,090	13,446	193	–	16,537
Other assets	4,353	1,179	1,053	1,997	37	28	11,154	19,801
Total assets	57,023	199,554	184,502	381,478	231,153	127,997	128,845	1,310,552
Amounts due to banks and other financial institutions	207,845	43,545	4,280	9,428	–	25	–	265,123
Deposits from customers	610,629	58,231	89,705	161,536	22,466	967	–	943,534
Financial liabilities at fair value through profit or loss	–	–	–	–	–	–	2,945	2,945
Certificates of deposit issued	–	–	–	1,095	–	–	–	1,095
Convertible bonds issued	–	–	–	–	13	–	–	13
Other debts issued	–	–	–	4,998	4,994	–	–	9,992
Subordinated notes issued	–	–	–	–	3,500	–	–	3,500
Other liabilities	13,663	535	789	1,057	301	21	–	16,366
Total liabilities	832,137	102,311	94,774	178,114	31,274	1,013	2,945	1,242,568
Long/(short) position	(775,114)	97,243	89,728	203,364	199,879	126,984	125,900	67,984

Notes: (i) For balances with central bank, indefinite amount represents statutory deposit reserve funds and fiscal balances maintained with the PBOC.

(ii) For loans and advances to customers, indefinite amounts represent loans of which the whole or part of the principals was overdue for more than 1 month. The indefinite amounts are stated net of appropriate allowances for impairment losses.

(iii) The remaining maturities of trading assets and assets designated at fair value through profit or loss included in investments do not represent the Group's intention to hold them to maturity.

(Expressed in millions of Renminbi unless otherwise stated)

30 MATERIAL RELATED-PARTY TRANSACTIONS

(a) Transaction terms and conditions

During the periods, the Group entered into transactions with related parties in the ordinary course of its banking business including lending, investment, deposit, securities trading, agency services, trust services and off-balance sheet transactions. The Directors are of the opinion that the Group's material related-party transactions were all entered into on normal commercial terms. The banking transactions were priced at the relevant market rates prevailing at the time of each transaction. Interest rates on loans and deposits are required to be set in accordance with the following benchmark rates set by the PBOC:

	2008	2007
Short-term loans	**5.85% to 7.47% p.a.**	5.58% to 7.47% p.a.
Medium to long-term loans	**6.75% to 7.83% p.a.**	6.30% to 7.83% p.a.
Saving deposits	**0.72% p.a.**	0.72% p.a.
Time deposits	**3.06% to 5.85% p.a.**	1.80% to 5.85% p.a.

There were no allowances for impairment losses made on an individual basis against loans and advances granted to related parties during the periods.

(b) Shareholders and their related companies

The Bank's largest shareholder China Merchants Steam Navigation Company Limited ("CMSNCL") and its related companies hold 17.64% (12.11% (31 December 2007: 12.11%) held directly by CMSNCL) of the Bank's shares as at 30 June 2008 (31 December 2007: 17.64%). The Group's transactions and balances with CMSNCL and its related companies are disclosed as follows:

	30 June 2008	31 December 2007
On balance sheet:		
Loans and advances	**5,224**	3,620
Investments	**137**	406
Deposits from customers	**17,338**	57,616
Off balance sheet:		
Irrevocable guarantees	**1,195**	1,112
Irrevocable letters of credit	**126**	80
Bills of acceptances	**368**	296

(Expressed in millions of Renminbi unless otherwise stated)

30 MATERIAL RELATED-PARTY TRANSACTIONS *(continued)*

(b) Shareholders and their related companies *(continued)*

	Six months ended 30 June	
	2008	2007
Average balance of loans and advances	**3,780**	2,688
Interest income	**118**	110
Interest expense	**335**	163
Fees and commission income	**245**	520

(c) Companies controlled by directors other than those under Note 30(b) above

	30 June 2008	31 December 2007
On balance sheet:		
Loans and advances	**–**	110
Investments	**370**	1,343
Deposits from customers	**10,476**	5,862

	Six months ended 30 June	
	2008	2007
Average balance of loans and advances	**18**	509
Interest income	**2**	15
Interest expense	**5**	5
Fees and commission income	**1**	1

Unaudited Supplementary Financial Information

for the six months ended 30 June 2008

(Expressed in millions of Renminbi unless otherwise stated)

(a) CAPITAL ADEQUACY RATIO

The capital adequacy ratio is prepared on a solo basis in accordance with the guideline "Regulation Governing Capital Adequacy of Commercial Banks" [Order (2007) No.11] issued by the CBRC (the "CBRC guideline") in July 2007, which may have significant differences with the relevant requirements in Hong Kong or other countries.

