招商銀行
CHINA MERCHANTS BANK

招商銀行股份有限公司
CHINA MERCHANTS BANK CO., LTD.

(a joint stock company incorporated in the People's Republic of China with limited liability)
(stock code: 3968)

2007 ANNUAL RESULTS ANNOUNCEMENT

IMPORTANT NOTICE

The Board of Directors ("Board"), and the Board of supervisors, directors, supervisors and senior management of China Merchants Bank Co., Ltd. ("the Company" or "the Bank") confirm that there are no false representations, misleading statements or material omissions contained herein and individually and collectively accepts full responsibility for the truthfulness, accuracy and completeness of the contents of this report.

The financial statements of the Company for the year has been audited by KPMG Certified Public Accountants in accordance with the International Standards of Auditing, and they have issued an unqualified audit report.

Unless otherwise stated, all monetary sums stated in this report are expressed in RMB.

The Board of Directors of
China Merchants Bank Co., Ltd.

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 report.

PRESIDENT'S STATEMENT

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

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

Our business development featured the following significant characteristics in 2007. Firstly, we further enhanced our profitability. Our return on average assets ("ROAA") reached 1.36% at the end of the year, 0.55 percentage point higher than that of the previous year; our return on average equity ("ROAE") was 24.76%, an increase of 8.02 percentage points compared to the previous year. Secondly, our retail banking business grew rapidly. Our total retail loans accounted for 26.00% of total customer loans, representing a rise of 7.97 percentage points from the beginning of the year. The number of Sunflower clients reached 290,000, of which new clients amounted to 150,000, representing an increase of 107.00%. Thirdly, the proportion of net fee and commission income kept rising significantly. The net fee and commission income realised in the year was RMB6.439 billion, up by 156.13%, which was accounted for 15.67% of the business operating net income, representing an increase of 5.56 percentage points over that of the previous year. Finally, the assets quality continues to well improve. As at the end of 2007, balance of the Company's non-performing loans amounted to RMB10.394 billion, a reduction of RMB1.612 billion from last year; the non-performing loans ratio was 1.54%, down 0.58 percentage point from last year.

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

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

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

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

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

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

1. CORPORATE INFORMATION

1.1 Company Profile

1.1.1 Legal Representative	:	Qin Xiao
Authorized Representative	:	Ma Weihua, Li Hao
Secretary of the Board of Directors	:	Lan Qi
Joint Company Secretaries	:	Lan Qi, Seng Sze Ka Mee, Natalia (FCIS, FCS, FHKIOD)
Qualified Accountant	:	Cheng Ting Nan (CPA, FCCA)
Securities Representative	:	Wu Jianbing
1.1.2 Registered Address	:	7088 Shennan Boulevard, Futian District, Shenzhen, Guangdong Province, China
1.1.3 Mailing Address	:	7088 Shennan Boulevard, Futian District, Shenzhen, Guangdong Province, China
Postcode	:	518040
Tel	:	86755-83198888
Fax	:	86755-83195109
Email	:	cmb@cmbchina.com
Website	:	www.cmbchina.com
1.1.4 Principal Place of Business in Hong Kong	:	21st Floor, Bank of America Tower, 12 Harcourt Road, Hong Kong

1.1.5 ***Share Listing on Stock Exchange***

A Share	:	Shanghai Stock Exchange
Abbreviated Name of A Share	:	CMB
Stock Code	:	600036
H Share	:	The Stock Exchange of Hong Kong Limited ("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

1.2 Important issues for the year

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

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

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

Substantive progress on diversification

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

2. FINANCIAL HIGHLIGHTS

Operating Results

	2007	2006	Changes
	(in millions of RMB)		+/(–)%
Operating net income[(1)]	**41,086**	24,866	65.23
Profit before tax	**21,043**	10,084	108.68
Net profit attributable to the Bank's equity holders	**15,243**	6,794	124.36

Note:

(1) Operating net income is the sum of operating income and profit attributable to the affiliates.

Per Share

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

Financial Position

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

Financial Ratios

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

Five-year Financial Summary

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

Notes:

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

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

3. MANAGEMENT ANALYSIS AND DISCUSSION

3.1 Analysis of general operating status

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

3.2 Analysis of Income Statement

3.2.1 Financial results highlights

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

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

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

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

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

3.2.2 Operating net income

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

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

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

3.2.3 Net interest income

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

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

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

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

Notes:

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

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

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

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

3.2.4 Interest income

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

Interest income from loans and advances to customers

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

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

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

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

Interest income from debts investments

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

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

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

3.2.5 Interest expense

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

Interest expenses on deposits from customers

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

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

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

The above average balances were averages of daily balances.

Interest expenses on amounts due to banks and other financial institutions

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

Interest expenses on issued debts

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

3.2.6 Net interest spread and net interest margin

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

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

3.2.7 Net fee and commission income

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

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

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

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

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

Commissions from trust and other custodian services increased by 1,238.46% compared to the previous year, which was primarily attributable to significant increase in business of wealth management, asset custody, third party custodian services.

