



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

We are here just for you



INTERIM REPORT

2007

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IMPORTANT NOTICE

The 2007 interim report and 2007 Interim Results Announcement of the Company were approved at the 5th meeting of the 7th session of the Board on 9 August 2007. 11 of the 18 directors attended the meeting. Non-executive Director Wei Jiafu authorized non-executive Director Sun Yueying, Non-executive Directors Wang Daxiong authorized non-executive Director Fu Yuning, Non-executive Directors Fu Junyuan authorized non-executive Director Li Yinquan, and Independent non-executive Director Wu Jiesi authorized Independent non-executive Director Chow Kwong Fai, Edward, Independent non-executive Director Yan Lan, Song Lin, Liu Hongxia and authorized Independent non-executive Director Liu Yongzhang to exercise their voting rights. 6 of the supervisors attended the meeting. The 2007 interim report of the Company was reviewed at the 3rd meeting of the 7th session of Audit and Related Party Transactions Control Committee of the Board on 6 August 2007.

The 2007 interim financial report is unaudited, but has been reviewed by KPMG. 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 Chief Financial Officer, and Mr. Yin Xuwen, 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.

CORPORATE INFORMATION

1. Registered Corporate Name in Chinese: 招商銀行股份有限公司
(Chinese abbreviation: 招商銀行, hereinafter the "Company",
the "Bank" or the "Group")
Registered Corporate Name in English: China Merchants Bank Co., Ltd.
2. Legal Representative: Qin Xiao
Authorized Representative as to H share: Ma Weihua, Li Hao
Secretary of 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
Tel: 86755-83198888
Fax: 86755-83195109
Email: cmb@cmbchina.com
3. Registered Address: 7088 Shennan Boulevard, Futian District,
Shenzhen, Guangdong Province, China
4. Mailing Address: 7088 Shennan Boulevard, Futian District,
Shenzhen, Guangdong Province, China
Postcode: 518040
Website: www.cmbchina.com
Email: cmb@cmbchina.com
5. Principal Place of Business in Hong Kong: 21st Floor, Bank of America Tower,
12 Harcourt Road, Hong Kong
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")
Abbreviated Name of H Share:	CMB
Stock Code:	3968
Convertible Bonds:	Shanghai Stock Exchange
Abbreviation of Convertible Bonds:	CMB Convertible Bonds
Code of Convertible Bonds:	110036

CORPORATE INFORMATION

7. Websites and Newspapers designated by the Company for Information Disclosure
Mainland China: "*China Securities Journal*", "*Securities Times*", "*Shanghai Securities News*"
Website of the Shanghai Stock Exchange (www.sse.com.cn); the Company's website (www.cmbchina.com)
Hong Kong: "*Hong Kong Economic Times*", "*South China Morning Post*"
Website of the Stock Exchange of Hong Kong Limited (www.hkex.com.hk);
the Company's website (www.cmbchina.com)
Interim Report available at: the office of the Board of Directors
8. Domestic Auditor: KPMG Huazhen Certified Public Accountants
International Auditor: KPMG Certified Public Accountants
9. Legal Advisor as to the PRC Law: Jun He Law Offices
Legal Advisor as to Hong Kong Law: Herbert Smith
10. Compliance Advisors as to H share: China International Capital (Hong Kong) Corporation Limited;
UBS AG (acting via its operating arm UBS Investment Bank)
11. Share Registrar and Transfer Office: A share: China Securities Depository &
Clearing Corporation Limited, Shanghai Branch
H share: Computershare Hong Kong Investor Services Limited
(Rooms 1712-1716, 17/F, Hopewell Centre,
183 Queen's Road East, Wanchai, Hong Kong)

FINANCIAL HIGHLIGHTS

OPERATING RESULTS

	Jan-Jun 2007	Jan-Jun 2006	Compared with Corresponding Period of the previous Year
	(In millions of RMB)	(In millions of RMB)	+/(-)%
Operating income	17,554	10,941	60.44
Profit before tax	9,007	4,395	104.94
Net profit attributable to the Bank's equity holders	6,120	2,777	120.38

PER SHARE

	Jan-Jun 2007	Jan-Jun 2006	Compared with corresponding period of the previous year
	(In RMB)	(In RMB)	+/(-)%
Basis earnings	0.42	0.23	82.61
Diluted earnings	0.42	0.23	82.61
Net assets value at the end of the period	4.03	2.67	50.94

FINANCIAL POSITION

	30 June 2007	31 December 2006	30 June 2006	At 30 June 2007 compared with the beginning of the year
	(In millions of RMB)	(In millions of RMB)	(In millions of RMB)	+/(-)%
Total assets	1,108,776	934,102	824,316	18.70
of which: gross loans and advances to customers	629,553	565,702	531,577	11.29
Total liabilities	1,049,540	878,942	791,573	19.41
of which: deposits from customers	844,571	773,757	703,602	9.15
Total shareholders' equity	59,236	55,160	32,743	7.39

FINANCIAL HIGHLIGHTS

FINANCIAL RATIOS

	30 June 2007	31 December 2006	30 June 2006	At 30 June 2007 compared with the beginning of the year
	(%)	(%)	(%)	+ / (-)
Profitability ratios⁽¹⁾				
Return on average assets (after tax)	1.20	0.81	0.71	0.39
Return on average equity (after tax)	21.40	16.74	18.91	4.66
Net interest spread	2.85	2.69	2.53	0.16
Net interest margin	2.96	2.72	2.56	0.24
Percentage of operating income to				
– Net interest income	83.72	86.50	86.17	(2.78)
– Net non-interest income	16.28	13.50	13.83	2.78
Cost-to-income ratio ⁽²⁾	33.70	38.28	37.91	(4.58)
Capital adequacy ratios				
Core capital adequacy ratio	9.23	9.58	6.44	(0.35)
Capital adequacy ratio	10.98	11.40	8.36	(0.42)
Total equity to total assets	5.34	5.91	3.97	(0.57)
Asset quality ratios				
Non-performing loan ratio	1.66	2.12	2.30	(0.46)
Allowances for impairment losses to non-performing loans	169.97	135.61	123.20	34.36
Allowances for impairment losses to total loans and advances to customers	2.81	2.88	2.83	(0.07)

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 operating income.

REPORT OF THE BOARD OF DIRECTORS

1 GENERAL OPERATING STATUS

During the six-month period ended 30 June 2007, the various businesses of the Company were going well, with rapid growth in profit and continuous improvement in profitability and assets quality. Meanwhile, as a result of the increased efforts in structural adjustment, the business structure, revenue structure and customer structure became more well-defined, while the overall operating activities displayed a good momentum of development, which were specifically reflected in the following aspects:

- I. Rapid growth in profit. During the six-month period ended 30 June 2007, net profit was RMB6,120 million, an increase of RMB3,343 million or 120.38% compared to the corresponding period of previous year; net interest income was RMB14,696 million, an increase of RMB5,268 million or 55.88% compared to the corresponding period of previous year; and net non-interest income was RMB2,858 million, an increase of RMB1,345 million or 88.90% compared to corresponding period of the previous year. The substantial increase in profit was due to (1) expanding business size and operating scale, assets structure adjustment and widening interest spread; (2) continuous rapid growth in net non-interest income; (3) effective cost control resulting in improving productivity; (4) consistently improved assets quality; and (5) effective income tax rate decreased due to increase in deductible salary expenses and the increase in proportion of assessable income derived from regions where subject to lower tax rates.
- II. Rapid and balanced growth of all businesses. As at 30 June 2007, total assets were RMB1,108,776 million, an increase of RMB174,674 million or 18.70% compared to the beginning of the year; gross loans and advances to customers were RMB629,553 million, an increase of RMB63,851 million or 11.29% compared to the beginning of the year; total deposits to customers were RMB844,571 million, an increase of RMB70,814 million or 9.15% compared to the beginning of the year, of which the balance of deposits from corporate customers was RMB527,279 million, an increase of RMB65,481 million compared to the beginning of the year, up 14.18%, while the balance of deposits from retail customers was RMB317,292 million, an increase of RMB5,333 million compared to the beginning of the year, up by 1.71%.
- III. Continuous improvement in income structure of businesses. During the six-month period ended 30 June 2007, net non-interest income accounted for 16.28% of total income, an increase of 2.78 percentage points compared to the end of last year, of which net fee income accounted for 15.18%, an increase of 5.07 percentage points compared to the end of last year; loans and advances to retail customers accounted for 21.82% of the loans and advances to customers, an increase of 3.79 percentage points as compared with the beginning of the year; loans and advances to small and medium-sized enterprise customers accounted for 41.41% of corporate loans, up by 2.23 percentage points compared to the beginning of the year.
- IV. Consistently improved assets quality. As at 30 June 2007, the balance of non-performing loan was RMB10,421 million, a decrease of RMB1,585 million compared to the beginning of the year; non-performing loan ratio was 1.66%, a decrease of 0.46 percentage points compared to the beginning of the year; recovery of non-performing loans was satisfactory with an amount of RMB1,799 million collected in the first half of the year.

REPORT OF THE BOARD OF DIRECTORS

1 GENERAL OPERATING STATUS *(continued)*

- V. Further enhanced brand image. During the reporting period, the Bank was awarded more than 30 honours, including "The Best Bank in China", "The Best Retail Bank in China", "The Best Domestic Cash Management Bank in China", "The Most Respected Enterprise of China", "The Enterprise with Most Development Potential Award", "2006 Best Employer Award by CCTV", "China's Best Call Center of Year 2007", "My Favorite Top 10 HK Listed Companies in 2006", and "The First of Top 100 Valuable Listed Companies in China in 2006".

2 FINANCIAL HIGHLIGHTS

2.1 Analysis of Income Statement

(1) *Financial results highlights*

	Jan-Jun 2007	Jan-Jun 2006
	(In millions of RMB)	<i>(In millions of RMB)</i>
Net interest income	14,696	9,428
Net fee and commission income	2,664	1,124
Other net income	194	389
Operating expenses	6,968	4,848
Provision for impairment losses	1,579	1,698
Profit before tax	9,007	4,395
Net profit attributable to equity holders of the Bank	6,120	2,777

During the six-month period ended 30 June 2007, net profit attributable to the equity holders of the Bank was RMB6,120 million, an increase of 120.38% compared to that of the corresponding period of 2006. Earnings per share was RMB0.42, an increase of 82.61% compared to that of the corresponding period of 2006.

(2) *Operating income*

During the six-month period ended 30 June 2007, the operating income of the Company reached RMB17,554 million, an increase of 60.44% compared to that of the corresponding period of 2006. It was mainly due to expansion of the Company's assets size, assets structure adjustment, the substantial increase in net interest income, and fee and commission income with a macro environment of rising interest rate and active investment activities. Net interest income and fee and commission income accounted for 79.66% and 23.29% respectively of the increased operating income. The proportion of non-interest income to operating income continued to increase to 16.28%.

REPORT OF THE BOARD OF DIRECTORS

2 FINANCIAL HIGHLIGHTS *(continued)*2.1 Analysis of Income Statement *(continued)*

(3) Net interest income

During the six-month period ended 30 June 2007, the net interest income of the Company was RMB14,696 million, an increase of 55.88% compared to that of the corresponding period of 2006. It was primarily attributable to the increase in scale of and return on interest-earning assets.

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

	30 June 2007			31 December 2006			30 June 2006		
	Average balance	Interest income/expense	Average yield/cost per annum %	Average balance	Interest income/expense	Average yield/cost %	Average balance	Interest income/expense	Average yield/cost per annum %
	<i>(In millions of RMB, excluding percentages)</i>								
Assets									
Loans and advances to customers	619,004	17,002	5.54	526,122	26,891	5.11	506,788	12,213	4.86
Debt investments	182,820	2,967	3.27	124,520	3,919	3.15	116,565	1,755	3.04
Balances with central bank	91,843	731	1.61	66,431	1,044	1.57	61,348	480	1.58
Balances and placements with banks and other financial institutions	107,715	1,584	2.97	74,103	2,136	2.88	57,623	822	2.88
Interest-earning assets and total interest income	1,001,382	22,284	4.49	791,176	33,990	4.30	742,324	15,270	4.15
Liabilities									
Deposits from customers	776,798	5,798	1.51	694,702	10,449	1.50	657,446	4,963	1.52
Amounts due to banks and other financial institutions	143,295	1,557	2.19	65,205	1,551	2.38	52,749	635	2.43
Issued debts	14,606	233	3.22	15,528	481	3.10	15,102	244	3.26
Interest-bearing liabilities and total interest expense	934,699	7,588	1.64	775,435	12,481	1.61	725,297	5,842	1.62
Net interest income		14,696			21,509			9,428	
Net interest spread⁽¹⁾			2.85			2.69			2.53
Net interest margin⁽²⁾			2.96			2.72			2.56

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.

REPORT OF THE BOARD OF DIRECTORS

2 FINANCIAL HIGHLIGHTS *(continued)*

2.1 Analysis of Income Statement *(continued)*

(3) *Net interest income* *(continued)*

The following table sets forth, for the period indicated, the distribution of changes in interest income and interest expenses resulting from changes in volume and rate of the Company; changes in volume are measured by change in average balances (daily average balance); changes in rate are measured by changes in average rates.

	January-June 2007 compared with January-June 2006		
	Increase/(decrease) resulting from Scale	Increase/ (decrease) Interest rate	Increase/ (decrease) Net value
<i>(In millions of RMB)</i>			
Assets			
Loans and advances to customers	2,704	2,085	4,789
Investments	998	214	1,212
Balances with central bank	239	12	251
Placements with banks and other financial institutions	715	47	762
Changes in interest income	4,656	2,358	7,014
Liabilities			
Deposits from customers	900	(65)	835
Amounts due to banks and other financial institutions	1,091	(169)	922
Issued debts	(8)	(3)	(11)
Changes in interest expense	1,983	(237)	1,746
Changes in net interest income	2,673	2,595	5,268

REPORT OF THE BOARD OF DIRECTORS

2 FINANCIAL HIGHLIGHTS *(continued)*

2.1 Analysis of Income Statement *(continued)*

(4) Interest income

Interest income from loans and advances to customers still accounted for the majority of the interest income of the Company. For the six-month period ended 30 June 2007, the interest income of the Company amounted to RMB22,284 million, representing an increase of 45.93% compared to the corresponding period of the previous year, which was primarily attributable to the increase in average balance and average yield of loans and advances to customers, debt investments, and placements with banks and other financial institutions.

Interest income from loans and advances to customers

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 2007			Jan-Jun 2006		
	Average balance	Interest income	Average yield per annum%	Average balance	Interest income	Average yield per annum%
	<i>(In millions of RMB, excluding percentages)</i>			<i>(In millions of RMB, excluding percentages)</i>		
Corporate loans	392,655	11,487	5.90%	316,439	8,585	5.47%
Retail loans	117,314	3,517	6.05%	77,972	2,244	5.80%
Discounted bills	109,035	1,998	3.70%	112,377	1,384	2.48%
Loans and advances to customers	619,004	17,002	5.54%	506,788	12,213	4.86%

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

During the six-month period ended 30 June 2007, the interest income from loans and advances to customers of the Company increased by 39.21%, compared to the corresponding period of the previous year. The increase in interest income is primarily caused by the following factors: (1) Rapid economic growth in China, resulting in rapid development of corporate loans, mortgages and credit card businesses. The average balance of corporate loans and retail loans increased by 24.09% and 50.46% respectively, and the increasing average balances of loans and advances to customers accounted for 56.46% of the total increase in interest income. (2) The continuous rise of RMB benchmark rates and US dollar interest rate, resulting in a rise in average yield of both loans and retail loans. (3) With the persistent high interest rate in the bills market since the second half of 2006, the average yield of discounted bills for the first half of 2007 rose by 122 BP compared with the corresponding period of the previous year.

REPORT OF THE BOARD OF DIRECTORS

2 FINANCIAL HIGHLIGHTS *(continued)*

2.1 Analysis of Income Statement *(continued)*

(4) **Interest income** *(continued)*

Interest income from debt investments

Interest income from debt investments was the second largest component of interest income of the Company. Interest income from debt investments during the six-month period ended 30 June 2007 increased by 69.06% compared to the corresponding period of the previous year. It was primarily attributable to the rapid increase in the daily average balances of the investments of RMB182,820 million, an increase of 56.84% compared to the corresponding period of the previous year. This factor accounted for 82.34% of the return on investments. On the other hand, with the significant rise in market interest rate, there was a great increase in the yield of investments to 3.27% in the first half of 2007, up by 23 BP, from 3.04% in the first half of 2006. The contribution from the yield accounted for 17.66% of the return on investments.

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

During the six-month period ended 30 June 2007, the interest income from balances and placements with banks and other financial institutions increased by 92.70% compared to the corresponding period of the previous year. It was primarily attributable to the increase in the daily average balance for deposits and placements with banks and other financial institutions to RMB107,715 million, representing an increase of 86.93% compared to the corresponding period of the previous year.

(5) **Interest expense**

During the six-month period ended 30 June 2007, the interest expense of the Company increased by 29.89% compared to the corresponding period of the previous year. It was primarily attributable to the increase in average balance of deposits from customers and amounts due to banks and other financial institutions and the increase in average cost.

Interest expense on deposits from customers

Deposits from customers are the major funding source of the Company. During the six-month period ended 30 June 2007, the Company's interest expense on deposits from customers increased by 16.82% compared to the corresponding period of the previous year. It was primarily due to the daily average balance of deposits from customers of RMB776,798 million, representing an increase of 18.15% compared to the corresponding period of the previous year.

REPORT OF THE BOARD OF DIRECTORS

2 FINANCIAL HIGHLIGHTS *(continued)*2.1 Analysis of Income Statement *(continued)*(5) Interest expense *(continued)**Interest expense on deposits from customers (continued)*

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

	Jan-Jun 2007			Jan-Jun 2006		
	Average balance	Interest expense	Average cost per annum (%)	Average balance	Interest expense	Average cost per annum (%)
	<i>(In millions of RMB, excluding percentages)</i>			<i>(In millions of RMB, excluding percentages)</i>		
Deposits from corporate customers	475,893	3,747	1.59%	381,142	2,948	1.56%
Demand	263,496	1,250	0.96%	221,051	995	0.91%
Time	212,397	2,497	2.37%	160,091	1,953	2.46%
Deposits from retail customers	300,905	2,051	1.37%	276,304	2,015	1.47%
Demand	158,810	582	0.74%	123,863	453	0.74%
Time	142,095	1,469	2.08%	152,441	1,562	2.07%
Total deposits from customers	776,798	5,798	1.51%	657,446	4,963	1.52%

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

Interest expense on amounts due to banks and other financial institutions

During the six-month period ended 30 June 2007, interest expenses on amounts due to banks and other financial institutions increased by 145.20% compared to the corresponding period of the previous year. It was primarily attributable to the increase in placements from banks and other financial institutions.

Interest expenses on issued debts

During the six-month period ended 30 June 2007, the interest expenses on issued debts decreased by 4.51% compared to the previous year, primarily due to significant amount of the convertible bonds issued by the Company on 10 November 2004 was converted into shares.

REPORT OF THE BOARD OF DIRECTORS

2 FINANCIAL HIGHLIGHTS *(continued)*

2.1 Analysis of Income Statement *(continued)*

(6) Net interest spread and net interest margin

During the six-month period ended 30 June 2007, the net interest spread of the Company was 2.85%, up by 32BP compared to the corresponding period of 2006; the average interest margin of the interest-earning assets of the Company increased from 4.15% in the first half of 2006 to 4.49% in the first half of 2007, up by 34BP; and the average cost of the interest-bearing liabilities increased from 1.62% in the first half of 2006 to 1.64% in the first half of 2007, up by 2BP.

During the six-month period ended 30 June 2007, the net interest margin of the Company was 2.96%, up by 24BP and 40BP respectively compared to the year of 2006 and the first half of 2006. Such an increase was primarily due to: (1) the rise in proportion of demand deposits to the total deposits from customers from 52.95% at the end of 2006 to 56.80% at the end of the reporting period. People's Bank of China ("PBOC") has raised the benchmark interest rates for loans and advances and the time deposits several times since the second half of 2006. This resulted in narrowing the one-year interest spread between deposits and loans. However, the Company's deposits from customers were mainly demand deposits, and their benchmark rate remained unchanged for the first half of 2007. Therefore there was an increase in the net interest spread; (2) The Company has made appropriate adjustments to the structure of loans and advances to customers by reducing the proportion of discounted bills with relatively low yield from 18.35% at the end of 2006 to 11.55% at the end of the reporting period. The net interest income for the first half of 2007 has increased by 55.88% compared to the corresponding period of the previous year, higher than the growth rate of 34.90% of the total interest-earning assets.

(7) Net fee and commission income

The Company consistently implemented a strategy of optimizing the income structure. With an active Chinese capital market, the Company recorded a net fee and commission income of RMB2,664 million during the six-month period ended 30 June 2007, representing a substantial increase of 137.01% compared to the corresponding period of the previous year, and exceeded the overall level of the whole year of 2006. Such an increase was primarily due to the increase in the trust services fees, agency services fees and bank card fees.

REPORT OF THE BOARD OF DIRECTORS

2 FINANCIAL HIGHLIGHTS *(continued)***2.1 Analysis of Income Statement** *(continued)***(7) Net fee and commission income** *(continued)*

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

	Jan-Jun 2007	Jan-Jun 2006
	(In millions of RMB)	<i>(In millions of RMB)</i>
Fee and commission income	3,012	1,322
Bank card fees	776	422
Remittance and settlement fees	375	280
Agency services fees	662	268
Commissions from credit commitment and loan business	193	132
Trust services fees	797	78
Others	209	142
Fee and commission expense	(348)	(198)
Net fee and commission income	2,664	1,124

During the six-month period ended 30 June 2007, the bank card fee income increased by 83.89% compared to the corresponding period of the previous year. It was primarily due to the increased issuance and transaction volume of our bank cards, especially credit cards. Included in the fee income was POS fee income of RMB390 million, representing an increase of 61.5% compared to the corresponding period of the previous year, and income from credit card cash advance and installment payment business was RMB330 million, representing an increase of 136.4% compared to the corresponding period of the previous year.

During the six-month period ended 30 June 2007, income from remittance and settlement services increased by 33.93% compared to the corresponding period of the previous year, while commissions from credit commitment and loan business increased by 46.21% compared to the corresponding period of the previous year. This was primarily attributable to the gradual expansion of the business scale and customer base, resulting in increased remittance and settlement transactions.

During the six-month period ended 30 June 2007, income from trust services increased by 921.79% compared to the corresponding period of the previous year. The income from agency services increased by 147.01% compared to the corresponding period of the previous year. Given the on-going active stock market in China, the Company stepped up the marketing of its agency services for funds, stocks, insurance and wealth management distribution businesses, resulting in significant growth in the income from the respective businesses. Fees income from distribution of funds and stocks was RMB1.12 billion, representing an increase of 687.37% compared to the corresponding period of the previous year.

REPORT OF THE BOARD OF DIRECTORS

2 FINANCIAL HIGHLIGHTS *(continued)*

2.1 Analysis of Income Statement *(continued)*

(7) *Net fee and commission income (continued)*

During the six-month period ended 30 June 2007, fee and commission expense increased by 75.76% compared to the corresponding period of the previous year. The increase was primarily attributable to rapid growth of credit cards issuance and the corresponding credit card fees expense. There was also a recorded increase in expense on credit card services, and commissions on ATM cross-bank withdrawals.

(8) *Other net income*

During the six-month period ended 30 June 2007, other net income of the Company decreased by 50.13% compared to the corresponding period of the previous year. This was primarily due to decreased net gain arising from foreign currency dealing, securities, derivatives and other transactions. Other net income accounted for 1.11% of the operating income.