The capital adequacy ratios and related components of the Bank as at 30 June 2008 and as at 31 December 2007, calculated based on PRC GAAP, were as follows:

	30 June 2008	31 December 2007 (restated)(note)
Core capital adequacy ratio	**8.83%**	8.71%
Capital adequacy ratio	**10.41%**	10.29%
Components of capital base		
Core capital:		
– Paid up ordinary share capital	**14,707**	14,705
– Reserves	**58,317**	49,009
– Total core capital	**73,024**	63,714
Supplementary capital:		
– General provisions for doubtful debts	**12,525**	10,434
– Term subordinated bonds	**900**	1,400
– Convertible bonds	**2**	13
– Other supplementary capital	**824**	147
– Total supplementary capital	**14,251**	11,994
Total capital base before deductions	**87,275**	75,708
Deductions:		
– Investments in unconsolidated subsidiaries and other long-term investments	**2,657**	619
– Investment in commercial real estate	**298**	363
Total capital base after deductions	**84,320**	74,726
Risk weighted assets	**809,937**	726,029

Note: The capital adequacy ratios and related components of the Bank as at 31 December 2007 were restated according to the guidance set out in Yin Jian Fu [2008] No.123.

(Expressed in millions of Renminbi unless otherwise stated)

(b) LIQUIDITY RATIOS

	30 June 2008	31 December 2007
Liquidity ratios		
RMB current assets to RMB current liabilities	**37.7%**	41.7%
Foreign currency current assets to foreign currency current liabilities	**108.8%**	95.0%

The above liquidity ratios are calculated in accordance with the formula promulgated by the PBOC and the CBRC and based on PRC GAAP.

(c) CROSS-BORDER CLAIMS

The Group is principally engaged in business operations within the Mainland China, and regards all claims on third parties outside the Mainland China as cross-border claims.

Cross-border claims include loans and advances, balances and placements with banks and other financial institutions, holdings of trade bills and certificates of deposit and investment securities.

Cross-border claims have been disclosed by different country or geographical areas. A country or geographical 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 transfers are 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.

	30 June 2008			
	Banks and other financial institutions	**Public sector entities**	**Others**	**Total**
Asia Pacific excluding the PRC	**9,128**	**–**	**15,920**	**25,048**
– of which attributed to Hong Kong	**4,088**	**–**	**15,821**	**19,909**
Europe	**17,411**	**–**	**518**	**17,929**
North and South America	**7,652**	**1,754**	**5,441**	**14,847**
	34,191	**1,754**	**21,879**	**57,824**

	31 December 2007			
	Banks and other financial institutions	Public sector entities	Others	Total
Asia Pacific excluding the PRC	10,093	–	6,123	16,216
– of which attributed to Hong Kong	3,526	–	5,990	9,516
Europe	21,069	–	439	21,508
North and South America	9,254	3,018	5,454	17,726
	40,416	3,018	12,016	55,450

(Expressed in millions of Renminbi unless otherwise stated)

(d) OVERDUE LOANS AND ADVANCES TO CUSTOMERS

Loans and advances to customers that are more than 90 days overdue are analysed as follows:

(i) By geographical segments

	30 June 2008	31 December 2007
Eastern China	**1,869**	1,414
Southern and Central China	**3,766**	4,831
Western China	**1,895**	1,762
Northern China	**934**	981
Others	**103**	110
	8,567	9,098

(ii) By overdue period

	30 June 2008	31 December 2007
Gross loans and advances to customers which have been overdue with respect to either principal or interest for periods of:		
– between 3 and 6 months	**737**	800
– between 6 and 12 months	**1,062**	635
– over 12 months	**6,768**	7,663
Total	**8,567**	9,098
As a percentage of total gross loans and advances:		
– between 3 and 6 months	**0.10%**	0.12%
– between 6 and 12 months	**0.14%**	0.09%
– over 12 months	**0.91%**	1.14%
Total	**1.15%**	1.35%