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

3.2.8 Other net income

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

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

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

3.2.9 Operating expenses

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

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

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

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

3.2.10 Provision for impairment losses

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

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

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

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

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

3.2.11 Income tax

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

3.3 Analysis of balance sheet

3.3.1 Assets

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

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

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

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

3.3.1.1 Loans and advances to Customers

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

Distribution of loans by product type

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

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

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

Corporate loans

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

Discounted bills

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

Retail loans

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

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

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

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

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

3.3.1.2 Investments

Investments in the securities backed by subprime mortgages

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

As a result of the subprime mortgage crisis, the international fixed income markets polarized with increasing credit spreads. Meanwhile U.S treasury bonds and a few other bonds with high credit ratings were favoured by the market, and on the other hand, the bonds of financial institutions affected by the subprime mortgage crisis fell at different degree. The US Federal Reserve started to cut interest rates to avoid economic recession. Under the combined influence of the aforementioned factors, the fair value of bonds denominated in foreign currencies fluctuated significantly. As at the end of 2007, the balance of bonds denominated in foreign currencies held by the Company amounted to approximately US$4 billion. Among which, calculated by issuers: bonds issued by sovereign, governments and institutions in Asia accounted for 32.96%; those issued by G7governments,institutions and international financial organizations accounted for 31.47%, foreign financial institutions 27.45%, domestic corporate debentures accounted for 3.29%, others accounted for 4.83%. As a whole, the bonds held by the Company are of higher credit ratings and are less affected by the subprime mortgage crisis.

Investments

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

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

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

Financial assets at fair value through profit or loss

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

The following table sets forth the components of the financial asset portfolio of the Company:

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

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

Available-for-sale investments

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

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

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

Held-to-maturity debt securities

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

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

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

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

Receivables

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

Carrying value and fair value

All financial assets classified as at fair value through profit or loss and bonds investment comprised in the available-for-sale investments were stated at market value or at fair value. Due to the lack of a mature market for the receivables in the Company's investment portfolio, 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:

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

Investment concentration

The following table sets forth, as at 31 December 2007, our investment securities and other financial assets which carrying value exceeded 10% of our shareholders' equity.

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

3.3.2 Liabilities

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

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

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

Deposits from customers

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

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

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

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

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

3.3.3 Market share of major products or services

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

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

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

3.4 Loan quality analysis

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

3.4.1 Distribution of loan portfolios by loan classification

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

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

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

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

3.4.2 Loan structure and loan quality by product type

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

	As at 31 December *(in millions of RMB, excluding percentages)*					
	2007			2006		
	Total loan balance	**Total non-performing loans**	**Non-performing loan ratio[1] (%)**	Total loan balance	Total non-performing loans	Non-performing loan ratio[1] (%)
Corporate loans	**445,865**	**9,585**	**2.15**	359,883	11,452	3.18
Working capital loans	**339,991**	**8,198**	**2.41**	282,089	9,903	3.51
Fixed asset loans	**74,045**	**438**	**0.59**	60,427	796	1.32
Trade finance	**19,767**	**414**	**2.09**	12,204	240	1.97
Others[2]	**12,062**	**535**	**4.44**	5,163	513	9.94
Discounted bills[3]	**52,276**	**–**	**–**	103,836	–	–
Retail loans	**175,026**	**809**	**0.46**	101,983	554	0.54
Residential mortgage loans	**131,138**	**335**	**0.26**	81,383	322	0.4
Credit card balances	**21,324**	**409**	**1.92**	10,146	155	1.53
Automobile loans	**1,940**	**40**	**2.06**	895	54	6.03
Others[4]	**20,624**	**25**	**0.12**	9,559	23	0.24
Total	**673,167**	**10,394**	**1.54**	565,702	12,006	2.12

Notes:

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

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

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

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

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

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

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

3.4.3 Loan structure and loan quality by industry sectors

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

	As at 31 December (in millions of RMB, excluding percentages)					
	2007			2006		
	Total loan balance	**Percentage of the total (%)**	**Non-performing loan ratio[1] (%)**	Total loan balance	Percentage of the total (%)	Non-performing loan ratio[1] (%)
Corporate loans	**445,865**	**66.23**	**2.15**	359,883	63.62	3.18
Manufacturing	**132,652**	**19.71**	**2.43**	103,870	18.36	2.96
Transportation, storage and postal services	**75,827**	**11.26**	**0.84**	77,181	13.64	0.50
Wholesale and retail	**58,441**	**8.68**	**3.13**	31,003	5.48	8.06
Real estate	**43,181**	**6.41**	**3.78**	26,686	4.72	8.89
Production and supply of electric power, gas and water	**40,901**	**6.08**	**0.86**	38,260	6.76	1.56
Leasing and commercial services	**29,789**	**4.43**	**2.43**	27,646	4.89	4.22
Construction	**17,145**	**2.55**	**0.52**	12,668	2.24	0.84
Mining	**10,310**	**1.53**	**0.00**	9,594	1.7	0.00
Telecommunications, computer services and software	**7,145**	**1.06**	**3.99**	7,182	1.27	4.64
Finance	**6,952**	**1.03**	**1.94**	4,115	0.73	3.38
Others[2]	**23,522**	**3.49**	**2.84**	21,678	3.83	3.59
Discounted bills	**52,276**	**7.77**	**0.00**	103,836	18.35	0.00
Retail loans	**175,026**	**26.00**	**0.46**	101,983	18.03	0.54
Residential mortgage loans	**131,138**	**19.48**	**0.26**	81,383	14.39	0.40
Credit card balances	**21,324**	**3.17**	**1.92**	10,146	1.79	1.53
Other retail loans[3]	**22,564**	**3.35**	**0.29**	10,454	1.85	0.73
Total	**673,167**	**100.00**	**1.54**	565,702	100.00	2.12

Notes:

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

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

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

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

3.4.4 Percentage analysis by region

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

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

3.4.5 Distribution of loans by collateral

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

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

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

3.4.6 Distribution of loans by legal form of borrowers

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

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

3.4.7 Movements of allowances for impairment losses on loans and advances to customers

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

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

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

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

As at 31 December 2007, allowances for impairment losses on loans and advances to customers of the Company amounted to RMB18.75 billion, representing an increase of RMB2.468 billion. At the same time the non-performing loan allowances coverage (total allowances for impairment losses on loans and advances to customers/total non-performing loans) was 180.39%, representing an increase of 44.78 percentage points as compared with that at the beginning of the year. The increase of balance of loan loss allowances was primarily due to the augment of loan scale, and on the other hand, the non-performing loan allowances coverage improved as well as the non-performing loans amount dropped significantly.