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

	Jan-Jun 2007 <i>(In millions of RMB)</i>	Jan-Jun 2006 <i>(In millions of RMB)</i>
Trading profits arising from foreign exchange	18	258
Trading profits arising from securities, derivatives and other trading activities	71	127
Net gain/(loss) on financial instruments at fair value through profit or loss	30	(1)
Net gain/(loss) on disposal of available-for-sale financial assets	9	(26)
Rental income	23	26
Others	43	5
Total other net income	194	389

During the six-month period ended 30 June 2007, trading profits arising from foreign exchange decreased by 93.02% compared to the corresponding period of the previous year, primarily due to increased net loss on foreign currency translation as a result of RMB appreciation.

During the six-month period ended 30 June 2007, trading profits arising from securities, derivatives and other trading activities decreased by 44.09% compared to the corresponding period of the previous year. This was primarily attributable to decreased fair value of trading bonds and derivatives as a result of the rise in interest rate.

REPORT OF THE BOARD OF DIRECTORS

2 FINANCIAL HIGHLIGHTS *(continued)*

2.1 Analysis of Income Statement *(continued)*

(9) Operating expenses

During the six-month period ended 30 June 2007, the operating expenses were RMB6,968 million, representing an increase of 43.73% compared to the corresponding period of the previous year. The increase in operating expenses was 16.71 percentage points lower than the increase in operating income, reflecting an increase in efficiency. During the six-month period ended 30 June 2007, the cost-to-income ratio was 33.70%, decreased by 4.21 percentage points compared to the corresponding period of the previous year, primarily attributable to robust growth of the operating income of the Company.

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

	Six months ended 30 June 2007	Six months ended 30 June 2006
	<i>(In millions of RMB)</i>	<i>(In millions of RMB)</i>
Staff costs	3,501	2,290
Business tax and surcharges	1,052	700
Depreciation of fixed assets	492	439
Rental expenses	486	391
Other general and administrative expenses	1,437	1,028
Total operating expenses	6,968	4,848

Staff costs constituted the majority of the operating expenses of the Company. During the six-month period ended 30 June 2007, staff costs increased by 52.88% compared to the corresponding period of the previous year, primarily due to increased headcounts and performance-based bonuses. Depreciation of fixed assets increased by 12.07%, primarily due to increased capital expenditure on fixed assets including electronic equipment. Rental expenses increased by 24.30%, primarily due to an increase in new branches and offices. Other general and administrative expenses increased by 39.79% due to continuous business development. Business tax and surcharges increased by 50.29%, which was due to the increase in taxable income of the Company.

REPORT OF THE BOARD OF DIRECTORS

2 FINANCIAL HIGHLIGHTS *(continued)*

2.1 Analysis of Income Statement *(continued)*

(10) Provision for impairment losses

During the six-month period ended 30 June 2007, provision for impairment losses was RMB1,579 million, representing a decrease of 7.01% compared to the corresponding period of the previous year. The following table sets forth, for the period indicated, the principal components of provision for impairment losses of the Company.

	Jan-June 2007	Jan-June 2006
	<i>(In millions of RMB)</i>	<i>(In millions of RMB)</i>
Impairment losses charged on	1,579	1,698
– Loans and advances	1,521	1,602
– Deposits and placements with banks and other financial institutions	46	(66)
– Other assets	12	162

Provision for impairment losses on loans and advances constituted the largest component of the provision for impairment losses. During the six-month period ended 30 June 2007, provision for impairment losses on loans was RMB1,521 million, representing a decrease of 5.06% compared to the corresponding period of the previous year. For details of the change in and reason for provision for impairment losses on loan and advances, please refer to the section headed “Loan Quality Analysis” of this section.

REPORT OF THE BOARD OF DIRECTORS

2 FINANCIAL HIGHLIGHTS *(continued)*

2.2 Analysis of Balance Sheet

Assets

As at 30 June 2007, the total assets of the Company were RMB1,108,776 million, representing an increase of 18.70% compared to the beginning of the year. The increase in total assets was primarily due to the increase in loans and advances to customers; investment securities and other financial assets; and placements with banks and financial institutions – the three major components of the Company's asset portfolio. The increase in these types of assets accounted for approximately 69.74% of the increase in total assets portfolio. In addition, the upward adjustment of deposit reserve rate by central bank and the surplus funds in the market led to a remarkable increase in balances with central bank.

In the first half of 2007, the Company exercised stringent control on the growth of loans and increased efforts to diversify the assets in response to the macro-control policies of the State and the requests of loan control by the PBOC and the China Banking Regulatory Commission ("CBRC"). Meanwhile, to enhance the efficiency in fund use, the Company significantly increased placements with other well-established banks and financial institutions.

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

	30 June 2007		31 December 2006	
	Amount	Percentage of total (%)	Amount	Percentage of total (%)
	<i>(In millions of RMB, excluding percentages)</i>		<i>(In millions of RMB, excluding percentages)</i>	
Gross loans and advances to customers	629,553	56.78	565,702	60.56
Allowances for impairment losses on loans and advances	(17,713)	(1.60)	(16,282)	(1.74)
Net loans and advances to customers	611,840	55.18	549,420	58.82
Investment securities and other financial assets	203,419	18.35	178,885	19.15
Balances with central bank	135,461	12.22	82,372	8.82
Cash and balances with banks and other financial institutions	17,962	1.62	20,861	2.23
Placement with banks and other financial institutions	123,033	11.09	88,171	9.44
Other assets	17,061	1.54	14,393	1.54
Total assets	1,108,776	100.00	934,102	100.00

REPORT OF THE BOARD OF DIRECTORS

2 FINANCIAL HIGHLIGHTS *(continued)*

2.2 Analysis of Balance Sheet *(continued)*

Assets (continued)

(1) Loans and advances to customers

As at 30 June 2007, total loans and advances to customers amounted to RMB629,553 million, representing an increase of 11.29% compared to the previous year end; the percentage of total loans and advances to customers to the total assets was 56.78%, representing a decrease of 3.78 percentage points compared to the previous year end.

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.

	30 June 2007		31 December 2006	
	Amount	Percentage of total (%)	Amount	Percentage of total (%)
	<i>(In millions of RMB, excluding percentages)</i>		<i>(In millions of RMB, excluding percentages)</i>	
Corporate loans	419,477	66.63	359,883	63.62
Discounted bills	72,732	11.55	103,836	18.35
Retail loans	137,344	21.82	101,983	18.03
Total loans and advances to customers	629,553	100.00	565,702	100.00

Corporate loans

As at 30 June 2007, our corporate loans amounted to RMB419,477 million, an increase of 16.56% compared to the previous year end. The percentage of corporate loans to the total loans and advances to customers was 66.63%. The increase in corporate loans was a result of the rapid economic development of China which led to a bigger demand for corporate loans. As at 30 June 2007, the corporate loans of the Company were mainly granted to customers engaged in three main industries: manufacturing and processing; transportation, storage and postal services; and wholesale and retail. The total loans to these three industries amounted to RMB246,996 million, accounting for 58.88% of the total loans and advances of the Company. During the first half of 2007, in order to optimize the structure of loans and advances, the Company intensified efforts to provide loans to small and medium-sized enterprises and trade finance loans, apart from the loans and advances to the above key industries.

REPORT OF THE BOARD OF DIRECTORS

2 FINANCIAL HIGHLIGHTS *(continued)*

2.2 Analysis of Balance Sheet *(continued)*

Assets *(continued)*

(1) Loans and advances to customers (continued)

Discounted bills

As at 30 June 2007, our discounted bills amounted to RMB72,732 million, a decrease of 29.95% compared to the previous year end. Over the years, as the loss rate of discounted bills was relatively low and the capital consumption was relatively small, the Company had continued to focus on the expansion of this business. In the first half of 2007, in view of the increased fluctuations of market interest rates with the intensive loan control, the Company adjusted its strategy on discounted bills business. On the one hand, the Company improved the return on discounted bills by speeding up their turnover, while on the other hand the Company effectively met the State's requirement of loan control through rediscounting bills. As at 30 June 2007, the percentage of discounted bill to the total loans and advances to customers was 11.55%, decreased slightly compared to the previous year end.

Retail loans

As at 30 June 2007, our retail loans amounted to RMB137,344 million, an increase of 34.67% compared to the previous year end. The increase was primarily due to continued growth of residential mortgage loans and rapid development of the credit card business. In recent years, the Company continued to develop the retail loans business, with an increasing percentage of retail loans to loan portfolio. As at 30 June 2007, the percentage of retail loans to loans and advances to customers was 21.82%, representing an increase of 3.79 percentage points compared to the previous year end.

REPORT OF THE BOARD OF DIRECTORS

2 FINANCIAL HIGHLIGHTS *(continued)*

2.2 Analysis of Balance Sheet *(continued)*

Assets (continued)

(1) Loans and advances to customers (continued)

The following table sets forth, as at the dates indicated, our retail loans by product type.

	30 June 2007		31 December 2006	
	Amount	Percentage of total (%)	Amount	Percentage of total (%)
	<i>(In millions of RMB, excluding percentages)</i>		<i>(In millions of RMB, excluding percentages)</i>	
Credit card receivable balances	14,149	10.30	10,146	9.95
Residential mortgage loans	106,445	77.50	81,383	79.80
Others ^(Note)	16,750	12.20	10,454	10.25
Total retail loans	137,344	100.00	101,983	100.00

Note: "Others" consists primarily of retail loans secured by monetary assets, automobile loans, home improvement loans, education loans and general consumption loans.

As at 30 June 2007, our credit card receivable balances increased by 39.45% compared to the previous year end. The relatively fast increase was primarily due to the rapid growth of the credit card business of the Company. Residential mortgage loans increased by 30.80% compared to the previous year end, primarily due to the continued efforts made by the Company to expand the business of residential mortgage loans. The residential mortgage loans kept growing rapidly.

REPORT OF THE BOARD OF DIRECTORS

2 FINANCIAL HIGHLIGHTS *(continued)***2.2 Analysis of Balance Sheet** *(continued)***Assets** *(continued)**(2) Investment securities and other financial assets*

The following table sets forth, as at the dates indicated, the components of the investment portfolio of the Company.

	30 June 2007		31 December 2006	
	Amount	Percentage of total (%)	Amount	Percentage of total (%)
	<i>(In millions of RMB, excluding percentages)</i>		<i>(In millions of RMB, excluding percentages)</i>	
Investment securities and other financial assets	203,419	100.00	178,885	100.00
Financial assets at fair value through profit or loss	9,588	4.71	7,960	4.45
Available-for-sale investments	125,877	61.88	109,476	61.20
Held-to-maturity debt securities	57,327	28.18	54,065	30.22
Investment receivables	10,627	5.23	7,384	4.13

As at 30 June 2007, the Company's financial assets at fair value through profit or loss were stable, increasing by RMB1,628 million compared to the beginning of the year. The Company's available-for-sale investments increased by 14.98% compared to the beginning of the year, accounting for 61.88% of the Company's investment securities and other financial assets, and constituting the largest component of the Company's investments. The increase in available-for-sale investments was mainly supported by the abundant liquidity sourced from deposits from customers. The held-to-maturity debt securities of the Company increased by 6.03% compared to the beginning of the year, primarily due to the steady growth of the Company's core deposits business.

As at 30 June 2007, the Company's investment in securities backed by subprime mortgages in the USA was nil and accordingly there was no impact on the Company's operating results.

REPORT OF THE BOARD OF DIRECTORS

2 FINANCIAL HIGHLIGHTS *(continued)*

2.2 Analysis of Balance Sheet *(continued)*

Assets (continued)

(2) Investment securities and other financial assets (continued)

Financial assets at fair value through profit or loss

The following table sets forth, as at the dates indicated, the components of the financial asset portfolio of the Company.

	30 June 2007	31 December 2006
	<i>(In millions of RMB)</i>	<i>(In millions of RMB)</i>
Financial assets at fair value through profit or loss	9,588	7,960
PRC government bonds	260	2,452
PBOC bills	2,680	1,993
Bonds issued by policy banks	1,921	1,952
Others ^(Note)	4,727	1,563

Note: Consists of other bonds, equity investments and financial derivatives, etc.

REPORT OF THE BOARD OF DIRECTORS

2 FINANCIAL HIGHLIGHTS *(continued)*

2.2 Analysis of Balance Sheet *(continued)*

Assets *(continued)*

(2) Investment securities and other financial assets (continued)

Available-for-sale investments

The following table sets forth, as at the dates indicated, the components of the available-for-sale investment portfolio of the Company.

	30 June 2007	31 December 2006
	<i>(In millions of RMB)</i>	<i>(In millions of RMB)</i>
Available-for-sale investments	125,877	109,476
PRC government bonds	8,039	7,387
PBOC bills	60,363	43,699
Bonds issued by policy banks	22,786	26,411
Other bonds	31,453	25,017
Other investments	3,188	6,914
Equity investments	48	48

As at 30 June 2007, the Company's available-for-sale investments increased by 14.98% compared to the beginning of the year, accounting for 61.88% of the Company's investment securities and other financial assets and constituting the largest component of the Company's investments. The increase in available-for-sale investments mainly lent support from the abundant liquidity resulting from increased deposits. Therefore, there are three main points to consider: (1) There is a significant increase in the investment of PBOC bills, which enjoyed a credit rating at sovereign level. To control currency supply, PBOC has in recent years issued a large amount of bills with maturities that meet the needs of the Company. The attractive yield and liquidity of such bonds are also in line with the investment strategy of the Company; (2) There is a reduction in the investment of bonds issued by policy banks, as such bonds issued since 2007 are largely mid- to long-term as opposed to the Company's current investment preference for short- to mid-term bonds; (3) The increase or decrease in investment of the other kinds of bonds listed above is guided by the Company's investment directions and preference of diversification for effective risk control and attractive gain of such portfolio. In general, the bonds composing the available-for-sale investments portfolio are mainly in mid- to short-term with relatively short remaining terms of maturity in average, sound liquidity, and an appropriate degree of credit risk and market risk.

REPORT OF THE BOARD OF DIRECTORS

2 FINANCIAL HIGHLIGHTS *(continued)*

2.2 Analysis of Balance Sheet *(continued)*

Assets (continued)

(2) Investment securities and other financial assets (continued)

Held-to-maturity debt securities

The following table sets forth, as at the dates indicated, the components of held-to-maturity debt securities of the Company.

	30 June 2007	31 December 2006
	<i>(In millions of RMB)</i>	<i>(In millions of RMB)</i>
Held-to-maturity debt securities	57,327	54,065
PRC government bonds	13,239	13,773
PBOC bills	4,682	2,270
Bonds issued by policy banks	30,051	28,626
Other bonds	9,355	9,396

As at 30 June 2007, the held-to-maturity debt securities of the Company increased by 6.03% compared to the previous year end, primarily due to the steady growth of the Company's core funding business. The increase was largely related to the investment in newly-issued PBOC bills with maturities which were in line with the Company's preference.

Held-to-maturity debt securities of the Company enjoyed a high credit rating. It mainly consisted of the 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 the PBOC, this portfolio will bear good investment return, having average remaining maturity not more than 5 years and controllable risk in general.

Receivables

Receivables are bearer's government bonds held by the Company. As at 30 June 2007, the receivables of the Company increased by RMB3,243 million over the previous year end. The increase mainly resulted from increased issuance, reduced subscription sentiments of customers under active capital market conditions, and early redemption of government bonds before maturity.

REPORT OF THE BOARD OF DIRECTORS

2 FINANCIAL HIGHLIGHTS *(continued)*2.2 Analysis of Balance Sheet *(continued)***Assets** *(continued)*(2) *Investment securities and other financial assets (continued)*

Carrying value and fair 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 recoverability 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 2007		31 December 2006	
	Carrying value	Market/fair value	Carrying value	Market/fair value
	<i>(In millions of RMB)</i>		<i>(In millions of RMB)</i>	
Held-to-maturity debt securities	57,327	57,332	54,065	54,335

Investment concentration

The following table sets forth, as at 30 June 2007, our investment securities and other finance assets with carrying value exceeding 10% of our shareholders' equity.

	30 June 2007			
	Carrying value	Percentage to total investment securities & other financial assets (%)	Percentage to total shareholders' equity (%)	Market/fair value
	<i>(In millions of RMB, excluding percentages)</i>			
The PBOC	70,725	34.77	119.40	69,880
The MOF	28,184	13.86	47.58	29,735
China Development Bank	38,101	18.73	64.32	38,441
The Export-Import Bank of China	6,298	3.10	10.63	6,117
Agriculture Development Bank of China	10,359	5.09	17.49	10,231
Total	153,667	75.55	–	154,404

REPORT OF THE BOARD OF DIRECTORS

2 FINANCIAL HIGHLIGHTS *(continued)*

2.2 Analysis of Balance Sheet *(continued)*

Liabilities

As at 30 June 2007, the total liabilities of the Company amounted to RMB1,049,540 million, an increase of 19.41% compared to the previous year end. Total deposits from customers were RMB844,571 million, representing 80.47% of the total liabilities of the Company. During the first half of 2007, there was a rapid growth of the Company's deposits from customers and deposits from banks and other financial institutions, which were the major source of funding for the expansion of the Company size.

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

	30 June 2007		31 December 2006	
	Amount	Percentage of total (%)	Amount	Percentage of total (%)
	<i>(In millions of RMB, excluding percentages)</i>		<i>(In millions of RMB, excluding percentages)</i>	
Deposits from customers	844,571	80.47	773,757	88.03
Deposits from banks and other financial institutions	160,297	15.27	68,854	7.83
Placements from banks and other financial institutions	8,360	0.80	7,749	0.88
Certificates of deposit issued	–	–	1,170	0.14
Convertible bonds issued	20	0.00	22	0.00
Subordinated notes issued	3,500	0.34	3,500	0.40
Other debts issued	9,989	0.95	9,987	1.14
Other liabilities	22,803	2.17	13,903	1.58
Total liabilities	1,049,540	100.00	878,942	100.00

REPORT OF THE BOARD OF DIRECTORS

2 FINANCIAL HIGHLIGHTS *(continued)*

2.2 Analysis of Balance Sheet *(continued)*

Liabilities (continued)

(1) *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.

	30 June 2007		31 December 2006	
	Amount	Percentage of total (%)	Amount	Percentage of total (%)
	<i>(In millions of RMB, excluding percentages)</i>		<i>(In millions of RMB, excluding percentages)</i>	
Corporate deposits	527,279	62.43	461,798	59.68
Demand	306,770	36.32	257,235	33.24
Time	220,509	26.11	204,563	26.44
Retail deposits	317,292	37.57	311,959	40.32
Demand	172,943	20.48	152,449	19.70
Time	144,349	17.09	159,510	20.62
Total deposits from customers	844,571	100.00	773,757	100.00

The Company has put continued efforts on developing deposit business. Deposits from customers of the Company maintained steady growth as a result of rapid economic growth in the PRC, increased disposable income of the residents, and PBOC's increased deposit interest rate. As at 30 June 2007, deposits from customers of the Company amounted to RMB844,571 million, an increase of 9.15% compared to the beginning of the year.

The active stock markets in the first half of 2007 affected retail deposits of commercial banks including the Company. The percentage of retail deposits to total deposits from customers of the Company amounted to 37.57% as at 30 June 2007, a decrease of 2.75 percentage points compared to the end of 2006. However, such a level remains high when compared to other domestic banks.

Despite increased interest spread between time deposit and demand deposit after PBOC has adjusted the deposit interest rate, the impact of booming stock markets on the structure of the Company's deposits was more obvious. The proportion of time deposits to deposits from customers decreased. As at 30 June 2007, the proportion of corporate time deposits accounted for 43.20% of the deposits from customers, a decrease of 3.85 percentage points compared to the previous year end. Amongst all, the proportion of corporate time deposits accounted for 41.82% of the corporate deposits, a decrease of 2.48 percentage points compared to the beginning of the year. The proportion of retail time deposits accounted for 45.49% of the retail deposits, a decrease of 5.64 percentage points compared to the beginning of the year.

REPORT OF THE BOARD OF DIRECTORS

2 FINANCIAL HIGHLIGHTS *(continued)*

2.2 Analysis of Balance Sheet *(continued)*

Liabilities (continued)

(2) *Inter-bank borrowings*

While the active stock market has attracted deposits from customers, it has also accelerated the growth of inter-bank borrowings of the Company. As at 30 June 2007, total inter-bank borrowings of the Company amounted to RMB160,297 million, representing an increase of 132.81% compared to the beginning of the year.

Major off-balance sheet items

The issue of letters of guarantee and letters of credit: As at 30 June 2007, the balance of the letters of guarantee and the letters of credit offered by the Company amounted to RMB71,998 million. Based on the Company's historical experience, the amounts relating to the issue of letters of guarantee and letters of credit are generally recoverable. The Company will not make any advance to an external party unless the applicants for the letters of guarantee and the letters of credit failed to perform the obligation, and as a result, the Company's profit would be negatively affected.

Acceptance bills receivable: As at 30 June 2007, the Company's balance of the acceptance bills receivable was RMB244,430 million. Based on the Company's historical experience, the amounts relating to the acceptance bills receivable was generally recoverable. The Company will not make any advance to an external party unless the applicants for the acceptance bills receivable failed to perform the obligation, and as a result, the Company's profit would be negatively affected.

2.3 Loan Quality Analysis

(1) *Distribution of loan portfolios by loan classification*

The following table sets forth, as at the dates indicated, the loan portfolios categorised by loan classification. Under the 5-tier loan classification, the non-performing loans of the Company are classified into substandard, doubtful and loss.

	30 June 2007		31 December 2006	
	Amount	Percentage of total (%)	Amount	Percentage of total (%)
	<i>(In millions of RMB, excluding percentages)</i>		<i>(In millions of RMB, excluding percentages)</i>	
Normal	605,479	96.18	542,238	95.85
Special mention	13,653	2.16	11,458	2.03
Substandard	2,382	0.38	3,342	0.59
Doubtful	4,480	0.71	5,092	0.90
Loss	3,559	0.57	3,572	0.63
Total loans and advances to customers	629,553	100.00	565,702	100.00
Total non-performing loans	10,421	1.66	12,006	2.12

REPORT OF THE BOARD OF DIRECTORS

2 FINANCIAL HIGHLIGHTS *(continued)*

2.3 Loan Quality Analysis *(continued)*

(1) *Distribution of loan portfolios by loan classification (continued)*

During the first half of 2007, there was a decline in both the total non-performing loans and non-performing loan ratio of the Company. As at 30 June 2007, the balance of non-performing loans was RMB10,421 million, representing a sharp decrease of RMB1,585 million or 13.2% as compared with the beginning of the year, and the non-performing loan ratio dropped to 1.66%, representing a decrease of 0.46 percentage points as compared with the beginning of the year. Overall, the percentages of loans classified as substandard, doubtful and loss to total loans all showed a decline. The decrease in substandard loans was primarily due to the improvement in risk management capability, optimization of credit quality, and the deceleration of migration of loans classified as normal and special-mention to non-performing loans. The decrease in the percentage of loans classified as doubtful and loss was primarily due to the Company's increased effort in recovering non-performing assets with the opportunities in an active macro economy environment. Meanwhile, with rapid economic growth and ever increasing risks, the Company has been prudent in implementing the classification criteria for loans classified as special mention, aiming at identifying the risks in advance and managing them properly. As a result, there was a slight increase in the percentage of loans classified as special mention.

The Company is dedicated to a progressive reform of our credit risk management system. We continue to improve the quality of credit assets by enhancing the organizational structure of risk management function; optimizing the risk assessment and decision-making procedure; reforming the authorization mechanism; implementing a credit policy on the basis of portfolio management; strengthening the framework of risk management principles and guidelines; as well as improving the risk management techniques. Meanwhile, we properly manage the credit risks arising from rapid economic growth and take necessary precautions to prevent, relieve and mitigate various credit risks as a result of macro-economic adjustments and control, so as to ensure that lending business is operating on the right track.