(iii) Collateral information

	30 June 2008	31 December 2007
Secured portion of overdue loans and advances	**729**	1,401
Unsecured portion of overdue loans and advances	**7,838**	7,697
Value of collaterals held against overdue loans and advances	**628**	1,151
Provision of overdue loans and advances for which impairment losses are individually assessed	**6,177**	6,835

(Expressed in millions of Renminbi unless otherwise stated)

(e) OVERDUE LOANS AND ADVANCES TO FINANCIAL INSTITUTIONS

Loans and advances to financial institutions that are more than 90 days overdue are analysed as follows:

(i) By geographical segments

	30 June 2008	31 December 2007
Northern China	**4**	1

(ii) By overdue period

	30 June 2008	31 December 2007
Gross loans and advances to financial institutions which have been overdue with respect to either principal or interest for period of		
– between 3 and 6 months	**1**	1
– between 6 and 12 months	**3**	–
Total	**4**	1
As a percentage of total gross loans and advances		
– between 3 and 6 months	**–**	–
– between 6 and 12 months	**–**	–
Total	**–**	–

(iii) Collateral information

	30 June 2008	31 December 2007
Secured portion of overdue loans and advances	**–**	–
Unsecured portion of overdue loans and advances	**4**	1
Value of collaterals held against overdue loans and advances	**–**	–
Provision of overdue loans and advances for which impairment losses are individually assessed	**–**	–

(Expressed in millions of Renminbi unless otherwise stated)

(e) OVERDUE LOANS AND ADVANCES TO FINANCIAL INSTITUTIONS

(continued)

Note: The above analysis, (d) and (e), includes loans and advances overdue for more than 90 days as required and defined by the HKMA.

Loans and advances with a specific repayment date are classified as overdue when the principal or interest is overdue.

For loans and advances repayable by regular instalments, if part of the instalments is overdue, the whole amount of these loans would be classified as overdue.

Loans and advances repayable on demand are classified as overdue when a demand for repayment has been served on the borrower but repayment has not been made in accordance with the instructions. If the loans and advances repayable on demand are outside the approved limit that was advised to the borrower, they were also considered as overdue.

The collaterals of the Bank included cash deposit, shares, land use right, property, motor vehicles and equipment, etc. The fair value of collaterals was estimated by management based on the latest available external valuations adjusted by taking into account the current realisation experience as well as market situation. Where collateral values are greater than gross advances, only the amount of collateral up to the gross advance had been included in the "secured portion of overdue loans and advances" as set out in the above tables.

(f) RESCHEDULED LOANS AND ADVANCES TO CUSTOMERS

	30 June 2008		31 December 2007	
		% of total loans and advances		% of total loans and advances
Rescheduled loans and advances to customers	**1,569**	**0.21%**	1,790	0.27%
Less:				
– rescheduled loans and advances but overdue more than 90 days	**1,150**	**0.15%**	1,332	0.20%
Rescheduled loans and advances overdue less than 90 days	**419**	**0.06%**	458	0.07%

There were no rescheduled loans and advances to financial institutions as at 30 June 2008 and 31 December 2007.

(g) NON-BANK MAINLAND EXPOSURES

The Bank is a commercial bank incorporated in the Mainland with its banking business primarily conducted in the Mainland. As of 30 June 2008 and 31 December 2007, over 90% of the Bank's exposures arose from businesses with Mainland entities or individuals. Analyses of various types of exposures by counterparty have been disclosed in the notes to the interim financial report.

(h) CURRENCY CONCENTRATIONS OTHER THAN RMB

	30 June 2008			
	US Dollars	**HK Dollars**	**Others**	**Total**
		(in millions of RMB)		
Non-structural position				
Spot assets	**100,568**	**13,580**	**3,826**	**117,974**
Spot liabilities	**(79,901)**	**(20,407)**	**(9,917)**	**(110,225)**
Forward purchases	**76,933**	**7,649**	**7,516**	**92,098**
Forward sales	**(94,615)**	**(1,264)**	**(1,814)**	**(97,693)**
Net option position	**(55)**	**–**	**55**	**–**
Net long/(short) position	**2,930**	**(442)**	**(334)**	**2,154**
Net structural position	**–**	**52**	**–**	**52**