3.5 Analysis of capital adequacy ratio

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

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

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

3.6 Segment operating results

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

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

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

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

Notes:

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

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

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

3.7 Business operations

3.7.1 Retail Banking Segment

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

Retail loans

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

Retail customer deposits

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

Retail non-interest income business

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

Bank card business

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

Customers

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

Marketing

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

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

3.7.2 Corporate Banking

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

Corporate loans

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

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

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

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

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

Discounted bills

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

Corporate client deposits

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

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

Non-interest-based corporate banking business

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

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

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

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

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

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

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

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

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

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

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

Customer base

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

3.7.3 Treasury

Operating environment

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

Operating strategy

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

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

Operating results

In 2007, the annual yield of the Company's foreign currency/RMB-denominated securities portfolio reached 3.34%, up by 0.19 percentage 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. Being affected by austerity measures, the yield curve of bonds moved upwards and the yield of both reinvestment of due capital and new investment increased obviously. The increase in premium of un-secured bonds and the commencement of derivatives trading on interest rate contracts also contributed to the yield of the investment portfolio. The strict control of duration on bond portfolio affected the growth of income while mitigating risks. As interest rate adjustment is expected to slow down, the Company increased the amount of medium to long-term fixed rate bonds and kept enhancing the level of investment return.

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

Business development

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

3.8 Risk Management

3.8.1 Credit risk management

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

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

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

3.8.2 Liquidity risk management

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

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

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

3.8.3 Interest rate risk management

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

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

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

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

The 3 month re-pricing gap of the Company was RMB-162.6 billion. However, the significant short-term gap was mainly caused by current deposits, the interest rate of which changed insignificantly in terms of frequency and percentage points. As a matter of fact, the RMB business of the Company is asset sensitive most of the time. In other words, the net interest income of such business increases in line with interest rate hike and decreases with interest rate cut. In 2007, the PBOC raised the benchmark deposit and loan interest rate for six times, but the interest spread of the Company was still enlarged due to the insignificant adjustment of the interest rate of current deposits which accounted for approximately 58% of the total internal deposits of the Company.

3.8.4 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 the mismatching of assets and liabilities denominated in RMB held by the Company. The risk is divided into structural risks and transaction risk, the Group uses different management strategies to control structural risks and transaction risks.

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

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

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

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

3.8.5 Operational risk management

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

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

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

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

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

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

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

3.8.6 Administration of compliance risks

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

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

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

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

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

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

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

3.9 Change of the external environment and counter measures adopted

3.9.1 Problems and difficulties in our operations and the solutions thereof

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

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

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

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

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

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

3.9.2 Change and impact of business environment, macro-control policies and regulations

(1) In relation to the macro-control policies

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

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

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

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

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

(3) In relation to the capital market

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

(4) In relation to the statutory reserve ratio hikes

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

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

(5) In relation to the fluctuation of exchange rate

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

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

3.10 Outlook and measures

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

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

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

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

4. SHARE CAPITAL STRUCTURE AND SHAREHOLDERS BASE

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

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

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

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

4.2 Top ten shareholders

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

Notes:

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

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

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

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

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

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

Notes:

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

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

4.5 Top ten holders of convertible bonds

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

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

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

As at 31 December 2007, the following persons (other than the directors, supervisors and senior executives of the Company (defines as to the Hong Kong Listing Rules)) had interests and short positions in the shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) ("SFO"):

Name of Substantial Shareholder	Class of shares	Long/short position	Capacity	No.of shares	*Notes*	Percentage of the relevant share held in issue (%)	Percentage of all issued share (%)
China Merchants Group Ltd.	A	Long	Interest of controlled corporations	2,599,932,810	*1*	21.59	17.68
China Merchants Steam Navigation Co. Ltd.	A	Long	Beneficial owner	1,785,120,730*	*1*	14.82	12.14
China Merchants Finance Investment Holdings Co. Ltd.	A	Long	Interest of controlled corporations	814,812,080	*1*	6.77	5.54
Shenzhen Yan Qing Investment Development Co. Ltd.	A	Long	Beneficial owner	434,878,336*	*1*		
		Long	Interest of controlled corporations	379,933,744*	*1*		
				814,812,080		6.77	5.54
China Ocean Shipping (Group) Company	A	Long	Beneficial owner	950,595,801*		7.89	6.46
China Shipping (Group) Company	A	Long	Beneficial owner	176,515,978*			
		Long	Interest of controlled corporations	618,366,092*	*2*		
				794,882,070		6.60	5.41
JPMorgan Chase & Co.	H	Long	Beneficial owner	42,071,777			
		Long	Investment manager	142,488,000			
		Long	Custodian	84,011,892			
				268,571,669	*3*	10.09	1.83
		Short	Beneficial owner	17,620,163	*3*	0.66	0.12
UBS AG	H	Long	Beneficial owner	186,448,615			
		Long	Person having a security interest in shares	4,412,569			
		Long	Interest of controlled corporations	52,333,787			
				243,194,971	*4*	9.14	1.65
		Short	Beneficial owner	78,292,182			
		Short	Interest of controlled corporations	2,546,500			
				80,838,682	*4*	3.04	0.55

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

Notes:

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

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

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

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

(2) The interest of China Shipping (Group) Company in 618,366,092 A shares in the Company was held through Guangzhou Maritime Transport (Group) Company Limited (held 567,177,677 A shares of the Company) and Shanghai Shipping (Group) Company (held 51,188,415 A shares of the Company), which were the wholly-owned subsidiaries of China Shipping (Group) Company.