REPORT OF THE BOARD OF DIRECTORS

2 FINANCIAL HIGHLIGHTS (continued)

2.3 Loan Quality Analysis (continued)

(2) Distribution of loans and advances to customers and non-performing loans by product type and industry sector

	30 June 2007			31 December 2006		
	Loan balance	Percentage to the total (%)	Non-performing loan ratio ⁽¹⁾ %	Loan balance	Percentage to the total (%)	Non-performing loan ratio ⁽¹⁾ %
	<i>(In millions of RMB, excluding percentages)</i>			<i>(In millions of RMB, excluding percentages)</i>		
Corporate loans	419,477	66.63	2.32	359,883	63.62	3.18
Manufacturing	121,931	19.37	2.55	103,870	18.36	2.96
Transportation, storage and postal services	77,868	12.37	0.51	77,181	13.64	0.50
Wholesale and retail	47,197	7.50	4.16	31,003	5.48	8.06
Production and supply of electric power, gas and water	39,698	6.31	0.67	38,260	6.76	1.56
Real estate	34,215	5.43	5.82	26,686	4.72	8.89
Leasing and commercial services	30,463	4.84	2.93	27,646	4.89	4.22
Construction	17,085	2.71	0.62	12,668	2.24	0.84
Mining	11,615	1.85	0.00	9,594	1.70	0.00
Education	7,227	1.15	0.14	6,359	1.12	0.15
Telecommunications, computer services and software	7,202	1.14	4.10	7,182	1.27	4.64
Others ⁽²⁾	24,976	3.97	2.85	19,434	3.44	4.66
Discounted bills	72,732	11.55	0.00	103,836	18.35	0.00
Retail loans	137,344	21.82	0.49	101,983	18.03	0.54
Private residential mortgage loans	106,445	16.91	0.31	81,383	14.39	0.40
Credit card balances	14,149	2.25	1.87	10,146	1.79	1.53
Other retail loans ⁽³⁾	16,750	2.66	0.47	10,454	1.85	0.73
Total	629,553	100.00	1.66	565,702	100.00	2.12

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

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

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

REPORT OF THE BOARD OF DIRECTORS

2 FINANCIAL HIGHLIGHTS *(continued)*

2.3 Loan Quality Analysis *(continued)*

(2) *Distribution of loans and advances to customers and non-performing loans by product type and industry sector (continued)*

During the first half year of 2007, the Company employed a credit structure adjustment strategy under the guidelines of “Quality goes first, develop valuable customers”, which has resulted in the well-balanced improvement of credit assets quality while the credit business structure, customer structure and industry structure were adjusted effectively.

Among the top ten industries with the biggest corporate loan percentage, except the transportation, storage and postal services which maintained the non-performing ratio from the end of last year, the other industries all achieved a decrease to different extents, among which the wholesale and retail, real estate achieved the biggest drop both in non-performing ratio and non-performing amount. The Company implements a scientific and practical lending policy which focuses on industry portfolio management and has laid a solid foundation for the balanced optimization of the quality of its industry loans.

During the first half of 2007, the loans granted to the retail customers grew by 34.67%, yet the asset quality was under effective control and the non-performing ratio for retail loans dropped from 0.54% at the beginning of the year to 0.49% at the end of the period. Amongst all, the residential mortgage non-performing loan amount remained at the same level as that at the beginning of the year, while the non-performing ratio dropped by 0.09%; the long-overdue non-performing loans in the credit card receivables had yet to be written off as restricted by the write-off policies, which resulted in an increase of 0.34% in the non-performing ratio as compared with that at the beginning of the year.

REPORT OF THE BOARD OF DIRECTORS

2 FINANCIAL HIGHLIGHTS *(continued)*

2.3 Loan Quality Analysis *(continued)*

(3) *Movements of allowances for impairment losses on loans and advances to customers*

The following table sets forth, for the period indicated, the movements of allowances for impairment losses on loans and advances to customers of the Company.

	Jan-Jun 2007	Jan-Dec 2006
	(In millions of RMB)	<i>(In millions of RMB)</i>
At the beginning of the reporting period/year	16,282	13,510
Charge for the period/year	2,343	4,152
Releases for the period/year	(822)	(615)
Unwinding of discount ⁽¹⁾	(66)	(222)
Recoveries of loans and advances previously written off	39	58
Write-offs	-	(328)
Transfers out ⁽²⁾	(2)	(188)
Exchange differences	(61)	(85)
At the end of the reporting period/year	17,713	16,282

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

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

As at 30 June 2007, allowances for impairment losses on loans and advances to customers of the Company amounted to RMB17.713 billion, representing an increase of RMB1.431 billion. At the same time the non-performing loan allowances coverage (total allowances for impairment losses on loans and advances to customers/total non-performing loans) was 169.97%, representing an increase of 34.36 percentage points as compared with that at the beginning of the year. The increase of balance of loan loss allowances was primarily due to the augment of loan scale, and on the other hand, the non-performing loan allowances coverage improved as the non-performing loans amount dropped significantly.

REPORT OF THE BOARD OF DIRECTORS

2 FINANCIAL HIGHLIGHTS *(continued)*2.3 Loan Quality Analysis *(continued)*

(4) Loans granted to top ten customers

(In hundred millions of RMB)

Top ten borrowers	Industry sector	Corporate nature	Loan balance	
			as at 30 June 2007	% of net assets
CITIC Group	Other finance	State-owned enterprise	50.00	7.31%
Shandong Provincial Communication Department	Communication & transportation	State-owned enterprise	35.00	5.11%
Liaoning Provincial Communication Department	Communication & transportation	State-owned enterprise	28.50	4.17%
Shanghai Jiushi Company	Investment & asset management	State-owned enterprise	26.35	3.85%
Jilin Provincial Communication Department	Communication & transportation	State-owned enterprise	25.00	3.65%
Shannxi Provincial Communication Department	Communication & transportation	State-owned enterprise	18.00	2.63%
Heilongjiang Provincial Communication Department	Communication & transportation	State-owned enterprise	17.20	2.51%
China Shenhua Energy Company Limited	Energy & raw materials	State-owned enterprise	15.56	2.27%
China Vanke Co., Ltd	Housing development	Joint stock limited	15.50	2.26%
Jiangxi Provincial Communication Department	Communication & transportation	State-owned enterprise	14.50	2.12%
Total			245.61	35.88%
Net assets			684.49	

As at 30 June 2007, our single largest loan customer was CITIC Group, whose loan balance at the end of the period was RMB5 billion, accounting for 7.31% of our net assets. This was in line with the regulatory requirement that the average balance of loans granted to any single borrower by a bank shall not exceed 10% of its net capital.

REPORT OF THE BOARD OF DIRECTORS

2 FINANCIAL HIGHLIGHTS *(continued)*

2.4 Capital Adequacy Ratio

The Company calculated and disclosed its capital adequacy ratio according to the guidelines of the *Regulation Governing Capital Adequacy of Commercial Banks* (CBRC Order No. 2004(2)) issued by the CBRC on 23 February 2004. Since 2007, the Company has calculated its market risk capital according to the Notice from the CBRC on Guideline for the Calculation of Capital Requirement of Market Risk for Commercial Banks issued by the CBRC (Yin Jian Ban Fa No. 2004(374)). As at 30 June 2007, the capital adequacy ratio of the Company was 10.98%, representing a decrease of 0.42 percentage points as compared with that at the end of last year, while the core capital adequacy ratio was 9.23%, representing a decrease of 0.35 percentage points as compared with that at the end of last year.

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

	30 June 2007	31 December 2006
	<i>(In millions of RMB, excluding percentages)</i>	<i>(In millions of RMB, excluding percentages)</i>
Core capital		
Paid-up ordinary share capital	14,704	14,703
Reserves	43,090	38,422
Total core capital	57,794	53,125
Supplementary capital		
General provisions for doubtful debts	9,706	8,005
Term subordinated bonds	1,600	2,100
Convertible bonds	20	22
Investment revaluation reserve	(62)	136
Total supplementary capital	11,264	10,263
Total capital base before deductions	69,058	63,388
Deductions:		
Investments in unconsolidated subsidiary and other long-term investments	290	125
Investments in commercial real estate	319	406
Total capital base after deductions	68,449	62,857
Risk-weighted assets	623,148	551,503
Core capital adequacy ratio	9.23%	9.58%
Capital adequacy ratio	10.98%	11.40%

REPORT OF THE BOARD OF DIRECTORS

2 FINANCIAL HIGHLIGHTS *(continued)*

2.5 Segmental Operating Results

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

The Company evaluates the results of business segment through the internal funds transfer pricing mechanism ("FTP"), and the pricing of funding among business segments is based on market interest rate. The inter-segment interest income and expense recognised through the FTP are eliminated in the consolidated results of the operations. Net interest income of the respective segments, including interest income from loans to other segments and interest expense for borrowings from other segments, reflect the profit or loss of capital allocation to the business segment through the FTP. Cost allocation is based on the direct cost incurred by the respective business segments and apportionment of management overheads.

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

	Jan-Jun 2007					Jan-Jun 2006				
	Corporate banking	Retail banking	Treasury business	Others and un-allocated	Total	Corporate banking	Retail banking	Treasury business	Others and un-allocated	Total
	<i>(In millions of RMB)</i>					<i>(In millions of RMB)</i>				
External net interest income ⁽¹⁾	8,845	1,466	4,385	-	14,696	6,367	235	2,826	-	9,428
Internal net interest (expense)/income ⁽²⁾	(298)	2,686	(2,388)	-	-	(82)	1,893	(1,811)	-	-
Net interest income	8,547	4,152	1,997	-	14,696	6,285	2,128	1,015	-	9,428
Net fee and commission income/(expense)	678	1,915	-	71	2,664	436	641	(4)	51	1,124
Other net income (expense)	387	126	(359)	40	194	229	73	83	4	389
Operating income	9,612	6,193	1,638	111	17,554	6,950	2,842	1,094	55	10,941
Operating expenses	(3,683)	(2,908)	(374)	(3)	(6,968)	(2,643)	(1,984)	(219)	(2)	(4,848)
Provision for impairment losses	(901)	(616)	(46)	(16)	(1,579)	(1,517)	(247)	66	-	(1,698)
Total expenses	(4,584)	(3,524)	(420)	(19)	(8,547)	(4,160)	(2,231)	(153)	(2)	(6,546)
Profit before tax	5,028	2,669	1,218	92	9,007	2,790	611	941	53	4,395

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

(2) Represents net interest income/(expense) attributable to each business segment's transactions with other segments. It reflects the profit and loss of funding allocation to each business segment under FTP mechanism.

REPORT OF THE BOARD OF DIRECTORS

2 FINANCIAL HIGHLIGHTS *(continued)*

2.5 Segmental Operating Results *(continued)*

During the six-month period ended 30 June 2007, the contributions made by each business segment to the profit before tax of the Company were 55.82% by corporate banking, 29.63% by retail banking, and 13.52% by treasury business. Contribution from retail banking grew quicker primarily due to the Company's greater efforts in developing retail banking business.

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 millions of RMB)

	Southern China and										Total	
	Eastern China		Central China		Western China		Northern China		Others		Amount	%
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%		
January-June 2007												
Total operating income ^(note)	8,247	32	11,159	44	2,040	8	3,572	14	472	2	25,490	100
Capital expenditure	157	21	484	66	44	6	53	7	-	-	738	100
30 June 2007												
Total assets	268,479	24	624,860	57	77,242	7	126,676	11	11,519	1	1,108,776	100
Gross loans and advances to customers	247,786	39	199,712	32	66,650	11	112,121	17	3,284	1	629,553	100
Total deposits from customers	290,266	34	256,253	30	93,686	11	197,764	24	6,602	1	844,571	100

	Southern China and										Total	
	Eastern China		Central China		Western China		Northern China		Others		Amount	%
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%		
January-June 2006												
Total operating income ^(note)	5,466	32	7,156	42	1,482	9	2,667	16	210	1	16,981	100
Capital expenditure	200	37	128	24	63	12	81	15	68	12	540	100
31 December 2006												
Total assets	234,884	25	481,722	52	68,741	7	122,700	13	26,055	3	934,102	100
Gross loans and advances to customers	212,829	38	177,092	31	63,327	11	108,986	19	3,468	1	565,702	100
Total deposits from customers	249,848	32	246,712	32	84,898	11	167,831	22	24,468	3	773,757	100

Note: Represents the total operating income gross of interest expense, fee and commission expense.

REPORT OF THE BOARD OF DIRECTORS

3 BUSINESS OPERATIONS

3.1 Retail Banking Segment

The Company provides retail customers with diversified retail banking products and services, including retail loan, deposit, debit card, credit card, wealth management service, investment service, agency sale of insurance products and fund products, foreign currency dealing, and foreign exchange service, of which "All-in-one Card", "All-In-One Net", "credit card", "Sunflower" and personal internet banking have won widespread recognition. As at 30 June 2007, the Company's total retail loans was RMB137,344 million, accounting for 21.82% of total loans granted to customers, representing an increase of 3.79 percentage points as compared to the beginning of the year; the total retail deposits was RMB317,292 million, accounting for 37.57% of total deposits from customers, representing a decrease of 2.75 percentage points as compared to the beginning of the year; and income from retail banking business accounted for 35.28% of the total business income, representing an increase of 9.30 percentage points as compared to the beginning of the year.

Retail loans

The Company provides retail customers with various loan products. In the first half of 2007, in view of the fierce competition in retail loans (mainly the residential mortgage loans) and intensified macro control on real estate, the Company made greater efforts to innovate and promote retail loan products and proactively enhance the development of credit card business, thereby further enhancing the overall competitiveness of retail loans. As at 30 June 2007, the total retail loans increased by 34.67% as compared to the beginning of the year, of which the total residential mortgage loan increased by 30.80% as compared to the beginning of the year while the total receivables of credit cards increased by 39.45% as compared to the beginning of the year.

Retail deposits

The retail deposit products of the Company mainly consist of demand deposits, time deposits and call deposits. Retail deposits are the most important source of low-cost funding of the Company. In the first half of 2007, although the Company stepped up the marketing effort in promoting such as payroll processing services for corporate customers, the percentage of retail deposits to total deposits from customers decreased slightly, due to the significant loss of retail deposits caused by the booming stock market. It should be noted that the Company's retail deposits to total deposits ratio remained at a higher level as compared to other commercial banks in the PRC. Among the retail deposits, the percentage of demand deposits increased by 5.64 percentage points to 54.51% as compared to the beginning of the year.

Retail non-interest income business

The Company keeps developing non-interest income business in recent years, which is now on the right development track. As compared to the first half of 2006, for the first half of 2007, the transaction volume of POS business was RMB55.0 billion, an increase of RMB18.5 billion or 50.68%; the transaction volume of securities agency services was 783.262 billion, an increase of RMB616.312 billion or 369.16%; transaction volume of fund agency services was RMB129.826 billion, an increase of RMB79.383 billion or 157.37%; and the transaction volume of agency sale of insurance was RMB2.812 billion, an increase of RMB1.543 billion or 121.59%.

REPORT OF THE BOARD OF DIRECTORS

3 BUSINESS OPERATIONS *(continued)*

3.1 Retail Banking Segment *(continued)*

Bank Card Business

Up to 30 June 2007, the Company had issued 41.7041 million All-in-one cards, including 2.8551 million cards newly issued during the reporting period. The All-in-one Card deposit balance was RMB251.365 billion, accounting for 79.22% of the total retail deposits, representing an average balance of RMB6,027 per card. The Company had issued 14.51 million credit cards, including 4.16 million cards issued during the reporting period. The total number of cards in circulation was 9.97 million; the total number of card holders was 5.97 million; the cumulative transaction volume via credit cards was RMB53.9 billion, representing an increase of 99.79% as compared to the corresponding period of the previous year; and the revolving credit card interest-earning balance was RMB5.4 billion. The continuing expansion of the customer usage volume had brought in sharp growth of the business volume and operating income. The credit card balance reached RMB14.2 billion, an increase of 127.04%, among which the revolving credit card interest-earning balance was RMB5.4 billion, an increase of 125.26% as compared to the corresponding period of last year.

Customers

As at 30 June 2007, the total number of retail deposit accounts of the Company was 24.41 million, and the deposit balance was RMB317.292 billion, of which, the total number of high-end customers (Sunflower customers, with more than RMB500,000 deposit in the Company) was 175,900. Their deposit balance was RMB125,988 million, accounting for 39.71% of the retail deposit balance of the Company.

Marketing

With the sustained efforts of the Company in brand building for its products and services, the brands such as All-in-one Card and credit cards have gained relatively high recognition. In 2007, while continuously building up the above brands, the Company actively promoted the brands of "Sunflower" wealth management and "Lifetime Partner" financial planning. The Company believes that brand building will further develop the customer base and enhance customer loyalty.

At present, the Company sells retail banking products primarily via its branches and sub-branches. In the meantime, to meet the market changes, the Company established a multi-level marketing system in its branches. As at 30 June 2007, the Company had built 17 wealth management centers, 187 financial management centers and 292 Sunflower VIP rooms.

REPORT OF THE BOARD OF DIRECTORS

3 BUSINESS OPERATIONS *(continued)*

3.2 Corporate Banking

The Company provides corporate customers, government agencies and financial institutions with diversified banking products and services. As at 30 June 2007, the corporate loan balance of the Company was RMB419,477 million, accounting for 66.63% of the total customer loans and an increase of 3.01 percentage compared to the beginning of the year; the total discounted bills was RMB72,732 million, accounting for 11.55% of the total customer loans and a decrease of 6.80 percentage points compared to the beginning of the year; total corporate deposit was RMB527,279 million, accounting for 62.43% of total customer deposits and an increase of 2.75 percentage points compared to the beginning of the year.

Corporate loans

Corporate loan products of the Company include working capital loans, fixed asset loans and other loans. Other loans mainly include trade finance and factoring. In 2007, the Company, to actively match with the state's macro economic control policy, continued to implement the strategy of industry focus and professionalized operations. The Company provided more support for quality industries such as transportation, energy and electricity, urban infrastructure and high-tech industries, while controlling loan growth to industries under macro control such as steel, cement and real estate. These all resulted in further improvements in the industry structure of corporate loans.

In 2007, the Company focused on developing small and medium-sized enterprise customers which is in line with the adjusted business strategies. To promote the development of small and medium-sized enterprise loan businesses and to strengthen the performance evaluation basis, the Company implemented regional development strategies for small and medium-sized enterprises. The business focus was on 8 branches at Hangzhou, Nanjing, Shanghai, Suzhou and Ningbo in the Yangtze River Delta, and Foshan, Dongguang and Shenzhen in the Pearl River Delta. Meanwhile, the Company further promoted product innovation, streamline of procedure, and building of a specialized marketing sales team, thereby providing product support.

The above-mentioned measures of the Company substantially increased business transactions with the small and medium-sized enterprise customers. The number of small and medium-sized enterprise borrowers reached 6,962, representing 1,242 more than the number at beginning of the year. Small and medium-sized enterprise customers accounted for 76.86%, up by 1.64 percentage points over the previous year. The general loan balance of small and medium-sized enterprises reached RMB173,700 million, up by 23% over the previous year.

Discounted bills

As one of the important means of assets and liabilities management and fund utilization of the Company, discounted bills accounted for a relatively high percentage of the total loans from customers in the long run. In the first half of 2007, to meet requirements of the country's macro control, the Company tightened discounted bills balance by various measures, such as speeding up the turnover of discounted bills. As at 30 June 2007, the discounted bills balance was RMB72,732 million.

REPORT OF THE BOARD OF DIRECTORS

3 BUSINESS OPERATIONS *(continued)*

3.2 Corporate Banking *(continued)*

Corporate deposits

The Company strives to develop profitable deposits. Leveraging on its sound cooperation relationship with its customers, and with the increasingly efficient e-banking services including online corporate banking and cash management services, the Company successfully increased settlement transactions with its customers and maintained a high percentage of demand deposits to total corporate deposits. As at 30 June 2007, corporate demand deposits accounted for 58.18% of the corporate deposit balance, which was 16.36 percentage points higher than time deposits.

Non-interest-based corporate banking business

In the first half of 2007, the Company stepped up its efforts to develop fee-based businesses such as cash management, treasury operation, asset custody, corporate annuity, financial consultation and investment banking, thereby increasing the percentage of fees and commissions income to the total income from corporate banking business.

Regarding online corporate banking and cash management, as at 30 June 2007, the number of internet corporate banking customers reached 48,862, up by 7,602 as compared to the beginning of the year. The cumulative number of transactions in the first half of 2007 was 5.17 million with a transaction volume of RMB4,300 billion, representing an increase of 41% and 157% respectively as compared to the corresponding period of last year. The number of the Company's liquidity cash management services customers reached 3,144, including 351 national corporate customers, up by 640 and 65 respectively as compared to the beginning of the year.

As for international settlement, the Company completed USD43.7 billion in the first half year of 2007, an increase of 29% as compared to the previous year, and the foreign exchange settlement was USD27.9 billion, an increase of 30% as compared to the corresponding period of previous year.

The Company also launched 59 corporate wealth management products with various maturities, different investment targets and diversified operations in the first half of 2007. The accumulative product sales amounted to RMB10,400 million.

Concerning the underwriting of short-term commercial papers, the Company has completed lead underwriting for 13 enterprises in the first half of 2007, with a lead underwriting volume of RMB16.5 billion.

REPORT OF THE BOARD OF DIRECTORS

3 BUSINESS OPERATIONS *(continued)*

3.2 Corporate Banking *(continued)*

Non-interest-based corporate banking business (continued)

In the asset custody business, the balance of net assets under custodian of the Company in the first half of 2007 was RMB86.9 billion, up by 113% as compared to the beginning of the year. Particularly, the securities investment fund amounted to RMB32.8 billion. The securities companies wealth management program under custodian amounted to RMB25 billion. The trust fund custodian asset amounted to RMB24.9 billion. The corporate annuity under custodian amounted to RMB2.6 billion.

As for the corporate annuity management business, in the first half of 2007 the number of corporate annuity contracted customers was 1,000. The total number of personal accounts of contracted customers was over 500,000. Both the business growth and size were in a leading position in the banking industry in China.

Customer base

Over the course of 20 years of development, the Company has developed 0.22 million corporate depositors and nearly 9,000 corporate borrowers, including Chinese leading enterprises and enterprise groups, government agencies, financial institutions, and Fortune Top 500 multinational enterprises operating in China. In recent years, the Company stepped up marketing planning and focused development for target industries, forming a customer base with a more rational and balanced industry pattern. Meanwhile, the Company made greater efforts to develop small and medium-sized enterprises, forming a balanced customer structure.

3.3 Treasury

Business Environment

In the first half of 2007, due to an imbalance of trading business and difference in interest rates, there was persistent excessive liquidity in the market. Central banks of the major economies kept raising interest rates while the global bond markets were depressed. In China, to harness the prevailing excess liquidity, the PBOC took several tightening measures to get money returned from the public and raised the statutory deposit reserve ratio and the deposit/loan interest rates several times. At the same time, the volatile capital market also had a great impact on the asset-liability businesses operated by commercial banks and the interest rates on the market. Under such circumstances, the interest rate of the domestic bond market kept rising rapidly, and the interest rate of the capital market fluctuated significantly.

REPORT OF THE BOARD OF DIRECTORS

3 BUSINESS OPERATIONS *(continued)*

3.3 Treasury *(continued)*

Operating strategy

1. As for the Renminbi business, the Company closely reviewed the market trend and policy tendency, and effectively mitigated the risk of rising interest rates in RMB assets by enhancing fund utilization.

Firstly, the Company explored fund utilization channels after considering the loan control environment and trend changes in the structure of assets and liabilities. The measures taken included: (1) increasing RMB bond investment of RMB33.8 billion in the first half of 2007; (2) developing the reverse repurchase business, and the reverse repurchase assets increased by RMB64.3 billion in the first half of 2007; among which the bills increased by RMB30.9 billion, accounting for 50% of the total increase, which efficiently offset the adverse effect of credit control on the income; (3) carrying out the financing business on clean basis, placements increased by RMB9.3 billion in the first half of 2007, which met the development trend of the domestic market, and simultaneously achieved a better return with fluctuating interest rate.