	31 December 2007			
	US Dollars	HK Dollars	Others	Total
		(in millions of RMB)		
Non-structural position				
Spot assets	96,468	18,355	6,035	120,858
Spot liabilities	(75,651)	(23,898)	(9,955)	(109,504)
Forward purchases	71,982	6,210	6,161	84,353
Forward sales	(89,474)	(1,177)	(2,222)	(92,873)
Net option position	(61)	–	61	–
Net long/(short) position	3,264	(510)	80	2,834
Net structural position	–	51	–	51

The net option position is calculated using the delta equivalent approach required by the Hong Kong Monetary Authority (the "HKMA"). The net structural position of the Group includes the structural positions of the Bank's branches substantially involved in foreign exchange. Structural assets and liabilities include:

– Investments in fixed assets and premises, net of depreciation charges;

– Capital and statutory reserves of Hong Kong branch; and

– Investment in a subsidiary in Hong Kong.

(i) RISK MANAGEMENT

(i) Credit risk

Credit risk represents the potential loss that may arise from the failure of a debtor to meet its obligation or commitment to the Group. Credit risk increases when all counterparties are concentrated in a single industry or a geographical region, as different counterparties in the same region or industry may be affected by the same economic development, which may eventually affect their repayment abilities.

The Group has designed its organisation framework, credit policies and processes with an objective to identify, evaluate and manage its credit risk effectively. The Risk Management and Internal Control Committee is set up and is appointed by the Board to be responsible for supervising and evaluating the set-up, organisational structure, work process and effectiveness of various risk management functions. To mitigate risk, the Group may obtain collateral and guarantees where appropriate.

With respect to daily operations, the Risk Management Department, as directed by the Risk Management and Internal Control Committee, monitors and coordinates the work of other risk management functions, including the Corporate Banking Department and the Legal and Compliance Department.

In respect of the loan portfolio, the Group adopts a risk based loan classification methodology. Currently, the Group classifies loans into seven categories: excellent, good, general mention, special mention, substandard, doubtful and loss. The last three categories are considered as impaired loans and advances for which objective evidence of impairment exists based on a loss event or several events and which bear significant impairment losses. The allowances for impairment losses for the impaired loans and advances are assessed collectively or individually as appropriate.

The risks involved in credit-related commitments and contingencies are essentially the same as the credit risk involved in extending loan facilities to customers. These transactions are, therefore, subject to the same credit application, portfolio maintenance and collateral requirements as for customers applying for loans.

Concentration of credit risk: when certain numbers of customers are in the same business, located in the same geographical region or their industries share similar economic characteristics, their ability to meet their obligations may be affected by the same economic changes. The level of concentration of credit risk reflects the sensitivity of the Group's operating result to a specific industry or geographical region.

Analyses of loans and advances by industry, customer type, nature and geographical location are stated in notes 14 and 26(b).

The Group's credit risk management policy for financial derivatives is the same as that for other transactions. In order to mitigate the credit risk arising from the financial derivatives, the Group has signed netting agreements with certain counterparties.

(ii) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices and market risk comprises currency risk, interest rate risk and other price risk. The Group is exposed to market risk primarily through its proprietary trading activities. The Group considers that any market risk arising from its proprietary trading book is not material.

The Asset and Liability Management Committee ("ALCO") of the Group is responsible for formulating market risk management policies and procedures, supervising the implementation of the policies and procedures and making decision on significant market risk management issues. The Planning and Finance Department is responsible for implementing the market risk management policies and procedures.

(i) RISK MANAGEMENT *(continued)*

(ii) Market risk *(continued)*

The use of derivatives for proprietary trading and their sale to customers as risk management products is an integral part of the Group's business activities. These instruments are also used to manage the Group's own exposures to market risk as part of its asset and liability management process. The principal derivative instruments used by the Group are interest and foreign exchange rate related contracts, which are primarily over-the-counter derivatives.

The historical simulation model for the Value-at-risk ("VaR") analysis is used by the Group to measure and monitor the market risk of its trading portfolio. Gap analysis is used by the Group to measure and monitor the market risk of its non-trading business. Gap analysis is a technique to project future cash flows in order to quantify the differences, for a range of future dates, between assets and liabilities.

VaR is a technique that estimates the potential losses that could occur on risk positions as a result of movements in market rates and prices over a specified time horizon and to a given level of confidence. Effective from October 2007, the Group's ALCO calculates VaR using the historical movement in market rates and prices, at a 99% confidence level, with a 10-day holding period on its foreign currency denominated investments.