(3) JPMorgan Chase & Co. held interest in a total of 268,571,669 H shares (Long position) and 17,620,163 H shares (Short position) in the Company by virtue of its control over the following corporations, which held direct interests in the Company:

(3.1) JPMorgan Chase Bank, N.A. held 84,011,892 H shares (Long position) in the Company. JPMorgan Chase Bank, N.A. was a wholly-owned subsidiary of JPMorgan Chase & Co.

(3.2) J.P. Morgan Whitefriars Inc. held 38,556,777 H shares (Long position) and 14,105,163 H shares (Short position) in the Company. J.P. Morgan Whitefriars Inc. was a wholly-owned subsidiary of J.P. Morgan Overseas Capital Corporation, which in turn was a wholly-owned subsidiary of J.P.Morgan International Finance Limited. J.P. Morgan International Finance Limited was wholly-owned by Bank One International Holdings Corporation, which in turn was a wholly-owned subsidiary of J.P. Morgan International Inc. JPMorgan Chase Bank, N.A., referred to in (3.1) above, owned 100% interest in J.P. Morgan International Inc.

(3.3) J.P. Morgan Securities Ltd. held 3,515,000 H shares (Long position) and 3,515,000 H shares (Short position) in the Company. J.P. Morgan Securities Ltd. was owned as to 98.95% by J.P. Morgan Chase International Holdings Limited, which in turn was owned as to 97.58% by J.P. Morgan Chase (UK) Holdings Limited. J.P. Morgan Chase (UK) Holdings Limited was wholly-owned by J.P. Morgan Capital Holdings Limited, which in turn was wholly-owned by J.P. Morgan International Finance Limited, referred to in (3.2) above.

(3.4) JF International Management Inc. and JF Asset Management Limited held 1,450,500 H shares (Long position) and 117,060,000 H shares (Long position) in the Company respectively. Both were wholly-owned subsidiaries of JPMorgan Asset Management (Asia) Inc., which in turn was a wholly-owned subsidiary of JPMorgan Asset Management Holdings Inc. JPMorgan Asset Management Holdings Inc. was wholly-owned by JPMorgan Chase & Co.

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

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

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

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

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

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

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

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

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

2,751,500 H shares (Long position) and 1,870,000 H shares (Short position)	–	through physically settled derivatives (on exchange)
21,890,000 H shares (Short position)	–	through cash settled derivatives (on exchange)
27,400,000 H shares (Long position) and 28,212,182 H shares (Short position)	–	through physically settled derivatives (off exchange)
11,000,000 H shares (Long position) and 17,600,000 H shares (Short position)	–	through cash settled derivatives (off exchange)

Save as disclosed above, the Company is not aware of any other person (other than the directors, supervisors and senior executives of the Company) having any interests or short positions in the shares and underlying shares of the Company as at 31 December 2007 as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

4.7 Undertakings associated with the share reform of non-tradable shares

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

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

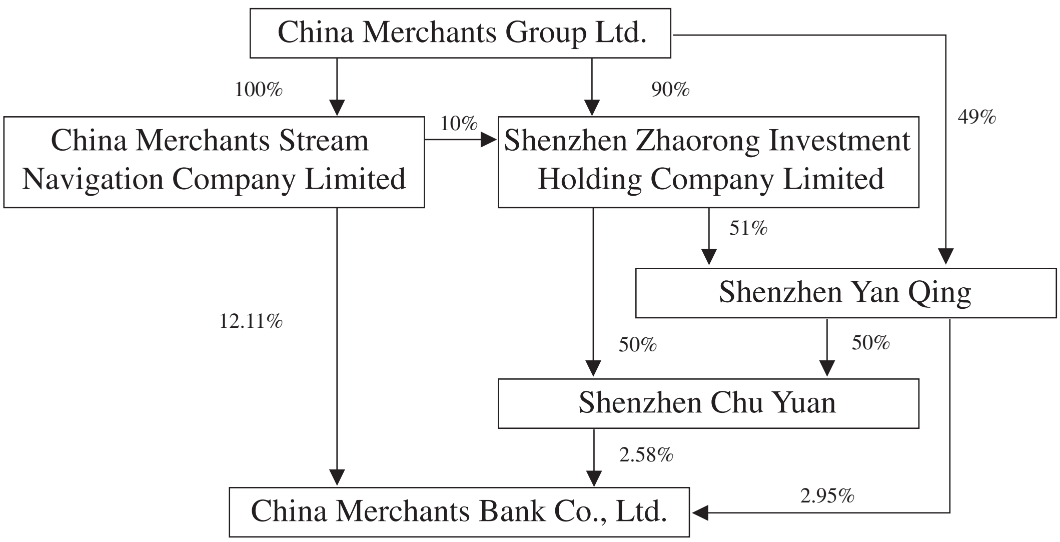
During the reported period, the H-Share Appreciation Rights Scheme for the Senior Management of the Company was approved by the shareholders of the Company at the 2007 First Extraordinary General Meeting held on 22 October 2007 and was initially implemented on 30 October 2007. Details of the Scheme were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