Secondly, the Company efficiently managed the bond portfolio and enhanced the structural adjustment, so as to mitigate the risk of rising interest rate. The Company took two major measures to ensure this. (1) One was to place strict control on the duration of the bond portfolio. The newly acquired investment consisted of mainly fixed and floating rate bonds with a duration of 3 years, and investment in mid- and long-term fixed rate bond was slowed down. At the same time, the Company carried out replacement of the existing bond portfolio and the duration of the bonds classified as available-for-sale and held-to-maturity was kept at about 1.5. (2) Another was to increase in investment of the high quality short-term commercial bond and interest derivatives trading, so as to offset the adverse effect of declining return from investments of short duration. The Company seized the development opportunity just in time, as it emerged from the domestic interest rate derivatives market in the first half of 2007.

2. As for foreign currency business, based on changes of the yield curve, we controlled the portfolio risk efficiently with flexible adjustment to the composition and focus of investment. Meantime, we gained advantage from market fluctuation caused by the expected lowering of interest rates in US, adopted active investment strategy, and succeeded in achieving good returns.

REPORT OF THE BOARD OF DIRECTORS

3 BUSINESS OPERATIONS *(continued)*

3.3 Treasury *(continued)*

Operating results

In the first half of 2007, the annual yield of the Company's foreign currency/RMB-denominated securities portfolio reached 3.27%, up by 0.23 percentage points as compared with the same period of last year. The major reasons are: the large amount of floating rate bonds held by the Company, with PBOC raising the benchmark interest rates several times, were re-priced accordingly and made contribution to the income of bond portfolio. More short-term unsecured bonds with high interest coupon were acquired and derivatives trading on interest rate contracts commenced in the first half of 2007 also contributing to the yield of the investment portfolio. The strict control of duration on bond portfolio affected the growth of income while mitigating risks. As interest rate adjustment is expected to slow down, the Company also tried to increase the amount of mid-to long-term fixed rate bonds with high interest coupon as it was expected the investment income level for the whole year would improve.

In the first half of 2007, the Company's annual yield on reverse repurchase business and placement was 2.97%, up by 0.09 percentage points as compared with the same period of last year. This was due to the increase in market interest rate.

Business development

With the rapid development of direct financing and the accelerated reform on interest rate, the profitability model of the banking industry in China is currently undergoing a fundamental change. The Company makes self-adjustments according to situation and undertakes the adjustment process actively from two aspects. One is to strengthen the foundation of the traditional business base and maintain market influence. In the first half of 2007, the Company underwrote various RMB bonds amounting to RMB83.9 billion, the trading volume of inter-bank market was over RMB1.8 trillion, the bonds settlement agent business was still keeping good momentum and the trading volume was RMB47.8 billion. The second is to optimize the business structure and profitability model, including the build up of wealth management model of unity of domestic and foreign currency, and the integration of products research and development and market expansion. With these aspects combined, a positive reaction from market was noted. In the first half of 2007, with the leading product design and strong sale channels, the Company recorded the sale of 118 RMB finance management products amounting to RMB20.3 billion; and the of 97 foreign currency financial management products amounting to USD1.36 billion. The Company also utilized the advanced electronic trading platform and achieved new strides in foreign exchange trading business. Meanwhile, the Company is meticulously designing and focusing on launching QDII products to develop new profit engines and maintain market competitiveness.

REPORT OF THE BOARD OF DIRECTORS

4 RISK MANAGEMENT

As a commercial bank, the Company mainly faces credit risk, liquidity risk, market risk and operational risk. The Company is well aware of such risks and is making continued efforts to enhance its risk management ability by building a bank-wide risk management system and prudent risk management culture, optimizing risk management framework, improving risk management policy and procedure, and using advanced risk measurement and management tools. Through these efforts, the Company is effectively controlling risks, effectuating growth and increasing return after risk adjustment, while maintaining a good quality of assets. Throughout the reporting period, there was no risk which imposed heavy effects on the operation of the Company.

4.1 Credit Risk Management

The Company endeavours to establish a credit risk management system with independent functions and balanced risk management, so as to gradually shift its traditional macro credit risk management mode to the modern credit risk management mode that concentrates on capital restriction.

In the first half of 2007, the Company accelerated the progress of its credit risk reform by optimizing its credit risk management process, improving its management system, enhancing its quantitative management technology and other factors. The Company also fractionized its credit policy system and formulated its credit granting policy, which regarded industries, customers, regions and product type as key factors. The Company also took credit limit management for industry portfolio as a controlling means, and combined it with economic capital management. During the period, the Company improved its credit system and established a combined mechanism based on its Credit Policy Manual, Credit Management Manual, Credit Operation Manual and Credit System Manual for the purpose of providing detailed guidance for the credit business process management. The Company also implemented the reform of credit approval and authorisation system to formulate a new authorisation system according to branch credit management level, the lenders' credit ratings and credit guarantee conditions. At the same time, the Company promoted the approval system that any credit granting must be signed by two officials, so as to improve the efficiency of credit approval procedures. During the period, the Company carried out frequent and extensive inspections to provide a solid guarantee for further improvement of loan quality and optimization of credit structure. The Company steadily expanded the application of credit risk quantitative management technology. With its data base having been accumulated for three years, the credit rating system, which is used for the classification of corporate customers by customer type, region and industry and developed under the cooperation with Moody's, is able to gather the risk distribution data of the probability of default by a customer, together with the loan loss data provided by the indebtedness rating system that will be introduced online soon, where it can provide guidance for pricing a loan.

REPORT OF THE BOARD OF DIRECTORS

4 RISK MANAGEMENT *(continued)*

4.2 Liquidity Risk Management

Liquidity risk refers to the risk that assets can not be realised at appropriate prices to provide funds for meeting liabilities due.

In response to the change characteristics and development trends of the financial positions of the macro-economy for the first half year, the Company, on one hand, implemented concentrated and uniformed management for its liquidity by promoting the FTP of its internal capital and reasonably determining the transfer price of its internal capital to ensure a balanced development of the Company's businesses. On the other hand, it proactively and steadily carried out its capital operations and improved the overall capital profitability while the safety of liquidity was ensured.

At the end of June 2007, the Company had short position for immediate repayment of RMB626.240 billion, primarily because there were huge RMB demand deposits, accounting for approximately 60% or above of customer deposits. Taking the depositional characteristics of demand deposits into account, the liquidity risk of immediate repayment of the Company was quite small.

4.3 Interest Rate Risk Management

Interest rate risk refers to the risk of unfavourable impact of fluctuating interest rates on the financial positions of banks. Interest rate risks faced by the Company are mainly repricing risk of assets and liabilities and basis risk.

Since 2007, the Company has eliminated market risks from its branches by determining its internal capital transfer price for each transaction by using the maturity-date-matching method, so that the Company accomplished centralized and professional management of market risks. Meanwhile, the Company has proactively responded to the nation's macro-economic regulation policies, particularly the frequent changes in interest rate, and further strengthened the identification and management of interest rate risks. In addition, the Company continued the construction of its product pricing mechanism and accelerated adjustments on the structure of the Company's assets and liabilities. The Company also tried to conduct off-balance-sheet hedge by operating interest rate swap businesses.

4.4 Exchange Risk Management

Exchange risk refers to the negative impact on the assets and liabilities denominated in foreign currency that may arise as a result of changes in exchange rate. Exchange rate risks faced by the Company mainly come from loans, deposits, securities and other financial derivatives not denominated in RMB held by the Company.

The Company made efforts to match loans in various currencies, conducted timely back-to-back cut-offs to reasonably restrict the exchange rate risk exposure. Also, the Company conducted hedging on the forex markets and reduced currency risks by setting upper exposure limit and stop-loss limit to meet the requirements of business development.

REPORT OF THE BOARD OF DIRECTORS

4 RISK MANAGEMENT *(continued)*

4.5 Operational Risk Management

Operational risk refers to the risk of loss arising from unsound or problematic internal procedures, staff and IT systems or external incidents. The Company considers operational risk management as an essential part of the overall risk management of the Company, and reduces and controls the operational risk by strengthening internal control, enhancing the risk prevention awareness and ability of staff, and implementing a strict accountability system.

Many major measures were taken in the first half of 2007, Operational risk management structure was established and improved at three levels (being the senior management of the Head Office level, department of the Head Office level and branch and sub-branch level). An internal control evaluation meeting system was implemented and a mechanism was established to evaluate risks regarding new products and new businesses, and by so doing, the special audit of new products, new businesses and businesses with high risks was strengthened. A level-by-level reporting system was implemented, and sound emergency-handling and continuing operation plans, including disaster-handling plans and a disaster data backup centre of emergency-handling mechanism and core business system was formulated. The internal audit department also reviewed, evaluated and reported the status of operational risks across the bank. In the first half of 2007, the audit department of the Company organized and conducted special audits for 21 newly-established sub-branches.

4.6 Explanation of the Internal Control System

The Company has established an organisation structure that regards the shareholders' general meeting, the board of directors, the supervisory committee and the senior management as the main body in compliance with requirements of relevant laws and regulations. Therefore, it has developed a relatively sound corporate governance structure. Meanwhile, with the guideline of risk prevention and prudent operation, the Company has established systematic and sound management rules and regulations in credit risk, accounting, human resources, information systems, branch operations, anti-money laundering, authorization, internal audit and monitoring and safeguarding, basically covering the process and operation stages of all businesses of the Company. The Company also developed a sound internal control system. In the first half of 2007, the focal point of the internal control efforts of the Company remained at preventing credit risk, market risk and operational risk. The Company enhanced the staff's risk awareness and strengthened its internal control management by formulating and revamping rules and regulations and carrying out special inspections.

REPORT OF THE BOARD OF DIRECTORS

5 OPERATING ENVIRONMENT

Problems and Difficulties in Operations and Their Solutions

In the first half year, the trend of overheating macro-economy remained, direct financing expanded rapidly, asset prices continued to rise, the fluctuation of market interest rate grew, Renminbi faced heavier pressure to appreciate, and the requirements on liquidity management, identification of market risk and management ability were further increased. The competition in products, for talents and customers and in management by domestic and foreign banks also became more intense.

The measures taken by the Company to meet the challenges in operations are mainly as follows:

- (1) Facing the uncertainties of promulgation of macro-economic regulation policies, the Company, on one hand, strengthened its policy research and judgement to take proactive actions and reduce adverse impact of the policies. On the other hand, it firmly implemented the adjustment of operational strategies and management internationalization, at the same time stepping up loan limit control and restructuring in line with the macro-control requirements. It also aggressively developed its fee-based businesses and strengthened the adjustments on its revenue source structure, customer structure and business structure, thereby accomplishing all the tasks set for the first half year.
- (2) The Company enhanced its risk management. In addition to refining credit policy, reforming credit approval management and developing credit rating systems for application, the Company also improved its credit management information system, enhanced post-loan management and put more efforts in the collection and disposal of non-performing assets. In market risk aspect, the Company had its branches to avoid market risk, centralised market risk management, refined the structure and flow of market risk management, and improved the construction of product pricing mechanism. Meanwhile, the Company further pushed the construction of internal control mechanism, enhanced staff's compliance and law awareness, regulated vocational behaviour, refined operation flow and effectively controlled operation risk.
- (3) The Company deepened product innovation and strengthened market expansion. As to cash management, individual assets, Bank-Custom Express, credit cards, third party deposits management and online banking, the Company continued to deepen product innovation, carried out featured product marketing, promoted fast development in retail banking, wholesale banking and inter-banking operations. The Company also strengthened IT management and reinforced incentive mechanism. The Company established an information committee and had IT development matched better with business development, improved the effectiveness and standardization of system development, and sped up the application of a new computer system. The Company put more efforts in talent training and reservation and reinforced staff incentive mechanism.

REPORT OF THE BOARD OF DIRECTORS

5 OPERATING ENVIRONMENT *(continued)*

Change and Effect of Business Environment, Macro-control Policies and Regulations

(1) Increase deposit reserve ratio

In January, February, April, May and June 2007, PBOC increased the RMB statutory deposit reserve ratio five times successively from 9% at the beginning of the year to 11.5%.

Effect of the policy: A continuous increase of deposit reserve ratio will not materially affect the Company's liquidity on the whole, for the resource of the Company's liabilities is stable and asset distribution is sound while active liability channel is unobstructed.

Measures adopted: Reasonably distribute the structure of assets and liabilities; further strengthen the management of liquidity, reinforce the adjustment of income structure, and increase the proportion of non-interest income.

(2) Increase deposit and loan interest rates

On 18 March, 19 May and 21 July 2007, PBOC raised the benchmark interest rates for deposits and loans of financial institutions three times, pursuant to which one-year term loan interest rate increased 0.72 percentage points from 6.12% to 6.84%, and one-year term deposit interest rate increased 0.81 percentage points from 2.52% to 3.33%.

Effect of the policy: Although interest spread of one-year term deposit and loan narrows slightly, however, deposits taken by the Company are mainly demand deposits. Demand deposit interest rates only increased 0.09 percentage points, so weighted-average interest spread of deposit is widen. In addition, higher deposit interest rates help corporate deposits increase, while higher loan interest rates depressed the demand of corporate fund.

Measures adopted: In response to the macro-control policies, the Company continues to undertake differential treatment under the principle of "assisting some industry sectors while suppressing some others"; keep stable lending; further improve adjustment of loan structure and emphasizes and reinforces the expansion of individual loans and small and medium-sized enterprise loans. The Company also closely monitors any risk of industry overcapacity and prevented any further spread of credit risk. In order to prevent risk of interest rates, management of interest rates for deposits and loans has been further strengthened.

(3) Tax cut on personal interest income from saving deposits

On 20 July 2007, the State Council determined to cut the applicable tax rate on personal interest income from saving deposits from existing 20% to 5%, effective from 15 August 2007.

Effect of the policy: A cut of interest tax rates itself will not affect the profit of the Company, but it may increase saving deposits due to the increase of depositor's income.

Measures adopted: Further strengthen the management of assets and liabilities, and pursue stable development of business.

REPORT OF THE BOARD OF DIRECTORS

6 OUTLOOK

In the second half of the year, in its operations the Company will find both opportunities with favourable conditions of steady and rapid growth in macro-economy and steady development of financial markets. There are also challenges from the increasing uncertainty of macro control policies, greater risks in financial market and ever-increasing competition. The Company will continue to implement the guidelines of "Updating the mindset, deepening the reform, strengthening innovation and preventing risks", accelerate the breakthrough of bottlenecks, implement the adjusted operational strategies and enhance management internationalization.

The steady and rapid economic growth, the acceleration of the growth rate of enterprises' profitability, and the steady increase of citizens' income and consumption jointly created an advantageous environment for the growth of the Company's profit, asset quality and business scale. The rapid development of the capital market, which helps the innovation of the Company's products, will contribute to the rapid growth of non-interest income of the Company and accelerate the adjustment of income structure and business structure.

The development of the Company also faces the consequence of the uncertainty of external environment. The Company is exposed the uncertainty of monetary policy as the macro-control policies are gradually implemented, which will affect the growth of the Company's loan portfolio and portfolio management. The accelerated marketization of interest rates and exchange rates also raise requirements for the market risk management and pricing policy of the Company.

In response to the opportunities and challenges brought by the change of the external environment, the Company will proactively grasp the development opportunities brought by economic growth, while effectively preventing the relevant risks in the environment. It will also strive to break through bottlenecks in risk management, allocation of resources, IT governance, human resources, etc., further improve management standard, and maintain the sustainable development of the Company. The Company will (1) follow the macro-control policies, strive to adjust the loan asset structure, and effectively prevent credit risk; (2) continue to consolidate and expand high-end retail customers by providing quality service and innovative products, enhance the total amount of retail customers' asset under management, including savings, insurance, securities and wealth management products; (3) step up capital investments, accelerate outlet construction, meet the demand of high-end customer growth, enhance the sales capability of outlets; (4) step up the expansion of the credit card business and continue to consolidate its leading position in the market; (5) adjust wholesale business structure and steadily develop the business of small and medium-sized enterprises; (6) step up the innovation and marketing of fee-based business and strive to adjust income structure; (7) comprehensively strengthen internal control and enhance the management standard of internal control; (8) further improve IT governance and ensure safe and stable operation of IT systems; and (9) strengthen the management and allocation of human resources, and face with talent competition proactively.

INFORMATION ABOUT THE SHAREHOLDERS

1 CHANGES IN SHARE CAPITAL

During the first half year of 2007, certain "CMB Convertible Bonds" (Code: 110036) issued by the Company at an amount of RMB2,977,000 were converted into 518,506 "CMB" shares (Code: 600036) issued by the Company. As such, the total share capital of the Company increased to 14,703,777,780 shares at the end of the reporting period, from 14,703,259,274 shares at the beginning of the year.

Changes in the shares of the Company during the reporting period are as follows: (unit: shares)

	As at 31 December 2006		Conversion from Convertible bonds during the reporting period	As at 30 June 2007	
	Quantity	Percentage (%)		Quantity	Percentage (%)
I. Shares which are subject to trading moratorium	7,331,629,579	49.86	-	7,331,629,579	49.86
1. State-owned shares	201,557,020	1.37	-	201,557,020	1.37
2. Shares held by state-owned legal persons	6,639,650,699	45.15	-	6,639,650,699	45.15
3. Other domestic shareholdings	484,741,256	3.30	-	484,741,256	3.30
Of which: Shares held by domestic legal persons	484,741,256	3.30	-	484,741,256	3.30
Shares held by domestic natural persons	-	-	-	-	-
4. Overseas shareholdings	5,680,604	0.04	-	5,680,604	0.04
Of which: Shares held by overseas legal persons	5,680,604	0.04	-	5,680,604	0.04
Shares held by overseas natural persons	-	-	-	-	-
II. Shares which are not subject to trading moratorium	7,371,629,695	50.14	518,506	7,372,148,201	50.14
1. Common shares in RMB (A Shares)	4,709,629,695	32.03	518,506	4,710,148,201	32.03
2. Foreign shares listed domestically	-	-	-	-	-
3. Foreign shares listed overseas (H Shares)	2,662,000,000	18.11	-	2,662,000,000	18.11
4. Others	-	-	-	-	-
III. Total shares	14,703,259,274	100.00	518,506	14,703,777,780	100.00

As at 30 June 2007, the Company had a total of 258,895 shareholders, of which 54,958 holders were H shareholders and 203,937 holders of A Shares (including 90 holders of A Shares whose shares were subject to trading moratorium). In addition, the Company had 758 holders of convertible bonds. Based on the public information available to the Company and its directors, as at the latest practicable date prior to the publication of this report, the Company had met the public float requirement of the Hong Kong Listing Rules.

INFORMATION ABOUT THE SHAREHOLDERS

2 SUBSTANTIAL SHAREHOLDERS

Top Ten Shareholders

Serial No.	Name of Shareholder	Type of Shareholder	Number of shares held (in shares)	Percentage of total share capital (%)	Class of shares	Number of shares pledged or frozen (in shares)
1	HKSCC Nominees Limited ⁽¹⁾	Unknown	2,621,987,000	17.83	H shares	Unknown
2	China Merchants Steam Navigation Company Limited ⁽²⁾	State-owned	1,779,162,511	12.10	A Shares subject to trading moratorium	0
3	China Ocean Shipping (Group) Company	State-owned	947,548,668	6.44	A Shares subject to trading moratorium	0
4	Guangzhou Maritime Transport (Group) Company Limited ⁽²⁾	State-owned	565,359,590	3.84	A Shares subject to trading moratorium	0
5	Shenzhen Yan Qing Investment and Development Company Limited ⁽²⁾	State-owned	433,484,335	2.95	A Shares subject to trading moratorium	0
6	Shenzhen Chu Yuan Investment and Development Company Limited ⁽²⁾	State-owned	378,715,868	2.58	A Shares subject to trading moratorium	0
7	China Communications Construction Group (Limited)	State-owned	261,024,805	1.78	A Shares subject to trading moratorium	0
8	Shanghai Automotive Industry Corporation	State-owned	250,564,996	1.70	A Shares subject to trading moratorium	0
9	CNOOC Investment Co., Ltd.	State-owned	205,305,070	1.40	A Shares subject to trading moratorium	0
10	China Shipping (Group) Company ⁽²⁾	State-owned	175,950,157	1.20	A Shares subject to trading moratorium	0
10	Shandong State-owned Assets Investment Holdings Company Limited	State-owned	175,950,157	1.20	A Shares subject to trading moratorium	0
10	Guangdong Provincial Highways Administration Bureau	State-owned	175,950,157	1.20	A Shares subject to trading moratorium	0
10	Qinhuangdao Port Group Company Limited	State-owned	175,950,157	1.20	A Shares subject to trading moratorium	0

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

(2) Of the aforesaid top 10 shareholders, China Merchants Steam Navigation Company Limited, Shenzhen Yan Qing Investment and Development Company Limited and Shenzhen Chu Yuan Investment and Development Company Limited are subsidiaries of China Merchants (Group) Co., Ltd.; 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.

INFORMATION ABOUT THE SHAREHOLDERS

2 SUBSTANTIAL SHAREHOLDERS *(continued)*

Top ten shareholders whose shares are subject to trading moratorium and their undertakings

Name of Shareholder	Number of shares held which are subject to trading moratorium as at 30 June 2007	Trading Date	Number of new tradable shares	Undertakings
China Merchants Steam Navigation Company Limited	1,779,162,511	27 February 2009	/	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 Yan Qing Investment and Development Company Limited	433,484,335			
Shenzhen Chu Yuan Investment and Development Company Limited	378,715,868			
China Ocean Shipping (Group) Company	947,548,668	27 February 2009	/	After expiry of 36 months after acquisition of right of circulation
China Shipping (Group) Company	175,950,157			
Guangzhou Maritime Transport (Group) Company Limited	565,359,590			
China Communications Construction Group (Limited)	261,024,805			
Shanghai Automotive Industry Corporation	250,564,996	27 February 2008	/	After expiry of 24 months after acquisition of right of circulation
CNOOC Investment Co., Ltd.	205,305,070			
Shandong State-owned Assets Investment Holdings Company Limited	175,950,157			
Qinhuangdao Port Group Company Limited	175,950,157			
Guangdong Provincial Highways Administration Bureau	175,950,157			
Huaneng Capital Services Corporation Ltd.	173,881,403			

Note: Of the aforesaid top 10 shareholders whose shares are subject to trading moratorium, China Merchants Steam Navigation Company Limited, Shenzhen Yan Qing Investment and Development Company Limited and Shenzhen Chu Yuan Investment and Development Company Limited are subsidiaries of China Merchants (Group) Co., Ltd.; 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.

INFORMATION ABOUT THE SHAREHOLDERS

2 SUBSTANTIAL SHAREHOLDERS *(continued)*

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 2007 (in share)	Percentage of total share (%)
HKSCC Nominees Limited ⁽¹⁾	H Shares	2,621,987,000	17.83%
China AMC Core Bluechip Fund (LOF)	A Shares not subject to trading moratorium	76,611,688	0.52%
China Southern Component Selected Stock Securities Investment Fund ⁽²⁾	A Shares not subject to trading moratorium	61,705,008	0.42%
China Southern Stable Growth No. 2 Securities Investment Fund ⁽²⁾	A Shares not subject to trading moratorium	54,122,400	0.37%
Department Tianfu Growth-stock Focus Securities Investment Fund	A Shares not subject to trading moratorium	54,013,000	0.37%
YinHua Core Value Equity Fund	A Shares not subject to trading moratorium	52,607,174	0.36%
Lion Stock Securities Investment Fund	A Shares not subject to trading moratorium	48,956,242	0.33%
China Southern Sustaining Growth Stock Securities Investment Fund ⁽²⁾	A Shares not subject to trading moratorium	48,186,773	0.33%
China Life Insurance Co., Ltd. – dividend – Personal dividend	A Shares not subject to trading moratorium	47,875,313	0.33%
PengHua Selected Administrator Stock Securities Investment Fund (LOF)	A Shares not subject to trading moratorium	41,572,246	0.28%

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

(2) Of the aforesaid top ten shareholders whose shares are not subject to trading moratorium, China Southern Stable Growth No. 2 Securities Investment Fund, China Southern Sustaining Growth Stock Securities Investment Fund and China Southern Component Selected Stock Securities Investment Fund belong to Southern Fund Management Co., Ltd. The Company is not aware of any co-relationship of other shareholders whose shares are not subject to trading moratorium.