(iii) Currency risk

The Group is exposed to currency risks primarily arising from the mismatch of its holdings of foreign currency denominated financial assets and liabilities.

The Group's functional currency is RMB. Foreign currency transactions are mainly in US dollar and HK dollar. The Group's assets and liabilities are mainly denominated in RMB, with the rest being mainly in US dollar and HK dollar.

The Group monitors daily foreign currency transactions and positions closely.

The Group also reviews and analyses its exposures to currency risks regularly. To mitigate currency risks, the Group adjust its foreign currency positions according to the movements in the foreign exchange rate.

(iv) Interest rate risk

The Group's interest rate exposures are primarily those arising from the basis risk of its lending and deposit taking activities governed by the benchmark interest rate set by the PBOC, and the repricing of assets and liabilities.

The ALCO regularly monitors such interest rate risk positions. The Group regularly performs gap analysis, sensitivity analysis, scenario analysis and stress tests on these interest rate positions to measure and manage the risk in order to limit the potential adverse impacts of movements in interest rate on net interest income.

As the reference interest rates for RMB loans and deposits are determined by the PBOC, the Group follows the interest rates set by the PBOC when carrying out lending and deposit taking activities. The Group monetary assets and liabilities are mainly in RMB

(v) Liquidity risk

Liquidity risk is the risk the Group cannot satisfy the customers by repaying deposits that fall due, granting new loans or providing financing, or that the Group cannot satisfy these requirements at a normal cost. The Group's liquidity is managed by the ALCO. The ALCO is responsible for managing liquidity on a prudent basis to meet regulatory requirement. The liquidity of the Group is centrally managed by the head office using the internal funds transfer pricing mechanism.

(i) RISK MANAGEMENT *(continued)*

(v) Liquidity risk *(continued)*

A substantial portion of the Group's assets is funded by customer deposits made up of corporate and retail savings accounts and term deposits as well as deposit of banks. These customer deposits, which have been growing in recent years, are widely diversified by type and maturity and represent a stable source of funds.

The Group's loans-to-deposits ratio is maintained within 75%.

(vi) Operational risk

Operational risk includes the risk of direct or indirect loss due to an event or action causing failure of technology, processes, infrastructure and personnel, and other risks having an operational impact.

The Group manages this risk through a controls-based environment by establishing a framework of policies and procedures to identify, assess, control, manage and report risks. The framework covers all business functions ranging from finance, credit, accounting, settlement, savings, treasury, intermediary business, computer applications and management, special assets resolution and legal affairs. This has allowed the Group to identify and address the operational risk inherent in key products, activities, processes and systems.

(j) CAPITAL MANAGEMENT

The Group's capital management comprises the management of the capital adequacy ratio, capital financing, and economic capital, of which the prime focus is capital adequacy ratio management.

The Group calculates capital adequacy ratio in accordance with the guidelines issued by the CBRC. These guidelines may differ significantly from the relevant requirements in Hong Kong or other jurisdictions. The capital of the Group is analysed into core capital and supplementary capital. The core capital mainly includes paid-up share capital of ordinary shares, capital reserve, surplus reserve, retained earnings, and minority interest, after the deductions of dividends declared after the balance sheet date, as well as deductions of 100% of goodwill and 50% of unconsolidated equity investments. Supplementary capital includes general provisions, long-term subordinated bonds, and reserves arising from changes in the fair value of available-for-sale debt securities.

The CBRC requires that the capital adequacy ratio and core capital adequacy ratio for commercial banks shall not fall below 8% and 4% respectively. For commercial banks, supplementary capital shall not exceed 100% of core capital while long-term subordinated liabilities included in the supplementary capital shall not exceed 50% of the core capital. When total positions of trading accounts exceed 10% of the on-and off-balance sheet total assets, or RMB8.5 billion, commercial banks must provide for market risk capital. At present, the Group is fully compliant with legal and regulatory requirements.

Capital adequacy ratio management is a core issue of capital management. The capital adequacy ratio reflects the Group's sound operations and risk management capability. The Group's capital adequacy ratio management objectives are to meet the legal and regulatory requirements and to prudently determine the capital adequacy ratio under realistic exposures with reference to the capital adequacy ratio levels of leading global banks and the Group's operating situations.

The Group predicts, plans, and manages the capital adequacy ratio by using scenario models and stress tests based on its strategic development plans, business expansion needs, and risk exposure trends.

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