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

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

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

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



4.9 Issuance of convertible bonds and their listing

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

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

5. DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

5.1 Directors, supervisors and senior management

Name	Gender	Date of birth (Y/M)	Title	Term of office	Shareholding at the beginning of the year	Shareholding at the end of the year	Whether received from shareholders' companies or other related companies
Qin Xiao	Male	1947.4	Chairman & non-executive director	2007.6-2010.6	0	0	yes
Wei Jiafu	Male	1949.12	Vice chairman & non-executive director	2007.6-2010.6	0	0	yes
Fu Yuning	Male	1957.3	Non-executive director	2007.6-2010.6	0	0	yes
Li Yinquan	Male	1955.4	Non-executive director	2007.6-2010.6	0	0	yes
Hong Xiaoyuan	Male	1963.3	Non-executive director	2007.6-2010.6	0	0	yes
Ding Anhua, Edward	Male	1964.4	Non-executive director	2007.6-2010.6	0	0	yes
Sun Yueying	Female	1958.6	Non-executive director	2007.6-2010.6	0	0	yes
Wang Daxiong	Male	1960.12	Non-executive director	2007.6-2010.6	0	0	yes
Fu Junyuan	Male	1961.5	Non-executive director	2007.6-2010.6	0	0	yes
Ma Weihua	Male	1948.6	Director, president and Chief executive officer	2007.6-2010.6	0	0	–
Zhang Guanghua	Male	1957.3	Executive director and vice president	2007.6-2010.6	0	0	–
Li Hao	Male	1959.3	Executive director, vice president and Chief financial officer	2007.6-2010.6			
Wu Jiesi	Male	1951.1	Independent non-executive director	2007.6-2010.6	0	0	–
Yi Xiqun	Male	1947.8	Independent non-executive director	2007.10-2010.6	0	0	–

Name	Gender	Date of birth (Y/M)	Title	Term of office	Shareholding at the beginning of the year	Shareholding at the end of the year	Whether received from shareholders' companies or other related companies
Yan Lan	Female	1957.1	Independent non-executive director	2007.6-2010.6	0	0	–
Chow Kwong Fai, Edward	Male	1952.8	Independent non-executive director	2007.6-2010.6	0	0	–
Liu Yongzhang	Male	1956.12	Independent non-executive director	2007.6-2010.6	0	0	–
Liu Hongxia	Female	1963.9	Independent non-executive director	2007.6-2010.6	0	0	–
Shi Jiliang	Male	1945.2	Chairman of Board of Supervisors and external supervisor	2007.6-2010.6	0	0	–
Zhu Genlin	Male	1955.9	Supervisor	2007.6-2010.6	0	0	Yes
Chen Haoming	Male	1966.3	Supervisor	2007.6-2010.6	0	0	Yes
Dong Xiande	Male	1947.2	Supervisor	2007.10-2010.6	0	0	Yes
Li Jiangning	Male	1959.4	Supervisor	2007.6-2010.6	0	0	Yes
Shao Ruiqing	Male	1957.9	External supervisor	2007.6-2010.6	0	0	–
Yin Xuwen	Male	1966.3	Employee supervisor	2007.6-2010.6	0	0	–
Yang Zongjian	Male	1957.4	Employee supervisor	2007.6-2010.6	0	0	–
Shi Shunhua	Male	1962.12	Employee supervisor	2007.6-2010.6	0	0	–
Tang Zhihong	Male	1960.3	Executive vice president	2007.6-2010.6	0	0	–
Yin Fenglan	Female	1953.7	Executive vice president	2007.6-2010.6	0	0	–
Ding Wei	Male	1957.5	Executive vice president	2006.5 to now	0	0	–
Xu Lianfeng	Male	1953.2	Chief technology officer	2001.11 to now	0	0	–
Fan Peng	Male	1953.2	Chief audit officer	2007.6-2010.6	0	0	–
Lan Qi	Male	1956.6	Secretary of Board of Directors	2007.6-2010.6	0	0	–

Note:

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

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

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

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

In 2007, the total number of our Directors, Supervisors and Senior Officers receiving remuneration (before tax) was 26, of which, 8 were Independent Directors (2 of resigned or retired in 2007), 2 were External Supervisors, 6 were Staff Supervisors (3 of which retired in 2007), 4 were both Directors and Senior Officers (one of which resigned in 2007), 6 were Senior Officers but not Directors, Non-executive directors and Shareholder Supervisors did not receive any remuneration from the Company. In 2007, the Company paid total remuneration (before tax) RMB30.17 million to all Directors, Supervisors and Senior Officers. In 2007, the Company paid a total remuneration of RMB53.19 million (before tax) to all Directors, Supervisors and Senior Management, among whom, 12 of them were paid less than RMB1 million, 8 between RMB1 million and RMB3 million, 2 between RMB3 million and RMB5 million, and 4 between RMB5 million and RMB10 million.