INFORMATION ABOUT THE SHAREHOLDERS

2 SUBSTANTIAL SHAREHOLDERS *(continued)*

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

As at 30 June 2007, the following persons (other than the directors, supervisors and senior executives of the Company (defines as to the Hong Kong Listing rules) had interests and short positions in the shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) ("SFO"):

Name of Substantial Shareholder	Class of Shares	Long/short position	Capacity	No. of shares held	Notes	Percentage of	Percentage of	
						the relevant class of share in issue	total shares in issue	
						(%)	(%)	
China Merchants Group Ltd.	A	Long	Interest of controlled corporations	2,599,932,810	1	21.59	17.68	
China Merchants Steam Navigation Co. Ltd.	A	Long	Beneficial owner	1,785,120,730*	1	14.82	12.14	
China Merchants Finance Investment Holdings Co. Ltd.	A	Long	Interest of controlled corporations	814,812,080	1	6.77	5.54	
Shenzhen Yan Qing Investment Development Co. Ltd.	A	Long	Beneficial owner	434,878,336*	1			
		Long	Interest of controlled corporations	379,933,744*	1			
				814,812,080		6.77	5.54	
China Ocean Shipping (Group) Company	A	Long	Beneficial owner	950,595,801*		7.89	6.46	
China Shipping (Group) Company	A	Long	Beneficial owner	176,515,978*				
		Long	Interest of controlled corporations	618,366,092*	2			
				794,882,070		6.60	5.41	
UBS AG	H	Long	Beneficial owner	119,431,261				
		Long	Interest of controlled corporations	82,937,183	3			
					202,368,444	3	7.60	1.38
		Short	Beneficial owner	29,367,523				
		Short	Person having a security interest in shares	6,571,000				
		Short	Interest of controlled corporations	33,239,500	3			
				69,178,023	3	2.60	0.47	
JPMorgan Chase & Co.	H	Long	Beneficial owner	34,600,300				
		Long	Investment manager	42,203,500				
		Long	Custodian	111,195,636				
				187,999,436	4	7.06	1.28	
The Northern Trust Company (ALA)	H	-	-	166,922,337	5	6.27	1.14	

* The above numbers of shares were recorded in the disclosure forms completed by the relevant substantial shareholders before 30 June 2007. During the period from the date on which the respective substantial shareholders submitted the said forms up to 30 June 2007, there were some updates to the aforesaid numbers of shares, but the levels of the changes did not result in a disclosure obligation in accordance with the SFO.

INFORMATION ABOUT THE SHAREHOLDERS

2 SUBSTANTIAL SHAREHOLDERS *(continued)*

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

Notes:

1. China Merchants Group Limited held interest in a total of 2,599,932,810 A shares in the Company by virtue of its control over the following corporations, which held direct interests in the Company:
 - 1.1. China Merchants Steam Navigation Co. Ltd. held 1,785,120,730 A shares in the Company. China Merchants Steam Navigation Co. Ltd. was a wholly-owned subsidiary of China Merchants Group Limited.
 - 1.2. Shenzhen Yan Qing Investment Development Co. Ltd. held 434,878,336 A shares in the Company. Shenzhen Yan Qing Investment Development Co. Ltd. was owned as to 51% and 49% by China Merchants Finance Investment Holdings Co. Ltd. and China Merchants Group Limited respectively. China Merchants Finance Investment Holdings Co. Ltd. was owned as to 90% and 10% by China Merchants Group Limited and China Merchants Steam Navigation Co. Ltd., referred to in (1.1) above, respectively.
 - 1.3. Shenzhen Chu Yuan Investment Development Co. Ltd. held 379,933,744 A shares in the Company. Shenzhen Chu Yuan Investment Development Co. Ltd. was owned as to 50% by each of Shenzhen Yan Qing Investment Development Co. Ltd., referred to in (1.2) above, and China Merchants Finance Investment Holdings Co. Ltd., referred to in (1.2) above, respectively.
2. The interest of China Shipping (Group) Company in 618,366,092 A shares in the Company was held through Guangzhou Maritime Transport (Group) Company Limited (held 567,177,677 A shares of the Company) and Shanghai Shipping (Group) Company (held 51,188,415 A shares of the Company), which were the wholly-owned subsidiaries of China Shipping (Group) Company.
3. UBS AG held interest in a total of 82,937,183 H shares (Long position) and 32,239,500 H shares (Short position) in the Company by virtue of its 100% control over the following corporations, which held direct interests in the Company:

Name of controlled Corporation	No. of shares	
	Long position	Short position
UBS Fund Management (Switzerland) AG	5,381,000	–
UBS Fund Services (Luxembourg) SA	6,133,100	–
UBS Global Asset Management (Americas) Inc.	6,368,300	–
UBS Global Asset Management (Hong Kong) Ltd	4,578,500	–
UBS Global Asset Management (Singapore) Ltd	14,020,600	–
UBS Global Asset Management (UK) Limited	10,484,900	–
UBS Securities LLC	32,446,500	32,446,500
UBS Financial Services Inc.	6,000	–
UBS (Luxembourg) SA Austria Branch	12,283	–
UBS Global Asset Management (Australia) Inc.	122,000	–
UBS Global Asset Management (Canada) Inc.	635,000	–
UBS O'Connor LLC	1,088,000	793,000
UBS Global Asset Management (Japan) Ltd	1,661,000	–

Among the entire interest of UBS AG in the Company, 24,814,783 H shares (Long position) and 26,540,023 H shares (Short position) were held through derivatives as follows:

1,033,500 H shares (Long position) and 1,051,000 H shares (Short position)	–	through physically settled derivatives (on exchange)
428,500 H shares (Short position)	–	through cash settled derivatives (on exchange)
20,499,000 H shares (Long position) and 25,060,523 H shares (Short position)	–	through physically settled derivatives (off exchange)
3,282,283 H shares (Long position)	–	through cash settled derivatives (off exchange)

INFORMATION ABOUT THE SHAREHOLDERS

2 SUBSTANTIAL SHAREHOLDERS *(continued)*

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

Notes: *(continued)*

4. JPMorgan Chase & Co. held interest in a total of 187,999,436 H shares of the Company by virtue of its control over the following corporations, which held direct interests in the Company:
 - 4.1 JPMorgan Chase Bank, N.A. held 111,195,636 H shares in the Company. JPMorgan Chase Bank, N.A. was a wholly-owned subsidiary of JPMorgan Chase & Co.
 - 4.2 JF Asset Management Limited held 42,203,500 H shares in the Company. JF Asset Management Limited was wholly-owned subsidiary of JPMorgan Asset Management (Asia) Inc., which in turn was a wholly-owned subsidiary of JPMorgan Asset Management Holdings Inc. JPMorgan Asset Management Holdings Inc. was a wholly-owned subsidiary of JPMorgan Chase & Co.
 - 4.3 J.P. Morgan Whitefriars Inc. held 34,408,300 H shares 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 (4.1) above, owned 100% interest in J.P. Morgan International Inc.
 - 4.4 J.P. Morgan Securities Ltd. held 192,000 H shares in the Company. J.P. Morgan Securities Ltd. was owned as to 98.95% by J.P. Morgan Chase International Holdings Limited, which in turn was owned as to 97.58% by J.P. Morgan Chase (UK) Holdings Limited. J.P. Morgan Chase (UK) Holdings Limited was wholly-owned by J.P. Morgan Capital Holdings Limited, which in turn was wholly-owned by J.P. Morgan International Finance Limited, referred to in (4.3) above.

The entire interest of JPMorgan Chase & Co. in H shares of the Company included a lending pool of 111,195,636 shares. Besides, 16,000,000 H shares were held through derivatives as follows:

6,000,000 H shares	–	through physically settled derivatives (off exchange)
10,000,000 H shares	–	through cash settled derivatives (off exchange)

5. The 166,922,337 H shares of The Northern Trust Company (ALA) belonged to the lending pool.

Save as disclosed above, the Company is not aware of any other person (other than the directors, supervisors and senior executives of the Company) having any interests or short positions in the shares and underlying shares of the Company as at 30 June 2007 as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

INFORMATION ABOUT THE SHAREHOLDERS

3 CONVERTIBLE BONDS

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 reporting period	Percentage of total convertible bond in issue
			(in RMB)	(%)
1	Xingye Convertible Bond Hybrid Securities Investment Fund	Convertible bond	15,453,000	0.2377%
2	Shenzhen Longgang Investment Management Co., Ltd.	Convertible bond	3,240,000	0.0498%
3	Shenzhen Yuelongda Industrial Development Co., Ltd.	Convertible bond	124,000	0.0019%
4	Zhao Yanqing	Convertible bond	69,000	0.0011%
5	Wan Xianghong	Convertible bond	65,000	0.0010%
6	Zhang Jianfeng	Convertible bond	49,000	0.0008%
7	Lu Junwen	Convertible bond	40,000	0.0006%
8	Cui Qiang	Convertible bond	37,000	0.0006%
9	Zhang Liang	Convertible bond	35,000	0.0005%
10	He Guangping	Convertible bond	32,000	0.0005%

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

Price adjustment to convertible bonds

Based on the terms of issuance as set out in the prospectus of the "CMB Convertible Bonds" issued by the Company and the relevant regulations governing the issuance of convertible bonds as promulgated by the China Securities Regulatory Commission, the Company implemented the profit appropriations plan for year 2004 on 20 June 2006, which involved the distribution of a cash bonus of RMB1.1 (inclusive of tax) for every 10 shares. In addition, capital reserve transfer for the increase in share capital was carried out through the issuance of bonus shares at a ratio of 5 bonus shares for every 10 shares, and the conversion price of "CMB Convertible Bonds" was adjusted downward from RMB9.34 per share to RMB6.23 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 14 June 2006 for further details).

INFORMATION ABOUT THE SHAREHOLDERS

3 CONVERTIBLE BONDS *(continued)*

Price adjustment to convertible bonds *(continued)*

The Company implemented the Share Reform of Non-tradable Shares Proposal on 24 February 2006, in which capital reserve transfer for the increase in share capital was carried out through the issuance of bonus shares at a ratio of 0.8589 bonus shares for every 10 shares, 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).

The conversion period of "CMB Convertible Bonds" commenced on 10 May 2005. As at 30 June 2007, "CMB Convertible Bonds" amounted to RMB6,478,616,000 were converted into shares of "CMB". The accumulative number of convertible shares (including the enlarged convertible shares) were 1,040,275,499. The outstanding "CMB Convertible Bonds" are RMB21,384,000, representing 0.33% of the total amount of "CMB Convertible Bonds" in issue.

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

As at the end of the reporting period, the Company had only RMB21 million of convertible bonds remained outstanding. The Company will be able to pay for the principal and interest of these convertible bonds.

4 SHARE REFORM OF NON-TRADABLE SHARES

Undertakings associated with the share reform of non-tradable shares

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

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.

INFORMATION ABOUT THE SHAREHOLDERS

4 SHARE REFORM OF NON-TRADABLE SHARES *(continued)*

Trading date of shares which are subject to trading moratorium

Timeframe	No. of new tradable shares after expiry of lock-up period (in share)	No. of balance of shares which are subject to trading moratorium (in share)	No. 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	2,534,911,447	4,796,718,132	/	Original non-circulated shares held by original non-circulated shareholders without put option.
After expiry of 36 months after acquisition of right of circulation	2,205,355,418	2,591,362,714	/	Original non-circulated shares held by original non-circulated shareholders with put option other than China Merchants Steam Navigation Company Limited, Shenzhen Yan Qing Investment and Development Company Limited and Shenzhen Chu Yuan Investment and Development Company Limited.
When the share price of the Company first reaches or above RMB8.48 (to be weighted depending on circumstances) in the 12 months after expiry of the 36-month period starting from acquisition of right of circulation/after expiry of 48 months after acquisition of right of circulation	2,591,362,714	0	/	Original non-circulated shares held by China Merchants Steam Navigation Company Limited, Shenzhen Yan Qing Investment and Development Company Limited and Shenzhen Chu Yuan Investment and Development Company Limited.

Note: (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.

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT, EMPLOYEES AND BRANCHES

1 DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Directors, Supervisors and Senior Management

Name	Gender	Birth (Y/M)	Title	Term of office
Qin Xiao	Male	1947.4	Chairman, non-executive director	2007.6 - 2010.6
Wei Jiafu	Male	1949.12	Vice chairman, Non-executive director	2007.6 - 2010.6
Fu Yuning	Male	1957.3	Non-executive director	2007.6 - 2010.6
Li Yinquan	Male	1955.4	Non-executive director	2007.6 - 2010.6
Hong Xiaoyuan	Male	1963.3	Non-executive director	2007.6 - 2010.6
Ding An Hua Edward	Male	1964.4	Non-executive director	2007.6 - 2010.6
Sun Yueying	Female	1958.6	Non-executive director	2007.6 - 2010.6
Wang Daxiong	Male	1960.12	Non-executive director	2007.6 - 2010.6
Fu Junyuan	Male	1961.5	Non-executive director	2007.6 - 2010.6
Ma Weihua	Male	1948.6	Executive director & president	2007.6 - 2010.6
Zhang Guanghua	Male	1957.3	Executive director & executive vice president	2007.6 - 2010.6
Li Hao	Male	1959.3	Executive director, executive vice president & chief financial officer	2007.6 - 2010.6
Wu Jiesi	Male	1951.10	Independent non-executive director	2007.6 - 2010.6
Song Lin	Male	1963.2	Independent non-executive director	2007.6 - 2010.6
Yan Lan	Female	1957.1	Independent non-executive director	2007.6 - 2010.6
Chow Kwong Fai, Edward	Male	1952.8	Independent non-executive director	2007.6 - 2010.6
Liu Hongxia	Female	1963.9	Independent non-executive director	2007.6 - 2010.6
Liu Yongzhang	Male	1956.12	Independent non-executive director	2007.6 - 2010.6
Shi Jiliang	Male	1945.2	Chairman of Board of Supervisors & external supervisor	2007.6 - 2010.6
Zhu Genlin	Male	1955.9	Supervisor	2007.6 - 2010.6
Chen Haoming	Male	1966.3	Supervisor	2007.6 - 2010.6
Dong Xiande	Male	1947.2	Supervisor	2007.6 - 2010.6
Li Jiangning	Male	1959.4	Supervisor	2007.6 - 2010.6
Shao Ruiqing	Male	1957.9	External supervisor	2007.6 - 2010.6
Yin Xuwen	Male	1966.3	Employee supervisor	2007.6 - 2010.6
Yang Zongjian	Male	1957.4	Employee supervisor	2007.6 - 2010.6
Shi Shunhua	Male	1962.12	Employee supervisor	2007.6 - 2010.6
Tang Zhihong	Male	1960.3	Executive vice president	2007.6 - 2010.6
Yin Fenglan	Female	1953.7	Executive vice president	2007.6 - 2010.6
Ding Wei	Male	1957.5	Executive vice president	2006.5 to present
Xu Lianfeng	Male	1953.2	Chief technology officer	2001.11 to present
Fan Peng	Male	1951.2	Chief audit officer	2007.05 to present
Lan Qi	Male	1956.6	Secretary of Board of Directors	2007.6 - 2010.6

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT, EMPLOYEES AND BRANCHES

1 DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT *(continued)* Resigned Personnel and Reasons for Resignation during the Reporting Period

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

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

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

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

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

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT, EMPLOYEES AND BRANCHES

1 DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT *(continued)*

Interest and Short Position of Directors, Supervisors and Senior executives

As at 30 June 2007, none of the directors, supervisors and senior executives of the Company held or was deemed to hold interest or short position in the shares, underlying shares or/and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Hong Kong SFO), as being recorded pursuant to section 352 of the SFO or as otherwise notified by the directors or supervisors to the Company and the Stock Exchange of Hong Kong Limited (the "Stock Exchange") in accordance with Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") as set out in the Hong Kong Listing Rules; neither were the directors, supervisors and senior management of the Company authorized to buy any share or debenture of the Company or any of its associated corporations.

Securities Transactions of Directors and Supervisors

In accordance with the Hong Kong Listing Rules, the directors and supervisors must observe the Model Code as set out in Appendix 10 of the Listing Rules in respect of their dealings in the securities of their listed companies. The Company has adopted the aforesaid Model Code as the code of conduct regarding the securities transactions by Directors and Supervisors of the Company. Upon making specific enquiry of all Directors and Supervisors, the Company confirmed that they have fully complied with the aforesaid Model Code during the period ended 30 June 2007.

2 INFORMATION ABOUT EMPLOYEES

As at 30 June 2007, the Company had 24,335 employees, including 3,350 executives, 18,035 ordinary employees and 2,950 administration staff. Of these staff, 23,453 employees had college education or above, accounting for 96.38%. The Company has now 74 retirees.

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT, EMPLOYEES AND BRANCHES

3 BRANCHES AND REPRESENTATIVE OFFICES

The following table sets out the branches and representative offices as at the end of June 2007

Name of branches	Business address	Postal code	No. of outlets	No. of staff	Amount of asset
					<i>(in millions of RMB)</i>
Head Office	7088 Shennan Boulevard, Shenzhen	518040	1	1,401	434,838
Shenzhen Branch	2 Shennan Road Central, Shenzhen	518001	64	2,183	93,339
Shanghai Branch	161 Lujiazui Road East, Pudong, Shanghai	200120	44	1,608	70,279
Wuhan Branch	518 Jianshe Avenue, Hankou, Wuhan	430022	21	999	23,816
Beijing Branch	156 Fuxingmen Nei Dajie, Beijing	100031	37	1,702	70,207
Shenyang Branch	12 Shiyiwei Road, Heping District, Shenyang	110003	16	901	20,185
Guangzhou Branch	138, Tiyu Road East, Tianhe District, Guangzhou	510620	31	1,122	22,345
Chengdu Branch	9 Shuncheng Street, Qingyang District, Chengdu	610016	17	734	12,775
Lanzhou Branch	9 Qingyang Road, Chengguan District, Lanzhou	730000	14	456	12,951
Xi'an Branch	107 Heping Road, Xi'an	710001	17	688	13,411
Nanjing Branch	1 Hanzhong Road, Nanjing	210005	15	678	34,315
Wuxi Branch	128 Renmin Road Central, Wuxi	214002	8	238	1,641
Changzhou Branch	125 Heping Road South, Changzhou	213003	2	91	250
Yangzhou Branch	12 Wenchang Road West, Yangzhou	225009	1	75	59
Suzhou Branch	128 Sanxiang Road, Suzhou	215004	9	330	16,448
Chongqing Branch	2 Linjiangzhi Road, Yuzhong District, Chongqing	400010	18	712	17,945
Dalian Branch	17 Renmin Road, Zhongshan District, Dalian	116001	13	608	9,973
Hangzhou Branch	310 Zhongshan Road North, Hangzhou	310001	18	728	24,366
Ningbo Branch	938 Baizhang Road East, Ningbo	315041	9	339	14,630
Wenzhou Branch	Jinglong Building, Chezhan Avenue, Wenzhou	325000	7	209	7,419
Shaoxing Branch	Jindun Building, 60 Shengli Road East, Shaoxing	312000	4	152	7,105
Jinhua Branch	45 Shuangxi Road West, Jinhua	321017	1	66	1,665
Nanchang Branch	162 Bayi Avenue, Nanchang	330003	11	561	12,196
Changsha Branch	24 Cai'e Road Middle, Furong District, Changsha	410005	16	509	12,221
Fuzhou Branch	60 Guping Road, Fuzhou	350003	11	405	8,811

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT, EMPLOYEES AND BRANCHES

3 BRANCHES AND REPRESENTATIVE OFFICES *(continued)*

The following table sets out the branches and representative offices as at the end of June 2007 *(continued)*

Name of branches	Business address	Postal code	No. of outlets	No. of staff	Amount of asset
					<i>(in millions of RMB)</i>
Quanzhou Branch	Huangxing Building, 301 Fengze Street, Quanzhou	362000	3	104	2,107
Qingdao Branch	36 Hong Kong Road Middle, Shinan District, Qingdao	266071	12	506	20,714
Tianjin Branch	55 Youyi Road North, Hexi District, Tianjin	300204	18	652	15,684
Jinan Branch	21 Chaoshan Street, Lixia District, Jinan	250011	13	476	23,690
Yantai Branch	CMB Building, 237 Nanda Street, Yantai	264000	4	126	3,131
Urumchi Branch	80 Xinhua Road North, Urumchi	830002	9	302	4,270
Kunming Branch	48 Dongfeng Road East, Kunming	650051	12	405	15,891
Hefei Branch	436 Changjiang Road Middle, Hefei	230061	10	453	10,812
Xiamen Branch	862 Xiahe Road, Xiamen	361004	7	293	6,980
Harbin Branch	3 Zhongyang Avenue, Daoli District, Harbin	150001	9	291	7,945
Zhengzhou Branch	68 Jingsan Road, Zhengzhou	450008	9	374	15,508
Dongguan Branch	Yujing New Times Plaza, Dongcheng Avenue, Dongguan	523129	7	276	5,495
Foshan Branch	1-3/F, Hongye Mansion, Jihua 5th Road, Foshan	528000	5	197	5,140
Taiyuan Branch	1 Xinjian Road South, Taiyuan	030001	1	100	2,682
Hong Kong Branch	12 Harcourt Road, Hong Kong		1	64	11,477
Beijing Representative Office	35 Jinrong Avenue, Xicheng District, Beijing	100005	1	8	-
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	2,211	14,057
Total	-	-	528	24,335	1,108,776

Note: As at 30 June 2007, amount of asset at the Beijing representative office was less than RMB1 million.

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT, EMPLOYEES AND BRANCHES

3 BRANCHES AND REPRESENTATIVE OFFICES *(continued)*

The Company continued to expand its outlet network in 2007. In the first half year of 2007, 2 branches had commenced business and the approval for setting up of another 2 branches was obtained: the Company obtained the approval issued by the CBRC to set up its Hohhot Branch and Taizhou Branch on 26 January 2007 and 17 February 2007, respectively; on 30 January 2007, the Company's Jinhua Branch was given an approval by the Zhejiang Regulatory Bureau of CBRC to commence business; and on 17 April 2007, the Company's Yangzhou Branch was given an approval by the Jiangsu Regulatory Bureau of CBRC to commence business. In addition, further progress has been made in the application for setting up of the New York Branch of the Company.

Distribution channels

The Company provides products and services via different distribution channels. As at 30 June 2007, the Company had 38 branches, 485 subbranches (including offices), 1 branch equivalent special purpose vehicle (credit card center), 1 representative office, 1,140 self-service centres and 941 machines (ATM & CDM) in 38 cities across China, as well as 1 branch in Hong Kong and 1 representative office in the United States. The efficient outlet network of the Company are primarily located in relatively developed areas in China such as Yangtze River Delta, Pearl River Delta and Bohai Rim, and some large cities in other areas. Besides expanding physical distribution channels, the Company also made efforts to develop and improve e-banking channels such as internet banking and telephone banking. The highly acclaimed online retail banking of the Company has effectively relieved the pressure on the business outlets of the Company. In the first half year of 2007, the number of transactions on the professional version of internet banking was 15 million, up by 62% compared to correspondent period of last year, and the number of online payments was 16.57 million, up by 123% year on year.

CORPORATE GOVERNANCE

1 COMPLIANCE WITH THE STOCK EXCHANGE'S CODE ON CORPORATE GOVERNANCE PRACTICES

Saved as disclosed below, the Company had complied with the provisions as set out in the Code on Corporate Governance Practices ("CG code") contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited in the first half of 2007.