5.3 H Share appreciation rights incentive plan during the reported period

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

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

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

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

5.4 Information about employees

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

5.5 Branches and representative offices

Name of branches	Business address	Postcode	No. of outlets	No. of staff	Total amount of assets *(in million of RMB)*
Head Office	7088 Shennan Boulevard, Shenzhen	518040	1	1,636	500,324
Shenzhen Branch	2 Shennan Road Central, Shenzhen	518001	66	2,423	95,373
Shanghai Branch	161 Lujiazui Road East, Pudong, Shanghai	200120	47	1,948	81,954
Wuhan Branch	518 Jianshe Avenue, Hankou, Wuhan	430022	24	1,090	32,182
Beijing Branch	156 Fuxingmen Nei Dajie, Beijing	100031	39	2,034	87,196
Shenyang Branch	12 Shiyiwei Road, Heping District, Shenyang	110003	17	980	24,678
Guangzhou Branch	138, Tiyu Road East, Tianhe District, Guangzhou	510620	34	1,256	28,333
Chengdu Branch	9 Shuncheng Street, Qingyang District, Chengdu	610016	20	747	13,739
Lanzhou Branch	9 Qingyang Road, Chengguan District, Lanzhou	730000	15	488	19,588
Xi'an Branch	107 Heping Road, Xi'an	710001	18	774	15,754
Nanjing Branch	1 Hanzhong Road, Nanjing	210005	16	848	32,431
Wuxi Branch	128 Renmin Road Central, Wuxi	214002	9	279	10,576
Changzhou Branch	125 Heping Road South, Changzhou	213003	3	122	2,674
Yangzhou Branch	12 Wencang Road West, Yangzhou	225009	1	52	1,324
Suzhou Branch	128 Sanxiang Road, Suzhou	215004	9	473	15,280
Chongqing Branch	2 Linjiangzhi Road, Yuzhong District, Chongqing	400010	21	777	19,117
Dalian Branch	17 Renmin Road, Zhongshan District, Dalian	116001	14	641	10,328
Hangzhou Branch	310 Zhongshan Road North, Hangzhou	310001	18	850	28,443
Ningbo Branch	938 Baizhang Road East, Ningbo	315041	10	431	14,553
Taizhou Branch	535 Shifu Road, Taizhou, Zhejiang Province	317013	1	76	1,086
Wenzhou Branch	Jinglong Building, Chezhan Avenue, Wenzhou	325000	7	227	7,824
Shaoxing Branch	Jindun Building, 60 Shengli Road East, Shaoxing	312000	5	185	6,782
Jinhua Branch	45 Shuangxi West Road, Jinhua	321016	1	70	2,308
Nanchang Branch	162 Bayi Avenue, Nanchang	330003	12	562	14,216
Changsha Branch	24 Cai'e Road Middle, Furong District, Changsha	410005	17	536	15,878
Fuzhou Branch	60 Guping Road, Fuzhou	350003	12	456	10,420
Quanzhou Branch	Huangxing Building, 301 Fengze Street, Quanzhou	362000	4	139	5,514
Qingdao Branch	36 Hong Kong Road Middle, Shinan District, Qingdao	266071	12	597	34,403
Tianjin Branch	55 Youyi Road North, Hexi District, Tianjin	300204	18	734	23,194
Jinan Branch	21 Chaoshan Street, Lixia District, Jinan	250011	15	536	29,279
Yantai Branch	CMB Building, 237 Nanda Street, Yantai	264000	5	143	4,110
Urumchi Branch	80 Xinhua Road North, Urumchi	830002	10	339	7,498
Kunming Branch	48 Dongfeng Road East, Kunming	650051	15	542	14,949
Hefei Branch	436 Changjiang Road Middle, Hefei	230061	12	526	11,453
Xiamen Branch	862 Xiahe Road, Xiamen	361004	8	368	8,190
Harbin Branch	3 Zhongyang Avenue, Daoli District, Harbin	150001	10	359	6,630
Zhengzhou Branch	68 Jingsan Road, Zhengzhou	450008	10	430	17,258
Dongguan Branch	Yujing New Times Plaza, Dongcheng Avenue, Dongguan	523129	9	384	7,088
Foshan Branch	1-3/F, Hongye Mansion, Jihua 5th Road,Foshan	528000	7	241	6,560
Taiyuan Branch	1 Xinjian Road South, Taiyuan	030001	2	140	3,223
Hohhot Branch	56 Xinhua Street, Hohhot	010010	1	81	1,030
Hong Kong Branch	12 Harcourt Road, Hong Kong		1	72	19,537
Beijing Representative Office	35 Jinrong Avenue, Xicheng District, Beijing	100005	1	8	–
USA Representative Office	509 Madison Avenue, Suite 306, New York, New York 10022, U.S.A		1	1	23
Credit card centre	316 Lao Shan Road, Pudong New District, Shanghai	200120	1	3,370	21,251
Total			579	28,971	1,310,552

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

6. CORPORATE GOVERNANCE

6.1 Securities transactions of directors, supervisors and the relevant employees

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

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

6.2 Performance of duties by independent directors

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

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

1. The auditors' auditing plan for the Company for 2007 was reviewed before the Certified Public Accountant of the annual audit commences the annual audit.

2. The independent non-executive directors received a report regarding the operations of the Company in 2007 and the progress of significant matters, which was reported by the management of the Company, and carried out a fieldwork for Shenzhen branch. The independent non-executive directors considered the report by the management of the Company objectively and fully reflected the trading positions of the Company in 2007 and the progress of significant matters.

3. After the initial audit opinions were proposed by the auditors, the independent non-executive directors communicated with the auditors for significant issues in the auditing and written opinions were presented.

6.3 Attendance of independent non-executive directors at board meetings

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

Name of independent non-executive director	Times of attendance required for the year	Attendance in person *(times)*	Attendance by proxy *(times)*	Absence *(times)*	Remarks
Lin Chuxue	7	6	1	0	Appointed Liu Hongxia (an independent non-executive director) to exercise voting rights at 39th meeting of the Sixth Session.
Hu Chang Tau, Austin	7	5	1	1	Appointed Liu Hongxia (an independent non-executive director) to exercise voting rights at 39th meeting of the Sixth Session.

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

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

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

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

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

7. REPORT OF THE BOARD OF DIRECTORS

7.1 Profit appropriation and dividend proposal for the year 2007

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

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

7.2 Donations

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

7.3 Major holding companies and joint-stock companies

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

Notes:

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

(2) CMBICC, formerly known as Jiangnan Finance Co., Ltd., is the Company's wholly-owned subsidiary approved by the PBOC through its Yin Fu【1998】No. 405 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.

(3) Upon approval of the 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 of RMB41.984 million in the form of the bank card network service centers in various cities and RMB38.016 million as additional cash investment. China UnionPay Co., Ltd. was incorporated on 26 March 2002. The RMB38,016,000 of investment in 2002 by the Company was accounted for as long-term equity investment.

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

7.4 Shareholdings and trading in equity interest of other listed companies

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

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

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

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

Use of fund raised from H Shares

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

Non-fund raising material investments

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

7.7 Interests and short positions of directors, supervisors and senior executives

As at 31 December 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 debentures of the Company or any of its associated corporation, (within the meaning of Part XV of the SFO), or as being recorded pursuant to section 352 of the SFO or as otherwise notified by the directors or supervisors to the Company and SEHK in accordance with Model Code for Securities Transactions by Directors of Listed Issuers as set out in the Listing Rules; neither were the directors, supervisors and senior management of the Company authorized to buy any share or debenture of the Company or any of its related companies.

7.8 Confirmation of independence of Independent Non-executive Directors

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

7.9 Material litigation and arbitrations

As at 31 December 2007, the number of pending litigation and arbitration cases involving the Company totalled at 1,426, involving a total principal sum of RMB869,709,780, US$5,119,700, JPY308,910,000 and INR8,766,900; the interest totalled at RMB90,394,500 and US$582,000. In particular, the total number of pending litigation and arbitration cases against the Company totalled at 42, involving a total principal of RMB223,007,600, US$152,000 and INR8,766,900; the interest totalled at RMB20,276,800 and US$9,900. The number of pending cases with principal over RMB100,000,000 totalled at 2, involving a total principal of RMB260,300,000; the interest totalled at RMB3,506,400.

7.10 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.

7.11 Significant event in respect of fund entrusting

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

7.12 Major asset acquisition, disposal and reorganization

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

7.13 Compliance Statement for Corporate governance

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

7.14 Compliance with Banking (Disclosure) Rules

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

7.15 Review on annual results

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

7.16 Annual General Meeting and Closure of Register of Members

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

7.17 Publication of Results Announcement and Annual Report

Both the Chinese and English versions of this results announcement are available on the websites of the Company (www.cmbchina.com) and The Stock Exchange of Hong Kong Limited (www.hkex.com.hk). The Annual Report 2007 of the Company containing all the information required by the Listing Rules will be published on the websites of the Stock Exchange of Hong Kong Limited (www.hkex.com.hk) and the Company (www.cmbchina.com) in due course. In the event of any discrepancies in interpretations between the English version and Chinese versions, the Chinese version shall prevail.

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

8. FINANCIAL STATEMENTS

8.1 Consolidated Income Statement

(Expressed in millions of Renminbi unless otherwise stated)

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

8.2 Consolidated Balance Sheet

(Expressed in millions of Renminbi unless otherwise stated)

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

8.3 Consolidated Statement of Changes in Equity

(Expressed in millions of Renminbi unless otherwise stated)

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

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

8.4 Consolidated Cash Flow Statement

(Expressed in millions of Renminbi unless otherwise stated)

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

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

8.5 Notes to the financial statements

1. Interest income

	2007	2006
Loans and advances *(note)*		
– corporate loans	**25,231**	18,853
– retail loans	**8,482**	4,967
– discounted bills	**5,315**	3,071
Balances with central bank	**1,742**	1,044
Balances and placements with		
– banks	**3,652**	1,782
– other financial institutions	**550**	354
Debt investments	**6,613**	3,919
Interest income on financial assets that are not at fair value through profit or loss	**51,585**	33,990

Note: Included in the above is interest income of RMB118 million accrued on impaired loans for the year ended 31 December 2007 (2006: RMB223 million).

2. Interest expense

	2007	2006
Deposits from customers	**13,255**	10,449
Deposits and placements from		
– banks	**950**	424
– other financial institutions	**3,033**	1,127
Issued debts	**445**	481
Interest expense on financial liabilities that are not at fair value through profit or loss	**17,683**	12,481

3. Operating expenses

	2007	2006
Staff costs		
– salaries, bonuses and staff welfare *(note (i))*	**6,563**	3,872
– contributions to defined contribution retirement schemes	**720**	500
– housing allowances	**402**	386
– others	**407**	295
	8,092	5,053
Business tax and surcharges	**2,384**	1,573
Depreciation	**1,020**	910
Rental expenses	**1,078**	831
Other general and administrative expenses	**4,164**	2,724
	16,738	11,091

Notes:

(i) Performance bonus is included in the above salaries and bonuses.

(ii) Auditors' remuneration amounted to RMB6 million for 2007 (2006: RMB5 million) and non-audit service fee paid to auditors was RMB3 million for 2007 (2006: RMB1 million).

4. Income tax

(a) Income tax in the consolidated income statement represents:

	2007	2006
Current tax	**5,565**	3,347
Deferred tax	**235**	(57)
	5,800	3,290

(b) A reconciliation of income tax expense in the consolidated income statement and that calculated at the applicable tax rate is as follows:

	2007	2006
Profit before tax	**21,043**	10,084
Notional tax on profit before tax, calculated at the statutory tax rate of 33%	**6,944**	3,328
Add/(less) the tax effect of the following items:		
– Non-deductible expenses	**559**	198
– Non-taxable income	**(158)**	(209)
– Different income tax rates in other areas	**(1,691)**	(331)
– Effect of change in tax rate on opening deferred tax balances	**480**	–
– Others	**(334)**	304
Actual income tax expense	**5,800**	3,290

Notes:

(i) Pursuant to the approval (Cai Shui 2007 No. 63) issued by the MOF and the State Administration of Taxation on 9 April 2007, the Bank's deductible salary expense for the year ended 31 December 2007 was approved to be RMB5.47 billion (2006: RMB3.45 billion).

(ii) The income tax rates applicable to the Bank's operations in certain areas such as Shenzhen Special Economic Zone and Urumqi are 15% and 16.5% respectively during the year.