Code provision A.4.2 of the CG code stipulates that all directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their appointment and that every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years. According to the Articles of Association of the Company, every director should be subject to election by shareholders. For any director appointed to fill a casual vacancy, his term of office shall commence from the date on which his appointment is approved by shareholders at the relevant general meeting, and shall end at the expiry of the current Board. Since the term of office of each Board is 3 years, therefore every director should be subject to re-election at general meeting at least once every three years during his term of office.

The term of office of the members of the Sixth Session of the Board of Directors expired in June 2007. In accordance with code provision A.4 of the CG code regarding election, re-election and removal of directors and the Articles of Association of the Company, upon approval by the Nomination Committee of the Board of Directors, the Board of Directors and consideration and approval at shareholders' general meeting, the Seventh Session of the Board of Directors was elected, of which the 11 non-executive directors staying in office had been subject to re-election.

2 INFORMATION ABOUT GENERAL MEETINGS

The 2006 Annual General Meeting of the Company was held in Shenzhen on 15 June 2007, and the resolutions were announced on *China Securities*, *Shanghai Securities News*, *Securities Times*, *Hong Kong Economic Times* and the *South China Morning Post* on 18 June 2007.

3 INFORMATION ABOUT BOARD OF DIRECTORS AND BOARD OF SUPERVISORS MEETINGS

During the reporting period, the Company held the 37th, 38th, 39th, 40th, 41st, 42nd and 43rd meeting of the Sixth Session and the 1st meeting of the Seventh Session of the Board of Directors; the 5th and 6th meeting of the Sixth Session of the Risk Management Committee of the Board of Directors; the 3rd and 4th meeting of the Sixth Session of the Nomination Committee of the Board of Directors; the 7th, 8th, 9th and 10th Meeting of the Sixth Session and the 1st meeting of the Seventh Session of the Audit and Related Party Transactions Control Committee of the Board of Directors; the 11th, 12th and 13th meeting of the Sixth Session and the 1st meeting of the Seventh Session of the Board of Supervisors; and the 3rd and 4th meeting of the Nomination Committee of the Board of Supervisors. The Board of Supervisors had conducted an investigation of the Chengdu Branch.

CORPORATE GOVERNANCE

4 INFORMATION ABOUT OTHER CORPORATE GOVERNANCE MATTERS

Corporate governance self-inspection report

During the reporting period, the Company had, based on the requirements set out in the Circular on the Specific Matters in relation to the Strengthening of Corporate Governance of Listed Companies issued by the China Securities Regulatory Commission and the Circular on the Specific Matters in relation to the Strengthening of Corporate Governance of Shenzhen Listed Companies issued by the Shenzhen Regulatory Bureau of the China Securities Regulatory Commission, launched its own special campaign on corporate governance. Through which the Company conducted a self-investigation and rectification and issued a Self-investigation Report on Corporate Governance, which was published on the websites of the Shanghai Stock Exchange and the Stock Exchange of Hong Kong Limited. The Company had also held an online forum on corporate governance to communicate with and receive opinions and suggestions from investors on corporate governance and business operation.

Election of the new sessions of the board of directors and the board of supervisors

In the first half of 2007, the election of the new sessions of the Board of Directors and Board of Supervisors of the Company was completed. The Chairman, Vice chairman of the Seventh Session of the Board of Directors and members and chairman of the designated committees under the Board of Directors were duly elected at the 1st meeting of the Seventh Session of the Board of Directors of the Company. Qin Xiao and Wei Jiafu were again elected Chairman and Vice chairman respectively of the Company. The members and chairman for each of the designated committees under the Seventh Session of the Board of Directors were as follows:

- (1) Executive Committee Members of the Board of Directors: Fu Yuning, Wei Jiafu, Wang Daxiong, Fu Junyuan and Ma Weihua; Chairman: Fu Yuning.
- (2) Nomination Committee Members of the Board of Directors: Fu Yuning, Ma Weihua, Yan Lan, Liu Yongzhang and Liu Hongxia; Chairman: Yan Lan.
- (3) Remuneration and Appraisal Committee Members of the Board of Directors: Li Yinquan, Fu Junyuan, Liu Yongzhang, Wu Jiesi and Song Lin; Chairman: Wu Jiesi.
- (4) Audit and Related Party Transactions Control Committee Members of the Board of Directors: Wang Daxiong, Ding An Hua Edward, Chow Kwong Fai, Edward, Liu Hongxia and Yan Lan; Chairwoman: Liu Hongxia.
- (5) Risk Management Committee Members of the Board of Directors: Sun Yueying, Hong Xiaoyuan, Wang Daxiong, Li Hao and Song Lin; Chairman: Hong Xiaoyuan.

CORPORATE GOVERNANCE

4 INFORMATION ABOUT OTHER CORPORATE GOVERNANCE MATTERS *(continued)*

The Chairman of the Seventh Session of the Board of Supervisors and members and chairman of the designated committees under the Board of Supervisors were duly elected at the 1st meeting of the Seventh Session of the Board of Supervisors. Shi Jiliang was again elected Chairman of the Board of Supervisors of the Company. The members and chairman for each of the designated committees under the Board of Supervisors were as follows:

- (1) The Nomination Committee Members of the Board of Supervisors: Shi Jiliang, Zhu Genlin and Yang Zongjian; Chairman: Shi Jiliang.
- (2) The Audit Committee Members of the Board of Supervisors: Shao Ruiqing, Chen Haoming and Yin Xuwen; Chairman: Shao Ruiqing.

Social responsibilities of the Company

In the first half of 2007, the Company published the Report on Social Responsibilities from 1987 to 2007, stating comprehensively the system of social responsibilities value of the Company and sorting out important actions and specific measures in performance of social responsibilities of the Company. Sticking to traditional way of social responsibilities and leveraging on the 20th anniversary celebration of the Company's foundation, the Company established the Golden Sunflower Children Growth Fund with a joint efforts with China Children and Teenager's Fund, so as to help the children in needy areas to stay away from hazards and harms and grow in a healthy way. The Company donated RMB1 million to initiate the fund and devoted revenue from Lang Lang Piano Solo Charity Concert in Shenzhen, Beijing and Shanghai to the course of children arts.

Investor relations

In the first half of 2007, the Company continued to strengthen the administration of investor relations to safeguard shareholders' interest, resulting in the further elevation of the Company's brand image in the capital market. During the reporting period, the Company ranked first in the "Top 100 public-listed companies in China" election, and was listed among the "Top 10 best management teams of public-listed companies on the Main Board of China" and "Top 10 most competitive and creditworthy public-listed companies in China". The Company came first in the "Top 10 public-listed companies with the greatest investment value" and was listed among the "Top 10 public-listed companies with the Best Share Reform". In addition, the Board of Directors was named "The best board of directors"; and Lan Qi, Secretary of Board of Directors, was awarded the "2007 New Wealth Company Secretary" and "2007 New Wealth Company Secretary – Media Recognition Award".

OTHER SIGNIFICANT EVENTS

1 MATERIAL LITIGATION AND ARBITRATIONS

As at 30 June 2007, the number of pending litigation and arbitration cases involving the Company totaled at 838, involving a total principal sum of RMB1,132,200,700, US\$5,099,000, HK\$18,145,000 and INR8,766,900; the interest totaled at RMB133,798,900, US\$130,700 and HK\$1,569,300. In particular, the total number of pending litigation and arbitration cases against the Company totaled at 36, involving a total principal of RMB269,906,500, US\$152,000, HK\$10,000,000 and INR8,766,900; the interest totaled at RMB22,206,200 and US\$9,900. There was 1 pending litigation and arbitration case with a total principal sum of over RMB0.1 billion, with the total principal sum amounting to RMB161,914,600.

2 MATERIAL CONTRACTS

The material contracts of the Company did not cover custody or contracting of other companies' assets or vice versa which are outside the ordinary course of business. The relevant guarantee contracts all fell within the guarantee businesses within the business scope of the Company, and the Company is not aware of any significant guarantee, no guarantee for its holding subsidiaries, and no illegal guarantee.

3 MATERIAL ACQUISITION AND DISPOSAL OF ASSETS AND RESTRUCTURING OF ASSETS

During the reporting period, acquisition of the equity interest of China Merchants Fund Management Co., Ltd. was approved by the China Securities Regulatory Commission, and is still pending for the approval of the relevant state-owned assets authorities.

4 MATERIAL CUSTODY OF FUND MANAGEMENT

The Company did not appoint any custodian for the management of funds during the reporting period.

5 INTERIM DIVIDEND FOR YEAR 2007

The Company does not intend to implement the 2007 interim profit appropriations plan (for the 6 months ended 30 June 2006: Nil) and capital reserve transfer.

OTHER SIGNIFICANT EVENTS

6 USE OF FUND RAISED

6.1 Use of Fund from A-Share Issuance

The Company for the first time issued 1,500,000,000 A shares at an issue price of RMB7.30 per share on 1 April 2002, raising a net fund of RMB10.769 billion, which was all in place on 2 April 2002. According to the commitments stated in the Prospectus, the fund would be used as additional capital to enhance capital adequacy and risk resistance. The Company strictly adhered to the commitments in respect of the intended use of fund and applied the fund on a rational basis. Details are as follows:

- (1) Establishing Branch Networks: intended to allocate RMB3.5 billion; working capital of an accumulative sum of RMB3.5 billion was allocated as at end of the reporting period.
- (2) Improving electronic banking platform: intended to allocate RMB 2.3 billion; an accumulative sum of RMB2.3 billion was allocated as at end of the reporting period.
- (3) Staff training: intended to allocate RMB0.2 billion; an accumulative sum of RMB0.2 billion was allocated as at end of the reporting period.
- (4) Acquisition of fixed assets: intended to allocate RMB1 billion; an accumulative sum of RMB1 billion was allocated as at end of the reporting period.
- (5) The remaining fund was used as working capital of the Company.

6.2 Use of Fund from Issuance of Convertible Bonds

The Company issued RMB6.5 billion convertible bonds in November 2004, and upon the approval of the China Banking Regulatory Commission, the fund raised was accounted for as supplementary capital. According to the commitments stated in the Prospectus, 50% of the fund raised before any conversion took place would be used to support quality enterprise financing, whereas the remaining portion would be used to invest in government bonds and other financial products. Following the implementation of the Conversion Scheme by the Company in February 2006, most of the convertible bonds had been converted into shares. The fund from the conversion were fully utilized as additional core capital. The capital thus increased will mainly be used as working capital of newly established branches/sub-branches, to fund information system infrastructure and to acquire fixed assets. The remaining portion will be used in financing operations, such as supporting quality enterprise financing, note financing and high-grade bond investment.

6.3 Use of Fund from Issuance of Subordinated Debts

The Company issued RMB3.5 billion fixed-term subordinated debts in the first half year of 2004, with the fund raised being accounted for as supplementary capital of the Company. At present, the fund is mainly used to support quality enterprise financing and to invest in high-grade bonds.

OTHER SIGNIFICANT EVENTS

6 USE OF FUND RAISED *(continued)*

6.4 Use of Fund from H-Share Issuance

The Company issued 2,200,000,000 H Shares at face value of RMB1 per share at the price of HK\$8.55 per share on the Stock Exchange of Hong Kong Ltd (“HKSE”) on 22 September 2006, and through the exercise of the over-allotment option, issued 220,000,000 H Shares at face value of RMB1 per share at the price of HK\$8.55 per share on the HKSE on 27 September, raising RMB20.337 billion net fund, which was all in place on 5 October 2006. According to the commitments stated in the Prospectus, the fund raised would be used as additional capital to enhance capital adequacy and risk resistance.

7 NON-FUNDRAISING MAJOR INVESTMENTS

As at 30 June 2007, the Company had invested a total of RMB0.422 billion in the Lujiazui project, of which RMB15 million was made during the reporting period.

8 PURCHASE, SALE OR REDEMPTION OF SHARES

For the period ended 30 June 2007, neither the Company, nor any of its subsidiaries had purchased, sold or redeemed any of the Company’s listed shares.

9 INFORMATION ABOUT OTHER JOINT-STOCK COMPANIES

(Unit: RMB million)

Name of holding or joint-stock company	Investment period	Investment amount at the beginning (In millions)	Shareholding percentage held by the Company (%)	Investment at end of the reporting period
CMB International Capital Corporation Ltd. (CMBICC)	None	HK\$250	100%	313
China UnionPay Co., Ltd.	None	RMB80	4.8%	38
EPS (Hong Kong) Limited	None	HK\$8	0.7%	8

Notes: (1) CMBICC, formerly Jiangnan Finance Co., Ltd., is the Company’s wholly-owned subsidiary approved by PBOC through its Yin Fu [1998] No. 405 Document, and was renamed as CMB International Capital Corporation Ltd. on 22 February 2002 upon approval of PBOC through its Yin Fu [2002] No. 30 Document. Since the year 2006, the Company consolidated the financial statements of CMB International Capital Corporation Ltd. with that of the Company. In the first half of 2007, the Company injected HK\$200 million to CMBICC.

(2) Upon approval of PBOC through its Yin Fu [2001] No. 234 Document concerning the Establishment of China UnionPay Co., Ltd., the Company contributed RMB80 million to establish China UnionPay Co., Ltd. The above contribution included the assessed net value RMB41.98 million of the bank card network service centers in various cities and RMB38.02 million as additional cash investment. China UnionPay Co., Ltd. was incorporated on 26 March 2002 and the Company recorded the RMB38.02 million which was contributed in 2002 as long-term equity investment.

(3) EPS (Hong Kong) Limited was incorporated in 1984 by several licensed banks in Hong Kong and provides e-payment services for customers in Hong Kong, Macao and Shenzhen.

OTHER SIGNIFICANT EVENTS

10 COMPLIANCE WITH BANKING (DISCLOSURE) RULES

The Company's interim financial statements for the year 2007 contain the disclosure information required under the Banking (Disclosure) Rules issued by the Hong Kong Monetary Authority.

11 PUBLICATION OF INTERIM REPORT

This interim report is printed in both English and Chinese versions. These reports are available on the websites of the Company (www.cmbchina.com) and the Stock Exchange of Hong Kong Limited (www.hkex.com.hk).

The Company also prepared the interim report in Chinese in accordance with the PRC Generally Accepted Accounting Standards. These reports are available on the websites of the Company (www.cmbchina.com) and Shanghai Stock Exchange (www.sse.com.cn).

12 THE 1ST EXTRAORDINARY GENERAL MEETING FOR 2007

The first extraordinary general meeting of shareholders for 2007 of the Company will be held on 22 October 2007 (Monday), 9:00 a.m. at the conference room at 5/F., China Merchants Bank Tower, 7088 Shennan Boulevard, Shenzhen, the PRC. A notice of the extraordinary general meeting setting out the record date for the meeting and related issues will be issued in due course.

By Order of the Board

Qin Xiao

Chairman of Board of Directors

9 August 2007

REVIEW REPORT TO THE BOARD OF DIRECTORS AND 2007 INTERIM FINANCIAL REPORT

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REVIEW REPORT TO THE BOARD OF DIRECTORS

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 77 to 124 which comprises the consolidated balance sheet of China Merchants Bank Co., Ltd. as of 30 June 2007 and the related consolidated statements of income, changes in equity and statement of cash flows for the six month 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 2007 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

9 August 2007

UNAUDITED CONSOLIDATED INCOME STATEMENT

for the six months ended 30 June 2007

(Expressed in millions of Renminbi unless otherwise stated)

	Note	Six months ended 30 June	
		2007	2006
Interest income	3	22,284	15,270
Interest expense	4	(7,588)	(5,842)
Net interest income		14,696	9,428
Fee and commission income	5	3,012	1,322
Fee and commission expense		(348)	(198)
Net fee and commission income		2,664	1,124
Other net income	6	194	389
Operating income		17,554	10,941
Operating expenses	7	(6,968)	(4,848)
Operating profit before impairment losses		10,586	6,093
Impairment losses	8	(1,579)	(1,698)
Profit before tax		9,007	4,395
Income tax	9	(2,887)	(1,618)
Net profit attributable to equity holders of the Bank		6,120	2,777
Dividends			
Declared and paid	23(a)	1,764	983
Proposed special dividend		–	2,210
		RMB	RMB
Earnings per share			
Basic	10(a)	0.42	0.23
Diluted	10(b)	0.42	0.23

The notes on pages 83 to 124 form part of this interim financial report.

UNAUDITED CONSOLIDATED BALANCE SHEET

for the six months ended 30 June 2007

(Expressed in millions of Renminbi unless otherwise stated)

	Note	30 June 2007	31 December 2006
Assets			
Cash and balances with banks and other financial institutions	11	17,962	20,861
Balances with central bank	12	135,461	82,372
Placements with banks and other financial institutions	13	123,033	88,171
Loans and advances to customers	14	611,840	549,420
Investments	15	203,419	178,885
Fixed assets	16	7,572	7,376
Deferred tax assets	17(a)	1,955	2,260
Other assets		7,534	4,757
Total assets		1,108,776	934,102
Liabilities			
Deposits from banks and other financial institutions	18	160,297	68,854
Placements from banks and other financial institutions	19	8,360	7,749
Deposits from customers	20	844,571	773,757
Financial liabilities at fair value through profit or loss	15(e)	1,023	106
Certificates of deposit issued		-	1,170
Convertible bonds issued	21(a)	20	22
Other debts issued	21(b)	9,989	9,987
Current taxation		2,421	2,652
Other liabilities		19,359	11,145
Subordinated notes issued	21(c)	3,500	3,500
Total liabilities		1,049,540	878,942

UNAUDITED CONSOLIDATED BALANCE SHEET *(continued)*

for the six months ended 30 June 2007

(Expressed in millions of Renminbi unless otherwise stated)

	Note	30 June 2007	31 December 2006
Shareholders' equity			
Share capital	22	14,704	14,703
Capital reserve		27,538	27,536
Surplus reserve		3,088	2,377
Investment revaluation reserve		(88)	195
Regulatory general reserve		6,500	6,500
Retained profits		7,494	1,374
Proposed profit appropriations	23(b)	-	2,475
Total shareholders' equity		59,236	55,160
Total shareholders' equity and liabilities		1,108,776	934,102

The notes on pages 83 to 124 form part of this interim financial report.

UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the six months ended 30 June 2007

(Expressed in millions of Renminbi unless otherwise stated)

	Note	For the six months ended 30 June 2007							Total
		Share capital	Capital reserve	Surplus reserve	Investment revaluation reserve	Regulatory general reserve	Retained profits	Proposed profit appropriations	
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	23(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

	Note	For the six months ended 30 June 2006							Total
		Share capital	Capital reserve	Surplus reserve	Investment revaluation reserve	Regulatory general reserve	Retained profits	Proposed profit appropriations	
At 1 January 2006		10,374	6,095	1,591	404	3,000	2,918	1,616	25,998
Net profit for the period		-	-	-	-	-	2,777	-	2,777
Appropriations to statutory surplus reserve and statutory public welfare fund for the year 2005		-	-	786	-	-	-	(786)	-
Dividend paid for the year 2005	23(a)	-	-	-	-	-	-	(983)	(983)
Capital reserve transferred to share capital upon issue of shares	22	971	(971)	-	-	-	-	-	-
Conversion of convertible bonds		935	4,312	-	-	-	-	-	5,247
Realised on disposal of available-for-sale financial assets, net of deferred tax		-	-	-	(7)	-	-	-	(7)
Changes in fair value of available-for-sale financial assets, net of deferred tax		-	-	-	(289)	-	-	-	(289)
Proposed dividends:									
- for the year 2005		-	-	-	-	-	(153)	153	-
- special		-	-	-	-	-	(2,210)	2,210	-
At 30 June 2006		12,280	9,436	2,377	108	3,000	3,332	2,210	32,743

The notes on pages 83 to 124 form part of this interim financial report.

UNAUDITED CONSOLIDATED CASH FLOW STATEMENT

for the six months ended 30 June 2007

(Expressed in millions of Renminbi unless otherwise stated)

	Note	Six months ended 30 June	
		2007	2006
Operating activities			
Profit before tax		9,007	4,395
Adjustments for:			
– Impairment losses charged on loans and advances		1,521	1,602
– Impairment losses charged/(released) on balances and placements with banks and other financial institutions		46	(66)
– Impairment losses charged on other assets		12	162
– Unwind of interest income on impaired loans		(66)	(102)
– Depreciation		492	439
– Amortisation of discount and premium of debt investments		(787)	4
– Amortisation of discount and premium of bonds issued		3	6
– Write-off of loans and advances, net of recoveries		39	65
– Net gain on debt investments		(316)	(97)
– Interest income on debt investments		(2,180)	(1,759)
– Interest expense on issued debts		230	238
Changes in operating assets and liabilities:			
(Increase)/decrease in balances and placements with banks and other financial institutions with original maturity over 3 months		(7,341)	621
Decrease in discounted bills		31,104	3,282
Increase in loans and advances to customers		(94,955)	(62,699)
Increase in other assets		(3,431)	(2,715)
Increase in deposits from customers		70,814	69,198
Increase in deposits and placements from banks and other financial institutions		92,054	16,684
Increase in other liabilities		7,175	2,601
Net cash inflow from operating activities		103,421	31,859
Income tax paid		(2,798)	(2,192)

UNAUDITED CONSOLIDATED CASH FLOW STATEMENT *(continued)*

for the six months ended 30 June 2007

(Expressed in millions of Renminbi unless otherwise stated)

	Note	Six months ended 30 June	
		2007	2006
Investing activities			
Payment for purchase of debt investments		(103,191)	(54,142)
Proceeds from redemption or disposal of debt investments		74,689	50,425
Interest received from debt investments		2,280	1,945
Payment for purchase of fixed assets		(738)	(540)
Proceeds from sale of fixed assets		50	132
Net cash outflow from investing activities		(26,910)	(2,180)
Net cash inflow before financing activities		73,713	27,487
Financing activities			
Repayment of certificates of deposit issued		(1,142)	–
Dividends paid		(7)	(971)
Interest paid on issued debts		(31)	(31)
Net cash outflow from financing activities		(1,180)	(1,002)
Net increase in cash and cash equivalents		72,533	26,485
Cash and cash equivalents at 1 January		175,610	120,609
Effect of foreign exchange rate changes		(842)	(191)
Cash and cash equivalents at 30 June	24(a)	247,301	146,903
Cash flows from operating activities include:			
Interest received		18,482	13,230
Interest paid		7,122	5,176

The notes on pages 83 to 124 form part of this interim financial report.

NOTES TO THE INTERIM FINANCIAL REPORT

for the six months ended 30 June 2007

(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 condensed consolidated interim financial statements of the Bank as at and for the six months ended 30 June 2007 comprise the Bank and its subsidiary (together referred to as the "Group").

The consolidated financial statements of the Group as at and for the year ended 31 December 2006 are available upon request from the Bank's registered office at China Merchants Bank Tower, Shenzhen, the PRC.

The particulars of the Bank's subsidiary as at 30 June 2007 are set out below.

Name of company	Place of incorporation and operation	Particulars of the issued and paid up capital	% of ownership held by the Bank	Principal activities
<i>(HK\$ million)</i>				
CMB International Capital Corporation Limited	Hong Kong	250 (31 December 2006: 50)	100%	Investment advisory services

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 2006 ("2006 annual financial statements") included in the Annual Report and Financial Statements for 2006.

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 2006 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 2006.

NOTES TO THE INTERIM FINANCIAL REPORT

for the six months ended 30 June 2007

(Expressed in millions of Renminbi unless otherwise stated)

2 BASIS OF PREPARATION *(continued)*

This interim financial report is unaudited, but has been reviewed by the Audit and Related Party Transactions Control 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.

3 INTEREST INCOME

	Six months ended 30 June	
	2007	2006
Loans and advances <i>(note)</i>	17,002	12,213
Balances with central bank	731	480
Deposits and placements with		
– banks	1,385	724
– other financial institutions	199	98
Debt investments	2,967	1,755
Interest income on financial assets that are not at fair value through profit or loss	22,284	15,270

Note: Included in the above is interest income of RMB66 million accrued on impaired loans (for the six months ended 30 June 2006: RMB102 million).

4 INTEREST EXPENSE

	Six months ended 30 June	
	2007	2006
Deposits from customers	5,798	4,963
Deposits and placements from		
– banks	434	199
– other financial institutions	1,123	436
Issued debts	233	244
	7,588	5,842

NOTES TO THE INTERIM FINANCIAL REPORT

for the six months ended 30 June 2007

(Expressed in millions of Renminbi unless otherwise stated)

5 FEE AND COMMISSION INCOME

	Six months ended 30 June	
	2007	2006
Bank card fees	776	422
Remittance and settlement fees	375	280
Agency services fees	662	268
Commissions from credit commitment and loan business	193	132
Trust services fees	797	78
Others	209	142
	3,012	1,322

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

- (i) trust and fiduciary activities where the Group holds or invests assets on behalf of its customers of RMB146 million (for the six months ended 30 June 2006: RMB68 million); 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 RMB800 million (for the six months ended 30 June 2006: RMB536 million).

6 OTHER NET INCOME

	Six months ended 30 June	
	2007	2006
Trading profits arising from		
– foreign exchange	18	258
– securities, derivatives and other trading activities	71	127
Net gain/(loss) on financial instruments designated at fair value through profit or loss	30	(1)
Net gain/(loss) on disposal of available-for-sale financial assets	9	(26)
Rental income	23	26
Others	43	5
	194	389

NOTES TO THE INTERIM FINANCIAL REPORT

for the six months ended 30 June 2007

(Expressed in millions of Renminbi unless otherwise stated)

7 OPERATING EXPENSES

	Six months ended 30 June	
	2007	2006
Staff costs		
– salaries, bonuses and staff welfare	2,795	1,736
– contributions to defined contribution retirement schemes	355	232
– housing allowances	179	156
– others	172	166
	3,501	2,290
Business tax and surcharges	1,052	700
Depreciation	492	439
Rental expenses	486	391
Other general and administrative expenses	1,437	1,028
	6,968	4,848

8 IMPAIRMENT LOSSES

	Six months ended 30 June	
	2007	2006
Impairment losses charged/(released) on:		
– loans and advances (note 14(c))	1,521	1,602
– balances and placements with banks and other financial institutions	46	(66)
– other assets	12	162
	1,579	1,698

9 INCOME TAX

Income tax in the consolidated income statement represents:

	Six months ended 30 June	
	2007	2006
Current tax	2,533	1,689
Deferred tax (note 17(b))	354	(71)
	2,887	1,618

The current tax provision is based on the estimated assessable profit for 2007, and is determined by using tax rates applicable to the Bank's operations in different areas.

NOTES TO THE INTERIM FINANCIAL REPORT

for the six months ended 30 June 2007

(Expressed in millions of Renminbi unless otherwise stated)

10 EARNINGS PER SHARE

Movements of the share capital are included in note 22.

(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	
	2007	2006
Net profit	6,120	2,777
Weighted average number of shares in issue (in million)	14,704	12,174
Basic earnings per share (in RMB)	0.42	0.23

(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	
	2007	2006
Net profit	6,120	2,777
Interest expense on convertible bonds issued	1	10
Diluted net profit	6,121	2,787
Weighted average number of shares in issue (in million)	14,704	12,174
Effect of deemed conversion of convertible bonds (in million)	4	114
Weighted average number of shares in issue after dilution (in million)	14,708	12,288
Diluted earnings per share (in RMB)	0.42	0.23

NOTES TO THE INTERIM FINANCIAL REPORT

for the six months ended 30 June 2007

(Expressed in millions of Renminbi unless otherwise stated)

11 CASH AND BALANCES WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

	30 June 2007	31 December 2006
Cash	5,028	4,622
Balances with banks	12,962	16,267
Balances with other financial institutions	6	6
	17,996	20,895
Less: Impairment loss		
– banks	(30)	(30)
– other financial institutions	(4)	(4)
	(34)	(34)
	17,962	20,861

12 BALANCES WITH CENTRAL BANK

	30 June 2007	31 December 2006
Statutory deposit reserve funds	80,068	57,364
Surplus deposit reserve funds	54,937	24,702
Fiscal deposits	456	306
	135,461	82,372

The statutory deposit reserve funds are not available for the Group's daily operations. The statutory deposit reserve funds are calculated at 11.5% and 5% for eligible Renminbi deposits and foreign currency deposits respectively as at 30 June 2007 (31 December 2006: 9% and 4% 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.

NOTES TO THE INTERIM FINANCIAL REPORT

for the six months ended 30 June 2007

*(Expressed in millions of Renminbi unless otherwise stated)***13 PLACEMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS**

	30 June 2007	31 December 2006
Money market placements		
– banks	34,983	38,843
– other financial institutions	536	10,390
	35,519	49,233
Balances under resale agreements		
– banks	51,223	17,770
– other financial institutions	36,462	21,294
	87,685	39,064
	123,204	88,297
Less: Impairment loss		
– banks	(88)	(57)
– other financial institutions	(83)	(69)
	(171)	(126)
	123,033	88,171
Maturing		
– within one month	82,785	58,813
– between one month and one year	39,181	27,728
– after one year	1,067	1,630
	123,033	88,171

NOTES TO THE INTERIM FINANCIAL REPORT

for the six months ended 30 June 2007

(Expressed in millions of Renminbi unless otherwise stated)

14 LOANS AND ADVANCES TO CUSTOMERS

(a) Loans and advances to customers

	30 June 2007	31 December 2006
Corporate loans	419,477	359,883
Discounted bills	72,732	103,836
Retail loans	137,344	101,983
Gross loans and advances to customers	629,553	565,702
Less: Allowances for impairment losses	(17,713)	(16,282)
Net loans and advances to customers	611,840	549,420

(b) Analysis of loans and advances to customers

(i) Analysed by legal form of borrowers

	30 June 2007	31 December 2006
<i>Domestic enterprises:</i>		
State-owned enterprises	178,732	142,804
Joint-stock enterprises	53,294	42,642
Other limited liability enterprises	66,296	72,608
Others	50,721	44,783
Foreign-invested enterprises	349,043	302,837
	67,150	52,391
Enterprises operating in the Mainland	416,193	355,228
Enterprises operating outside the Mainland	3,284	4,655
Corporate loans	419,477	359,883
Discounted bills	72,732	103,836
Retail loans	137,344	101,983
Gross loans and advances to customers	629,553	565,702

NOTES TO THE INTERIM FINANCIAL REPORT

for the six months ended 30 June 2007

(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 (notes)

	30 June 2007		31 December 2006	
	Total	Of which: covered by collateral or other security	Total	Of which: covered by collateral or other security
Manufacturing and processing	121,931	26,301	103,870	20,211
Transportation, storage and postal services	77,868	14,803	77,181	13,251
Wholesale and retail	47,197	19,121	31,003	11,371
Production and supply of electric power, gas and water	39,698	2,809	38,260	2,208
Property development	34,215	16,974	26,686	12,017
Leasing and commercial services	30,463	8,013	27,646	7,273
Construction	17,085	3,039	12,668	2,126
Mining	11,615	1,553	9,594	137
Education	7,227	625	6,359	522
Telecommunications, computer services and software	7,202	1,195	7,182	909
Others	24,976	4,498	19,434	4,357
Corporate loans	419,477	98,931	359,883	74,382
Discounted bills	72,732	72,732	103,836	103,836
Credit cards	14,149	–	10,146	–
Mortgages	106,445	106,445	81,383	81,383
Others	16,750	15,040	10,454	6,359
Retail loans	137,344	121,485	101,983	87,742
Gross loans and advances to customers	629,553	293,148	565,702	265,960

Notes: (i) Majority of loans granted by the Bank were used in the PRC. Loans used in Hong Kong represented an insignificant portion of the gross loans portfolio (30 June 2007: 0.4%; 31 December 2006: 0.4%) and therefore no further analyses by borrower's industry sector was made.

(ii) The Bank has redefined the classification of industry sector in 2007 for better management. The comparative figures were restated accordingly.

NOTES TO THE INTERIM FINANCIAL REPORT

for the six months ended 30 June 2007

(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 *(notes)* *(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 2007	31 December 2006
Manufacturing and processing		
– Overdue loans	3,058	2,936
– Impaired loans and advances	3,108	3,074
– Individually assessment allowance	2,112	1,881
– Collective assessment allowance	2,066	1,743
Transportation, storage and postal services		
– Overdue loans	280	223
– Impaired loans and advances	398	387
– Individually assessment allowance	278	267
– Collective assessment allowance	1,347	1,328
Mortgages		
– Overdue loans	3,850	2,523
– Impaired loans and advances	332	322
– Collective assessment allowance	2,056	1,615

(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 2007, 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 2006).

NOTES TO THE INTERIM FINANCIAL REPORT

for the six months ended 30 June 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 2007	Year ended 31 December 2006
At 1 January	16,282	13,510
Charge for the period/year <i>(note 8)</i>	2,343	4,152
Releases for the period/year <i>(note 8)</i>	(822)	(615)
Unwinding of discount	(66)	(222)
Recoveries of loans and advances previously written off	39	58
Write-offs	–	(328)
Transfers out	(2)	(188)
Exchange differences	(61)	(85)
At 30 June/31 December	17,713	16,282

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for the six months ended 30 June 2007

(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 2007					
	(note (i))	(note (ii))		Total	(note (iii))	
	Loans and advances for which impairment losses are collectively assessed	Impaired loans and advances for which impairment losses are collectively assessed	Impaired loans and advances for which impairment losses are individually assessed		Gross impaired loans and advances as a % of gross loans and advances	Fair value of collaterals held against individually assessed impaired loans and advances
Gross loans and advances to						
– financial institutions	6,915	–	–	6,915	–	–
– non-financial institution customers	612,217	675	9,746	622,638	1.67	1,449
	619,132	675	9,746	629,553	1.66	1,449
Less:						
Allowances for impairment losses on loans and advances to						
– financial institutions	(52)	–	–	(52)		
– non-financial institution customers	(9,654)	(489)	(7,518)	(17,661)		
	(9,706)	(489)	(7,518)	(17,713)		
Net loans and advances to						
– financial institutions	6,863	–	–	6,863		
– non-financial institution customers	602,563	186	2,228	604,977		
	609,426	186	2,228	611,840		

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for the six months ended 30 June 2007

(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 2006				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 (i))	(note (ii))		Total		
	Loans and advances for which impairment losses are collectively assessed	Impaired loans and advances for which impairment losses are collectively assessed	Impaired loans and advances for which impairment losses are individually assessed	Total		
Gross loans and advances to						
– financial institutions	10,094	–	–	10,094	–	–
– non-financial institution customers	543,602	557	11,449	555,608	2.16	2,289
	553,696	557	11,449	565,702	2.12	2,289
Less:						
Allowances for impairment losses on loans and advances to						
– financial institutions	(41)	–	–	(41)		
– non-financial institution customers	(7,964)	(404)	(7,873)	(16,241)		
	(8,005)	(404)	(7,873)	(16,282)		
Net loans and advances to						
– financial institutions	10,053	–	–	10,053		
– non-financial institution customers	535,638	153	3,576	539,367		
	545,691	153	3,576	549,420		

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.

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for the six months ended 30 June 2007

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15 INVESTMENTS

	30 June 2007	31 December 2006
Financial assets at fair value through profit or loss (<i>note 15(a)</i>)	9,588	7,960
Available-for-sale investments (<i>note 15(b)</i>)	125,877	109,476
Held-to-maturity debt securities (<i>note 15(c)</i>)	57,327	54,065
Receivables (<i>note 15(d)</i>)	10,627	7,384
	203,419	178,885

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

	30 June 2007	31 December 2006
(i) Trading assets		
<i>Listed/quoted</i>		
In the Mainland		
– PRC government bonds	11	11
– bonds issued by the PBOC	2,680	1,993
– bonds issued by policy banks	1,921	1,512
– other debt securities	2,869	1,360
– equity investments	17	–
Outside the Mainland		
– other debt securities	447	–
– equity investments	4	–
	7,949	4,876
<i>Unlisted/unquoted</i>		
Outside the Mainland		
– other debt securities	99	–
	8,048	4,876
Derivative financial instruments (<i>note 26(b)</i>)	1,291	203
	9,339	5,079

NOTES TO THE INTERIM FINANCIAL REPORT

for the six months ended 30 June 2007

(Expressed in millions of Renminbi unless otherwise stated)

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

	30 June 2007	31 December 2006
(ii) Financial assets designated at fair value through profit or loss		
<i>Listed/quoted</i>		
In the Mainland		
– PRC government bonds	249	2,441
– bonds issued by policy banks	–	440
	249	2,881
	9,588	7,960
<i>Financial assets at fair value through profit or loss (excluding derivative financial instruments)</i>		
Issued by:		
Sovereigns	2,940	4,445
Banks and other financial institutions	2,216	1,952
Public sector entities	250	–
Corporate entities	2,891	1,360
	8,297	7,757

NOTES TO THE INTERIM FINANCIAL REPORT

for the six months ended 30 June 2007

(Expressed in millions of Renminbi unless otherwise stated)

15 INVESTMENTS (continued)**(b) Available-for-sale investments**

	30 June 2007	31 December 2006
<i>Listed/quoted</i>		
In the Mainland		
– PRC government bonds	8,039	7,387
– bonds issued by the PBOC	60,363	38,748
– bonds issued by policy banks	22,786	20,950
– other debt securities	16,021	13,822
Outside the Mainland		
– other debt securities	13,580	8,879
– investments in funds	3,188	6,914
	123,977	96,700
<i>Unlisted/unquoted</i>		
In the Mainland		
– bonds issued by the PBOC	–	4,951
– bonds issued by policy banks	–	5,461
– other debt securities	380	401
– equity investments	38	38
Outside the Mainland		
– other debt securities	1,472	1,915
– equity investments	10	10
	1,900	12,776
	125,877	109,476
	30 June 2007	31 December 2006
Issued by:		
Sovereigns	68,768	51,086
Banks and other financial institutions	37,408	45,333
Public sector entities	4,570	1,085
Corporate entities	15,131	11,972
	125,877	109,476

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for the six months ended 30 June 2007

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15 INVESTMENTS (continued)**(c) Held-to-maturity debt securities**

	30 June 2007	31 December 2006
<i>Listed/quoted</i>		
In the Mainland		
– PRC government bonds	13,239	13,773
– bonds issued by the PBOC	4,682	2,270
– bonds issued by policy banks	30,051	28,626
– other debt securities	2,995	3,511
Outside the Mainland		
– other debt securities	6,360	5,885
	57,327	54,065
Fair value	57,332	54,335
	30 June 2007	31 December 2006
Issued by:		
Sovereigns	18,211	16,072
Banks and other financial institutions	32,904	33,762
Public sector entities	3,431	1,435
Corporate entities	2,781	2,796
	57,327	54,065

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for the six months ended 30 June 2007

(Expressed in millions of Renminbi unless otherwise stated)

15 INVESTMENTS (continued)**(d) Receivables**

	30 June 2007	31 December 2006
<i>Unlisted/unquoted</i>		
In the Mainland		
– PRC government bonds	6,646	5,506
– bonds issued by the PBOC	3,000	–
Outside the Mainland		
– other debt securities	981	1,878
	10,627	7,384
Issued by:		
Sovereigns	9,646	5,710
Banks and other financial institutions	981	1,362
Corporate entities	–	312
	10,627	7,384

Receivables are unlisted/unquoted bearer's national bonds issued by the PRC government and other debt investments which the Group has the intention and ability to hold to maturity. These receivables 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 2007	31 December 2006
Derivative financial instruments (note 26(b))	1,023	106

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for the six months ended 30 June 2007

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15 INVESTMENTS (continued)

(f) In June 2006, the Bank entered into an agreement with three independent third parties and China Merchants Securities Company, a related company of the Bank, to acquire 30% and 3.4% equity interest in China Merchants Fund Management Company ("CMFM") respectively for a total consideration of RMB197.7 million. The completion of the acquisition is subject to obtaining approvals from relevant regulatory authorities. As of 30 June 2007, the proposed acquisition has been approved by the China Banking Regulatory Commission ("CBRC") and the China Securities Regulatory Commission ("CSRC") but yet to be approved by the State-owned Assets Supervision and Administration Commission of the State Council.

Upon completion of the transaction, the Group's investment in CMFM will be recognised as an investment in associated company. The investment in associated company and any goodwill arising will be accounted for in the consolidated financial statements in accordance with IFRSs.

16 FIXED ASSETS

	2007						Total
	Land and buildings	Investment properties	Construction in progress	Computer equipment	Leasehold improvements	Motor vehicles and other equipment	
Cost:							
At 1 January 2007	4,558	584	1,136	3,014	1,411	1,013	11,716
Additions	1	-	334	245	105	53	738
Transfers	183	(174)	(9)	-	-	-	-
Disposals/write-offs	(14)	-	-	(47)	-	(14)	(75)
At 30 June 2007	4,728	410	1,461	3,212	1,516	1,052	12,379
Accumulated depreciation:							
At 1 January 2007	1,153	146	-	1,633	761	647	4,340
Depreciation	115	10	-	220	86	61	492
Transfers	97	(97)	-	-	-	-	-
Written back on disposals/write-offs	(5)	-	-	(14)	-	(6)	(25)
At 30 June 2007	1,360	59	-	1,839	847	702	4,807
Net book value:							
At 30 June 2007	3,368	351	1,461	1,373	669	350	7,572

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16 FIXED ASSETS (continued)

	2006						Total
	Land and buildings	Investment properties	Construction in progress	Computer equipment	Leasehold improvements	Motor vehicles and other equipment	
Cost:							
At 1 January 2006	4,086	558	1,121	2,673	1,120	910	10,468
Additions	83	-	610	694	218	163	1,768
Transfers	491	26	(590)	-	73	-	-
Disposals/write-offs	(102)	-	(5)	(353)	-	(60)	(520)
At 31 December 2006	4,558	584	1,136	3,014	1,411	1,013	11,716
Accumulated depreciation:							
At 1 January 2006	986	100	-	1,423	610	572	3,691
Depreciation	195	46	-	396	151	122	910
Written back on disposals/write-offs	(28)	-	-	(186)	-	(47)	(261)
At 31 December 2006	1,153	146	-	1,633	761	647	4,340
Net book value:							
At 31 December 2006	3,405	438	1,136	1,381	650	366	7,376

17 DEFERRED TAX

(a) Recognised deferred tax assets

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

	30 June 2007	31 December 2006
Impairment losses on loans and advances to customers and other assets	2,029	2,384
Investment revaluation reserve	15	(34)
Others	(89)	(90)
	1,955	2,260

NOTES TO THE INTERIM FINANCIAL REPORT

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17 DEFERRED TAX (continued)**(b) Movements of deferred tax**

	Impairment losses on loans and advances to customers and other assets	Investment revaluation reserve	Others	Total
At 1 January 2007	2,384	(34)	(90)	2,260
Recognised in consolidated income statement	(355)	–	1	(354)
Recognised in reserves	–	49	–	49
At 30 June 2007	2,029	15	(89)	1,955
At 1 January 2006	2,292	(71)	(55)	2,166
Recognised in consolidated income statement	366	–	(35)	331
Recognised in reserves	–	37	–	37
Write-offs	(274)	–	–	(274)
At 31 December 2006	2,384	(34)	(90)	2,260

On 16 March 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 will take effect on 1 January 2008. As a result of the new tax law, it is expected that the income tax rate applicable to the Bank's business in areas other than Shenzhen will be reduced from 33% to 25% from 1 January 2008; and accordingly the Bank's deferred tax asset as at 30 June 2007 is estimated to decrease by RMB548 million. Such reduction in deferred tax asset has been recognised in the income statement for the current period. In addition, from 1 January 2008, the income tax rate for the Bank's business in Shenzhen is expected to gradually increase to the standard rate of 25% over a five-year transition period. However, the new tax law has not set out the details as to how the existing preferential tax rate will gradually increase to the standard rate of 25%. Consequently, the Bank is not able to make an estimate of the expected financial effect of the new tax law on its deferred tax assets. The Bank expects detailed implementation rules will be announced in the second half of 2007 and adjustments will be made accordingly.

NOTES TO THE INTERIM FINANCIAL REPORT

for the six months ended 30 June 2007

*(Expressed in millions of Renminbi unless otherwise stated)***18 DEPOSITS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS**

	30 June 2007	31 December 2006
Deposits from banks	11,496	5,636
Deposits from other financial institutions	148,801	63,218
	160,297	68,854

19 PLACEMENTS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	30 June 2007	31 December 2006
Money market takings		
– banks	4,585	1,512
Balances under repurchase agreements		
– banks	2,544	2,056
– other financial institutions	1,130	1,076
	3,674	3,132
Rediscounted bills	101	3,105
	8,360	7,749

20 DEPOSITS FROM CUSTOMERS

	30 June 2007	31 December 2006
Demand deposits		
– corporate customers	306,770	257,235
– retail customers	172,943	152,449
	479,713	409,684
Time deposits		
– corporate customers	220,509	204,563
– retail customers	144,349	159,510
	364,858	364,073
	844,571	773,757

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21 ISSUED DEBT SECURITIES

(a) 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 fourth 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.

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.

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for the six months ended 30 June 2007

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21 ISSUED DEBT SECURITIES (continued)

(a) Convertible bonds issued (continued)

Details of the convertible bonds are as follows:

	30 June 2007	31 December 2006
Initial recognition:		
– Nominal value	6,500	6,500
– Issuance cost	(65)	(65)
– Equity component	(918)	(918)
Liability component at issue date	5,517	5,517
Accretion	234	234
Amounts converted to shares	(5,731)	(5,729)
Liability component as at 30 June/31 December	20	22

(b) 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.

(c) 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.

NOTES TO THE INTERIM FINANCIAL REPORT

for the six months ended 30 June 2007

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22 SHARE CAPITAL

	Registered and issued share capital	
	No. of shares (in million)	Amount
At 1 January 2007	14,703	14,703
Conversion of convertible bonds	1	1
At 30 June 2007	14,704	14,704
At 1 January 2006	10,374	10,374
Bonus shares issued	971	971
Conversion of convertible bonds	938	938
H-Shares issued	2,420	2,420
At 31 December 2006	14,703	14,703
By type of share:	No. of shares	
	30 June 2007	31 December 2006
Listed shares		
– A-Shares		
– with trading moratorium	7,331	7,331
– without trading moratorium	4,711	4,710
– H-Shares	2,662	2,662
	14,704	14,703

The Bank issued 1 million shares upon conversion of the convertible bonds of RMB2 million during the six months period ended 30 June 2007, resulting in the increase in share capital and capital reserve of RMB1 million and RMB2 million respectively. As a result, the Bank's registered and issued capital increased from RMB14,703 million to RMB14,704 million.

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23 PROFIT APPROPRIATIONS

(a) Dividends declared and paid

	Six months ended 30 June 2007	Year ended 31 December 2006	Six months ended 30 June 2006
Dividends in respect of the previous year, approved, declared and paid during the period of RMB1.2 (2006: RMB0.8) per every 10 shares	1,764	983	983
Special dividend of nil (2006: RMB1.8) per every 10 shares	–	2,210	–
	1,764	3,193	983

(b) Proposed profit appropriations

	Amount appropriated in respect of		
	the six months ended 30 June 2007	the year ended 31 December 2006	the six months ended 30 June 2006
Statutory surplus reserve	–	711	–
Final dividends: – Nil (2006: RMB1.2) per every 10 shares	–	1,764	–
Total	–	2,475	–

2006 profit was appropriated in accordance with the resolution passed at the twenty-fourth meeting of the sixth Board of Directors held on 16 April 2007 and as approved in the annual general meeting held on 15 June 2007.

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24 NOTES TO CONSOLIDATED CASH FLOW STATEMENTS

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

	30 June 2007	30 June 2006
Cash	5,028	3,636
With original maturity within 3 months:		
– balances with banks and other financial institutions	11,765	16,183
– balances with central bank	135,461	65,318
– placements with banks and other financial institutions	93,257	53,765
– investment securities:		
– at fair value through profit or loss	–	229
– available-for-sale	1,790	7,618
– receivables	–	154
	247,301	146,903

(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 21(a), there were no other significant non-cash transactions.