5. Earnings per share

(a) Basic earnings per share

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

	2007	2006
Net profit	**15,243**	6,794
Weighted average number of shares in issue *(in million)*	**14,704**	12,833
Basic earnings per share *(in RMB)*	**1.04**	0.53

(b) Diluted earnings per share

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

	2007	2006
Net profit	**15,243**	6,794
Interest expense on convertible bonds issued	**1**	9
Diluted net profit	**15,244**	6,803
Weighted average number of shares in issue *(in million)*	**14,704**	12,833
Effect of deemed conversion of convertible bonds *(in million)*	**4**	60
Weighted average number of shares in issue after dilution *(in million)*	**14,708**	12,893
Diluted earnings per share *(in RMB)*	**1.04**	0.53

6. Proposed profit appropriations

	2007	2006
Statutory surplus reserve	**1,524**	711
Dividends of RMB2.8 (2006: RMB1.2) per every 10 shares	**4,117**	1,764
Total	**5,641**	2,475

Notes:

(i) 2007 profit appropriation is proposed in accordance with the resolution passed at the seventeenth meeting of the seventh board of directors held on 18 March 2008 and will be submitted to the 2007 annual general meeting for approval.

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

7. Contingent liabilities and commitments

(a) *Credit commitments*

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

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

	2007	2006
Contractual amount		
Irrevocable guarantees	**55,263**	37,063
Irrevocable letters of credit	**23,937**	28,323
Bills of acceptances	**180,002**	166,513
Irrevocable loan commitments		
– with an original maturity of under one year	**1,210**	1,371
– with an original maturity of one year or over	**8,620**	5,172
Credit card commitments	**50,881**	31,694
Shipping guarantees	**12**	–
	319,925	270,136

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

Apart from the irrevocable loan commitments, the Group had loan commitments of RMB454,490 million at 31 December 2007 (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.

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

	2007	2006
Credit risk weighted amounts of contingent liabilities and commitments		
Contingent liabilities and commitments	**94,321**	86,444

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

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

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

(b) *Capital commitments*

Authorised capital commitments not provided for were as follows:

	2007	2006
For purchase of fixed assets:		
– Contracted for	**801**	126

(c) *Operating lease commitments*

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

	2007	2006
Within 1 year	**816**	739
After 1 year but within 5 years	**2,241**	1,852
After 5 years	**649**	696
	3,706	3,287

The Group and the Bank lease a number of properties under operating leases. The leases typically run for an initial period of 1 to 20 years. Lease payments are usually increased every 1 to 10 years to reflect market rental. None of the lease include contingent rental.

(d) *Outstanding litigations*

At 31 December 2007, the Group was a defendant in certain pending litigations with gross claims of RMB246 million (2006: RMB118 million) arising from its banking activities. Many of these proceedings are in relation to steps taken by the Bank to collect delinquent loans and enforce rights in collateral securing such loans. The Directors consider that no material losses would be incurred by the Group as a result of these pending litigations and therefore no provision has been made in the financial statements.

(e) *Redemption obligations*

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

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

	2007	2006
Redemption obligations	**7,488**	11,621

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

8. Use of derivatives

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

The Group enters into financial derivative transactions for treasury business and its assets and liabilities management purpose. For accounting purpose, all derivatives are classified as held for trading.

Treasury business includes the formation and sale of financial derivatives to enable customers to transfer, change or mitigate existing or anticipated risks.

When there are mismatches in the interest rates of assets and liabilities, the Group will use interest rate swaps to swap fixed interest rates into floating interest rates.

For assets and liabilities denominated in foreign currencies, the Group will be exposed to risks due to the fluctuations of exchange rates. The Group will use currency swaps and forward contracts to mitigate these risks.

The following tables provide an analysis of the notional amounts of derivatives of the Group by maturity groupings based on the remaining periods to settlement and the corresponding fair values at the balance sheet date. The notional amounts of the derivatives indicate the transaction volume outstanding at the balance sheet date; they do not represent amounts at risk.

	2007						
	Notional amounts with remaining life of					Fair values	
	Less than 3 months	Between 3 months and 1 year	Between 1 year and 5 years	More than 5 years	Total	Assets	Liabilities
Interest rate derivatives							
Interest rate swaps	811	25,115	7,088	497	33,511	16	(31)
Currency derivatives							
Spot	6,360	–	–	–	6,360	3	–
Forwards	32,864	79,661	5,572	–	118,097	2,651	(2,481)
Foreign exchange swaps	11,531	9,661	–	–	21,192	249	(62)
Currency options	41,790	4,093	37	–	45,920	374	(371)
	92,545	93,415	5,609	–	191,569	3,277	(2,914)
Total						3,293	(2,945)

	2006						
	Notional amounts with remaining life of					Fair values	
	Less than 3 months	Between 3 months and 1 year	Between 1 year and 5 years	More than 5 years	Total	Assets	Liabilities
Interest rate derivatives							
Interest rate swaps	5,023	6,740	6,243	1,006	19,012	108	(53)
Currency derivatives							
Spot	15,717	–	–	–	15,717	10	(9)
Forwards	1,803	2,526	470	–	4,799	17	(13)
Foreign exchange swaps	11,976	17,063	156	–	29,195	41	(1)
Currency options	22,950	176	–	–	23,126	27	(30)
	52,446	19,765	626	–	72,837	95	(53)
Total						203	(106)

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

Credit risk weighted amounts

	2007	2006
Interest rate derivatives	**18**	100
Currency derivatives	**429**	107
	447	207

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

9. Events occurred after the balance sheet date

As at the date of this report, the Group had no material post balance sheet date events for disclosure.

By Order of the Board
China Merchants Bank Co., Ltd.
Qin Xiao
Chairman of Board of Directors

18 March 2008

As at the date of this announcement, the executive directors of the Company are Ma Weihua, Zhang Guanghua and Li Hao; the non-executive directors of the Company are Qin Xiao, Wei Jiafu, Fu Yuning, Li Yinquan, Hong Xiaoyuan, Ding An Hua Edward, Sun Yueying, Wang Daxiong and Fu Junyuan; and the independent non-executive directors of the Company are Wu Jiesi, Yan Lan, Yi Xiqun, Chow Kwong Fai, Edward, Liu Yongzhang and Liu Hongxia.