25 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.

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25 SEGMENTAL REPORTING *(continued)*

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.

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25 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)
Impairment losses	(901)	(616)	(46)	(16)	(1,579)
Total expenses	(4,584)	(3,524)	(420)	(19)	(8,547)
Profit before tax	5,028	2,669	1,218	92	9,007
Capital expenditure	305	405	28	–	738
	30 June 2007				
Segment assets	481,546	138,792	479,769	8,669	1,108,776
Segment liabilities	527,279	317,291	183,195	21,775	1,049,540

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25 SEGMENTAL REPORTING (continued)**(a) Business segments** (continued)

	Six months ended 30 June 2006				Total
	Corporate banking	Retail banking	Treasury business	Others and unallocated	
External net interest income	6,367	235	2,826	–	9,428
Internal net interest (expense)/income	(82)	1,893	(1,811)	–	–
Net interest income	6,285	2,128	1,015	–	9,428
Net fee and commission income/(expense)	436	641	(4)	51	1,124
Other net income	229	73	83	4	389
Operating income	6,950	2,842	1,094	55	10,941
Operating expenses					
– depreciation	(241)	(181)	(17)	–	(439)
– others	(2,402)	(1,803)	(202)	(2)	(4,409)
	(2,643)	(1,984)	(219)	(2)	(4,848)
Impairment losses	(1,517)	(247)	66	–	(1,698)
Total expenses	(4,160)	(2,231)	(153)	(2)	(6,546)
Profit before tax	2,790	611	941	53	4,395
Capital expenditure	296	223	21	–	540
	31 December 2006				
Segment assets	451,882	105,045	370,578	6,597	934,102
Segment liabilities	461,797	311,960	91,399	13,786	878,942

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25 SEGMENTAL REPORTING *(continued)*

(b) Geographical segments

The Group operates principally in the PRC with branches located in 31 provinces, autonomous regions and municipalities directly under the central government.

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

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

- “Eastern China” region refers to the areas serviced by the following branches of the Group: Shanghai Municipality, Jiangsu Province, Zhejiang Province, Shandong Province, Fujian Province and Anhui Province;
- “Southern and Central China” region refers to the Head Office and the areas serviced by the following branches of the Group: Guangdong Province, Hunan Province, Jiangxi Province, Hubei Province, and Henan Province;
- “Western China” region refers to the areas serviced by the following branches of the Group: Sichuan Province, Chongqing Municipality, Yunnan Province, Shaanxi Province, Gansu Province and Xinjiang Autonomous Region;
- “Northern China” region refers to the areas serviced by the following branches of the Group: Beijing Municipality, Tianjin Municipality, Liaoning Province, Heilongjiang Province and Shanxi Province; and
- “Others” refer to operations of Hong Kong branch and the subsidiary.

NOTES TO THE INTERIM FINANCIAL REPORT

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25 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	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
Total operating income (note (i))	8,247	32	11,159	44	2,040	8	3,572	14	472	2	25,490	100
Capital expenditure (note (ii))	157	21	484	66	44	6	53	7	-	-	738	100
	30 June 2007											
	Eastern China		Southern and Central China		Western China		Northern China		Others		Total	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
Total assets	268,479	24	624,860	57	77,242	7	126,676	11	11,519	1	1,108,776	100
Gross loans and advances to customers	247,786	39	199,712	32	66,650	11	112,121	17	3,284	1	629,553	100
Total customer deposits	290,266	34	256,253	30	93,686	11	197,764	24	6,602	1	844,571	100
	Six months ended 30 June 2006											
	Eastern China		Southern and Central China		Western China		Northern China		Others		Total	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
Total operating income (note (i))	5,466	32	7,156	42	1,482	9	2,667	16	210	1	16,981	100
Capital expenditure (note (ii))	200	37	128	24	63	12	81	15	68	12	540	100
	31 December 2006											
	Eastern China		Southern and Central China		Western China		Northern China		Others		Total	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
Total assets	234,884	25	481,722	52	68,741	7	122,700	13	26,055	3	934,102	100
Gross loans and advances to customers	212,829	38	177,092	31	63,327	11	108,986	19	3,468	1	565,702	100
Total customer deposits	249,848	32	246,712	32	84,898	11	167,831	22	24,468	3	773,757	100

Notes: (i) Total operating income represents the operating income gross of interest expense and fee and commission expense.

(ii) Capital expenditure represents total amount incurred for acquiring assets that are expected to be used for some periods.

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26 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 2007	31 December 2006
Contractual amount		
Irrevocable guarantees	45,683	37,063
Irrevocable letters of credit	26,315	28,323
Bills of acceptances	244,430	166,513
Irrevocable loan commitments		
– with an original maturity of under one year	3,157	1,371
– with an original maturity of one year or over	5,107	5,172
Credit card commitments	42,192	31,694
Shipping guarantees	20	–
	366,904	270,136

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

Apart from the irrevocable loan commitments, the Group had loan commitments of RMB487,690 million at 30 June 2007 (31 December 2006: RMB359,731 million) which are unconditionally cancellable by the Group or automatically cancellable due to deterioration in the creditworthiness of the borrower as stipulated in respective loan agreements.

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for the six months ended 30 June 2007

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26 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 2007	31 December 2006
Credit risk weighted amounts of contingent liabilities and commitments		
Contingent liabilities and commitments	86,669	86,444

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

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.

(ii) Capital commitments

Authorised capital commitments not provided for were as follows:

	30 June 2007	31 December 2006
For purchase of fixed assets:		
– Contracted for	169	126
– Not contracted for	11	–

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26 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 2007	31 December 2006
Within 1 year	538	739
After 1 year but within 5 years	2,719	1,852
After 5 years	897	696
	4,154	3,287

(iv) Outstanding litigations

At 30 June 2007, the Group was a defendant in certain pending litigations with gross claims of RMB305 million (31 December 2006: RMB118 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 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 2007	31 December 2006
Redemption obligations	11,284	11,621

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

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26 OFF-BALANCE SHEET EXPOSURES *(continued)*

(b) Derivatives

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

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

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 2007		
	Notional amounts	Fair values	
		Total	Assets
<i>Interest rate derivatives</i>			
Interest rate swaps	17,919	63	(90)
Forward rate agreement	1,142	-	-
	19,061	63	(90)
<i>Currency derivatives</i>			
Spot	2,833	-	(1)
Forwards	71,306	963	(829)
Foreign exchange swaps	26,827	214	(51)
Options	13,554	51	(52)
	114,520	1,228	(933)
Total		1,291	(1,023)
		<i>(Note 15(a))</i>	<i>(Note 15(e))</i>

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26 OFF-BALANCE SHEET EXPOSURES (continued)**(b) Derivatives** (continued)

	31 December 2006		
	Notional amounts Total	Fair values	
		Assets	Liabilities
<i>Interest rate derivatives</i>			
Interest rate swaps	19,012	108	(53)
<i>Currency derivatives</i>			
Spot	15,717	10	(9)
Forwards	4,799	17	(13)
Foreign exchange swaps	29,195	41	(1)
Options	23,126	27	(30)
	72,837	95	(53)
Total		203	(106)
		(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 2007	31 December 2006
Interest rate derivatives	131	100
Currency derivatives	1,191	107
	1,322	207

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

NOTES TO THE INTERIM FINANCIAL REPORT

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27 MATURITY PROFILE

	30 June 2007								
	Repayable on demand	Within 1 month	After 1 month but within 3 months	After 3 months but within 1 year	After 1 year but within 5 years	After 5 years	Undated	Overdue	Total
Cash and balances with central bank (note (i))	59,965	-	-	-	-	-	80,524	-	140,489
Amounts due from banks and other financial institutions	6,030	83,300	18,411	27,159	1,030	37	-	-	135,967
Loans and advances to customers (note (ii))	-	64,743	88,586	264,478	103,738	88,265	-	2,030	611,840
Investments (note (iii))	3,188	3,816	12,737	67,436	85,877	29,005	1,360	-	203,419
- at fair value through profit or loss	-	207	17	4,597	2,163	1,292	1,312	-	9,588
- available-for-sale	3,188	2,990	10,865	54,537	39,566	14,683	48	-	125,877
- held-to-maturity	-	306	614	6,429	37,100	12,878	-	-	57,327
- receivables	-	313	1,241	1,873	7,048	152	-	-	10,627
Other assets	4,237	737	833	1,412	269	4	9,546	23	17,061
Total assets	73,420	152,596	120,567	360,485	190,914	117,311	91,430	2,053	1,108,776
Amounts due to banks and other financial institutions	153,494	3,984	4,151	6,829	199	-	-	-	168,657
Deposits from customers	528,673	51,276	78,836	154,963	29,848	975	-	-	844,571
Financial liabilities at fair value through profit or loss	-	-	-	-	-	-	1,023	-	1,023
Convertible bonds issued	-	-	-	-	20	-	-	-	20
Other debts issued	-	-	-	-	9,989	-	-	-	9,989
Subordinated notes issued	-	-	-	-	3,500	-	-	-	3,500
Other liabilities	17,493	1,908	749	1,269	303	58	-	-	21,780
Total liabilities	699,660	57,168	83,736	163,061	43,859	1,033	1,023	-	1,049,540
Long/(short) position	(626,240)	95,428	36,831	197,424	147,055	116,278	90,407	2,053	59,236

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27 MATURITY PROFILE (continued)

	31 December 2006								
	Repayable on demand	Within 1 month	After 1 month but within 3 months	After 3 months but within 1 year	After 1 year but within 5 years	After 5 years	Undated	Overdue	Total
Cash and balances with central bank (note (i))	29,324	-	-	-	-	-	57,670	-	86,994
Amounts due from banks and other financial institutions	13,282	58,826	15,104	15,568	1,591	39	-	-	104,410
Loans and advances to customers (note (ii))	-	49,314	93,463	228,092	66,783	108,718	-	3,050	549,420
Investments (note (iii))	6,914	10,843	12,698	59,374	69,726	19,079	251	-	178,885
- at fair value through profit or loss	-	306	741	2,939	3,176	595	203	-	7,960
- available-for-sale	6,914	10,255	10,134	48,928	26,761	6,436	48	-	109,476
- held-to-maturity	-	76	1,400	5,575	35,684	11,330	-	-	54,065
- receivables	-	206	423	1,932	4,105	718	-	-	7,384
Other assets	3,679	302	326	174	243	9	9,636	24	14,393
Total assets	53,199	119,285	121,591	303,208	138,343	127,845	67,557	3,074	934,102
Amounts due to banks and other financial institutions	53,405	4,704	4,530	7,359	6,605	-	-	-	76,603
Deposits from customers	489,451	46,856	66,385	141,802	27,610	1,653	-	-	773,757
Financial liabilities at fair value through profit or loss	-	-	-	-	-	-	106	-	106
Certificates of deposit issued	-	-	-	1,170	-	-	-	-	1,170
Convertible bonds issued	-	-	-	-	22	-	-	-	22
Other debts issued	-	-	-	-	9,987	-	-	-	9,987
Subordinated notes issued	-	-	-	-	3,500	-	-	-	3,500
Other liabilities	10,242	532	1,841	881	228	73	-	-	13,797
Total liabilities	553,098	52,092	72,756	151,212	47,952	1,726	106	-	878,942
Long/(short) position	(499,899)	67,193	48,835	151,996	90,391	126,119	67,451	3,074	55,160

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

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

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

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28 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 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:

	From May 19, 2007 to 30 June 2007	From March 18, 2007 to May 19, 2007	From August 19, 2006 to March 18, 2007
Short-term loans	5.85% to 6.57% p.a.	5.67% to 6.39 % p.a.	5.58% to 6.12% p.a.
Medium to long-term loans	6.75% to 7.20% p.a.	6.57% to 7.11% p.a.	6.30% to 6.84% p.a.
Saving deposits	0.72% p.a.	0.72% p.a.	0.72% p.a.
Time deposits	2.07% to 4.95% p.a.	1.98% to 4.41% p.a.	1.80% to 4.14% 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

As the Bank's largest shareholder China Merchants Steam Navigation Company Limited ("CMSNCL") and its related companies hold 17.63% of the Bank's shares as at 30 June 2007 (31 December 2006: 17.63%), the Directors consider that CMSNCL is not a controlling shareholder of the Bank but can exercise significant influence over the financial and operating decisions of the Bank. The Group's transactions and balances with CMSNCL and its related companies are disclosed as follows:

	30 June 2007	31 December 2006
<i>On balance sheet:</i>		
Loans and advances	3,347	2,581
Investments	152	156
Deposits from customers	5,274	13,196

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28 MATERIAL RELATED-PARTY TRANSACTIONS (continued)**(b) Shareholders and their related companies** (continued)

	30 June 2007	31 December 2006
<i>Off balance sheet:</i>		
Irrevocable guarantees	579	357
Irrevocable letters of credit	120	102
Bills of acceptances	335	370
	Six months ended 30 June	
	2007	2006
Average balance of loans and advances	2,688	1,532
Interest income	110	40
Interest expense	163	28
Fees and commission (note)	520	78

Note: Apart from the above transactions, the Bank also enters into transactions with CMSNCL and its related companies in the ordinary course of its banking activities such as remittance, securities trading, etc. The activities are priced at the relevant market rates at the time of the transactions.

(c) Companies controlled by directors other than those under Note 28(b) above

	30 June 2007	31 December 2006
<i>On balance sheet:</i>		
Loans and advances	314	637
Deposits from customers	8,365	1,030

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28 MATERIAL RELATED-PARTY TRANSACTIONS *(continued)*

(c) Companies controlled by directors other than those under Note 28(b) above *(continued)*

	Six months ended 30 June	
	2007	2006
Average balance of loans and advances	509	616
Interest income	15	14
Interest expense	5	4
Fees and commission	1	–

29 COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the current period's presentation.

30 EVENTS OCCURRED AFTER THE BALANCE SHEET DATE

Up to the date of this report, the Group had no other material post balance sheet date events for disclosure.

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(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 (2004) No. 2] issued by the CBRC (the "CBRC guideline") in March 2004, 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 2007 and as at 31 December 2006, calculated based on PRC GAAP, were as follows:

	30 June 2007	31 December 2006
Core capital adequacy ratio	9.23%	9.58%
Capital adequacy ratio	10.98%	11.40%
<i>Components of capital base</i>		
Core capital:		
– Paid up ordinary share capital	14,704	14,703
– Reserves	43,090	38,422
– Total core capital	57,794	53,125
Supplementary capital:		
– General provisions for doubtful debts	9,706	8,005
– Term subordinated bonds	1,600	2,100
– Convertible bonds	20	22
– Investment revaluation reserve	(62)	136
– Total supplementary capital	11,264	10,263
Total capital base before deductions	69,058	63,388
Deductions:		
– Investments in unconsolidated subsidiary and other long-term investments	290	125
– Investment in commercial real estate	319	406
Total capital base after deductions	68,449	62,857
Risk weighted assets	623,148	551,503

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(B) LIQUIDITY RATIOS

	30 June 2007	31 December 2006
<i>Liquidity ratios</i>		
RMB current assets to RMB current liabilities	44.1%	51.1%
Foreign currency current assets to foreign currency current liabilities	95.0%	166.0%

The above liquidity ratios are calculated in accordance with the formula promulgated by the People's Bank of China ("the PBOC") and the CBRC and based on PRC GAAP.

(C) 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 2007			
	Banks and other financial institutions	Public sector entities	Others	Total
Asia Pacific excluding the PRC	16,752	–	6,933	23,685
– of which attributed to Hong Kong	9,159	–	6,521	15,680
Europe	15,143	895	1,181	17,219
North and South America	10,187	7,355	1,046	18,588
	42,082	8,250	9,160	59,492

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(C) CROSS-BORDER CLAIMS *(continued)*

	31 December 2006			Total
	Banks and other financial institutions	Public sector entities	Others	
Asia Pacific excluding the PRC	20,813	1,684	5,701	28,198
– of which attributed to Hong Kong	4,999	1,684	4,643	11,326
Europe	32,536	1,180	635	34,351
North and South America	13,181	5,227	1,396	19,804
	66,530	8,091	7,732	82,353

(D) OVERDUE LOANS AND ADVANCES TO CUSTOMERS**(i) By geographical segments**

	30 June 2007	31 December 2006
Eastern China	1,312	1,105
Southern and Central China	5,205	5,961
Western China	2,035	2,245
Northern China	797	839
Others	102	105
	9,451	10,255

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

for the six months ended 30 June 2007

*(Expressed in millions of Renminbi unless otherwise stated)***(D) OVERDUE LOANS AND ADVANCES TO CUSTOMERS** *(continued)***(ii) By overdue period**

	30 June 2007	31 December 2006
Gross loans and advances to customers which have been overdue with respect to either principal or interest for periods of:		
– between 3 and 6 months	622	904
– between 6 and 12 months	707	847
– over 12 months	8,122	8,504
Total	9,451	10,255
As a percentage of total gross loans and advances:		
– between 3 and 6 months	0.10%	0.16%
– between 6 and 12 months	0.11%	0.15%
– over 12 months	1.29%	1.50%
Total	1.50%	1.81%

(iii) Collateral information

	30 June 2007	31 December 2006
Secured portion of overdue loans and advances	1,515	1,928
Unsecured portion of overdue loans and advances	7,936	8,327
Value of collaterals held against overdue loans and advances	1,515	1,958
Provision of overdue loans and advances for which impairment losses are individually assessed	6,850	7,088

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.

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(D) OVERDUE LOANS AND ADVANCES TO CUSTOMERS *(continued)*

Notes: (i) The above analysis, (d)(i), (ii) and (iii), includes loans and advances overdue for more than 90 days as required and defined by the Banking (Disclosure) Rules.

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 are also considered as overdue.

(ii) There were no overdue loans and advances to financial institutions as at 30 June 2007 and 31 December 2006.

(E) RESCHEDULED LOANS AND ADVANCES TO CUSTOMERS

	30 June 2007		31 December 2006	
		% of total loans and advances		% of total loans and advances
Rescheduled loans and advances to customers	2,221	0.35%	2,486	0.44%
Less:				
– rescheduled loans and advances but overdue more than 90 days	1,517	0.24%	1,581	0.28%
Rescheduled loans and advances overdue less than 90 days	704	0.11%	905	0.16%

There were no rescheduled loans and advances to financial institutions as at 30 June 2007 and 31 December 2006.

(F) 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 2007 and 31 December 2006, over 90% of the Bank's exposures arose from businesses with Mainland entities or individuals. Analyses of various types of exposures by counterparty have been disclosed in the notes to the interim financial report.

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(G) CURRENCY CONCENTRATIONS OTHER THAN RMB

	30 June 2007			
	US Dollars	HK Dollars	Others	Total
	<i>(in millions of RMB)</i>			
<i>Non-structural position</i>				
Spot assets	92,511	13,045	4,576	110,132
Spot liabilities	(61,335)	(18,393)	(8,297)	(88,025)
Forward purchases	37,217	6,223	4,422	47,862
Forward sales	(64,460)	(397)	(751)	(65,608)
Net option position	(116)	–	105	(11)
Net long position	3,817	478	55	4,350
Net structural position	–	48	–	48
	31 December 2006			
	US Dollars	HK Dollars	Others	Total
	<i>(in millions of RMB)</i>			
<i>Non-structural position</i>				
Spot assets	92,152	22,979	7,281	122,412
Spot liabilities	(61,884)	(34,157)	(7,151)	(103,192)
Forward purchases	9,017	12,067	751	21,835
Forward sales	(40,845)	(615)	(676)	(42,136)
Net option position	115	–	(115)	–
Net long/(short) position	(1,445)	274	90	(1,081)
Net structural position	–	51	–	51

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(G) CURRENCY CONCENTRATIONS OTHER THAN RMB *(continued)*

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

- Investments in fixed assets and premises, net of depreciation charges;
- Capital and statutory reserves of Hong Kong branch; and
- Investment in a subsidiary in Hong Kong.

(H) 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.

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(H) RISK MANAGEMENT *(continued)*

(i) Credit risk *(continued)*

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 25(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 of loss arising from movements in observable market variables such as interest rates, exchange rates and equity markets. The Group is exposed to market risk primarily through its proprietary trading activities. The Group considers that any market risk arising from its proprietary trading book is not material.

The Asset and Liability Management Committee ("ALCO") of the Group is responsible for formulating market risk management policies, supervising implementation of the policies and performing independent assessments of the risk status. The Risk Management Department is responsible for managing the risks arising from the day to day operation of the Treasury division.

(iii) Currency risk

The Group's foreign exchange exposure mainly comprises foreign exchange dealing by Treasury and is mitigated primarily by matching spot and forward foreign exchange contracts with foreign currency borrowings.

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

The Group monitors daily foreign currency transactions and positions closely.

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(H) RISK MANAGEMENT *(continued)*

(iv) Interest rate risk

The Group's interest rate exposures comprise primarily those arising from mismatches in durations and structures of assets and liabilities in its banking operations and from positions undertaken for trading purposes.

Interest rate risk in banking operations is inherent in many business segments of the Group, and arises from factors such as differences in timing between contractual maturities or repricing of assets and liabilities. Similar risk in trading positions arises mainly from investment portfolio undertaken by treasury operation.

The ALCO regularly monitors such interest rate risk positions. The Group regularly performs interest rate sensitivity analysis on these interest rate positions for the purpose of measuring and managing the risk in order to limit potential adverse impacts of movements in interest rate on net interest income.

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

(v) Liquidity risk

Liquidity risk is the risk that funds will not be available to meet liabilities as they fall due, and it results from amount and maturity mismatches of assets and liabilities. The Group's liquidity is managed by the ALCO. The ALCO is responsible for managing liquidity on a prudent basis to meet regulatory requirement. The day to day monitoring of future cash flows and the maintenance of suitable levels of liquefiable assets by business units are the responsibility of the head office.

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

The Group's loans-to-deposits ratio is maintained within 75%. 11.5% of total Renminbi deposits (31 December 2006: 9%) and 5% of foreign currencies deposits (31 December 2006: 4%) are required to be deposited with the PBOC.

(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.

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for the six months ended 30 June 2007

(Expressed in millions of Renminbi unless otherwise stated)

(H) RISK MANAGEMENT *(continued)*

(vi) Operational risk *(continued)*

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.

(I) SIGNIFICANT DIFFERENCES BETWEEN THE FINANCIAL STATEMENTS PREPARED UNDER INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") AND THOSE PREPARED IN ACCORDANCE WITH THE RELEVANT ACCOUNTING RULES AND REGULATIONS IN THE PRC

As a bank incorporated in the People's Republic of China ("PRC") and listed in Shanghai Stock Exchange, the Bank prepared its statutory financial statements for the six months ended 30 June 2007 in accordance with the Accounting Standards for Business Enterprises issued by the Ministry of Finance (the "MOF") and other relevant regulations issued by the MOF (collectively "PRC GAAP").

The above financial statements are named as "PRC statutory financial statements" for the purposes of this reconciliation.

A reconciliation of differences between the financial statements prepared under IFRSs and those PRC statutory financial statements are set out below.

	Six months ended 30 June 2007	Year ended 31 December 2006
Net profit attributable to equity holders of the Bank under IFRSs	6,120	6,794
Foreign exchange translation	–	313
Net profit shown in PRC statutory financial statements <i>(Note)</i>	6,120	7,107

There is no difference in the shareholders' equity as shown in the financial statements prepared under IFRSs and the PRC statutory financial statements as at 30 June 2007 and 31 December 2006.

Note: Effective from 1 January 2007, the Bank has adopted the new accounting standards and regulations ("new accounting standards") issued by the MOF on 15 February 2006. As a result of the adoption of these new accounting standards, there is no difference in the net profit as shown in the financial statements prepared under IFRSs and the PRC statutory financial statements for the six months ended 30 June 2007.