中国建设银行
China Construction Bank

ANNUAL REPORT 07

China Construction Bank Corporation Stock Code: 939
(A joint stock limited company incorporated in
the People's Republic of China with limited liability)

2007
Financial Highlights

Indicator	Change	2007	2006
Operating income (In millions of RMB)	↑ 45.60%	220,717	151,593
Profit before tax (In millions of RMB)	↑ 53.41%	100,816	65,717
Total assets (In millions of RMB)	↑ 21.10%	6,598,177	5,448,511
Return on average assets (%)	↑ 0.23	1.15	0.92
Return on average equity (%)	↑ 4.50	19.50	15.00
Net interest margin (%)	↑ 0.39	3.18	2.79
Net fee and commission income to operating income (%)	↑ 5.24	14.19	8.95
Cost-to-income ratio (%)	↓ 2.14	41.83	43.97
Non-performing loan ratio (%)	↓ 0.69	2.60	3.29

Contents

Definitions

In this annual report, unless the context otherwise requires, the following terms shall have the meanings set out below.

"Bank"	China Construction Bank Corporation
"Bank of America"	Bank of America Corporation
"Baosteel Group"	Baosteel Group Corporation
"CBRC"	China Banking Regulatory Commission
"CCB Asia"	China Construction Bank (Asia) Corporation Limited
"CCB Financial Leasing"	CCB Financial Leasing Corporation Limited
"CCB International"	CCB International (Holdings) Limited
"CICC"	China International Capital Corporation Limited
"Company Law"	The Company Law of the People's Republic of China
"CSRC"	China Securities Regulatory Commission
"Fullerton Financial"	Fullerton Financial Holdings Pte Ltd
"Group"	China Construction Bank Corporation and its subsidiaries
"Hong Kong Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Huijin"	China SAFE Investments Limited
"IFRS"	International Financial Reporting Standards
"Jianyin"	China Jianyin Investment Limited
"Listing Rules of Hong Kong Stock Exchange"	Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
"MOF"	Ministry of Finance of the People's Republic of China
"Morgan Stanley"	Morgan Stanley Dean Witter Asia Ltd.

"PBC"	People's Bank of China
"PRC GAAP"	The Accounting Standards for Business Enterprises promulgated by the MOF on 15 February 2006 and other relevant requirements
"RMB"	Renminbi
"SAFE"	State Administration of Foreign Exchange
"Sino-German Bausparkasse"	Sino-German Bausparkasse Corporation Limited
"State Grid"	State Grid Corporation of China
"Temasek"	Temasek Holdings (Private) Limited
"Yangtze Power"	China Yangtze Power Co., Limited

Corporate Information

Legal name and abbreviation in Chinese	中國建設銀行股份有限公司（abbreviated as “中國建設銀行”）
Legal name and abbreviation in English	China Construction Bank Corporation（abbreviated as “CCB”）
Legal representative	Guo Shuqing
Authorised representatives	Zhang Jianguo Zhao Lin
Secretary to the Board	Chen Caihong Contact Address: No. 25, Finance Street, Xicheng District, Beijing Telephone: 86-10-66215533 Facsimile: 86-10-66218888 Email: ir@ccb.com
Company secretary	Chan Mei Sheung
Qualified accountant	Yuen Yiu Leung
Registered address and postcode	No. 25, Finance Street, Xicheng District, Beijing 100032
Internet website	www.ccb.com
Email address	ir@ccb.com
Principal place of business in Hong Kong	44–45/F, Tower One, Lippo Centre, 89 Queensway, Admiralty, Hong Kong
Newspapers for information disclosure	*China Securities Journal, Shanghai Securities News* and *Financial News*
Website of the Shanghai Stock Exchange for uploading the annual report prepared in accordance with PRC GAAP	www.sse.com.cn
Website of the Hong Kong Stock Exchange for uploading the annual report prepared in accordance with IFRS	www.hkex.com.hk
Venue where copies of this annual report are kept	Office of the board of directors of the Bank

Listing stock exchanges, stock abbreviations and stock codes	A-share: Shanghai Stock Exchange Stock abbreviation: 建設銀行 Stock code: 601939 H-share: The Stock Exchange of Hong Kong Limited Stock abbreviation: CCB Stock code: 939
Date and place of first incorporation	17 September 2004 State Administration for Industry and Commerce of the People's Republic of China
Registration number of the corporate legal person business license	1000001003912
Organisation code	10000444-7
Financial license institution number	B0004H111000001
Taxation registration number	京稅證字110102100004447
Certified public accountants	KPMG Huazhen Address: 8/F, Office Tower E2, Oriental Plaza, Dongcheng District, Beijing KPMG Address: 8/F, Prince's Building, 10 Chater Road, Central, Hong Kong
Legal advisor as to PRC laws	Beijing Commerce & Finance Law Offices Address: 6/F, NCI Tower, A12 Jianguomenwai Avenue, Beijing
Legal advisor as to Hong Kong laws	Freshfields Bruckhaus Deringer Address: 11/F, Two Exchange Square, Central, Hong Kong
A-share registrar	China Securities Depository and Clearing Corporation Limited, Shanghai Branch Address: 36/F, China Insurance Building, 166 East Lujiazui Road, Pudong New District, Shanghai
H-share registrar	Computershare Hong Kong Investor Services Limited Address: Rooms 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong

Corporate Information

Rankings and Awards

“Best Emerging Market Bank in Asia 2007 — Best Bank in China”

“Capital Outstanding China Banking Corporation”

“Best Domestic Bank in China 2007”

“Best Corporate Governance Award 2007”

Ranked 14th in the “Top 1000 World Banks”

Ranked 69th in the “World’s 2000 Largest Public Companies 2007”

Ranked 35th among the “FT Global 500 2007”

Ranked 4th among the “Asian Bank 300”

“Best Financial Risk Management of China”

“Best Investor Relations in China”

“Best Return of Investment Award”

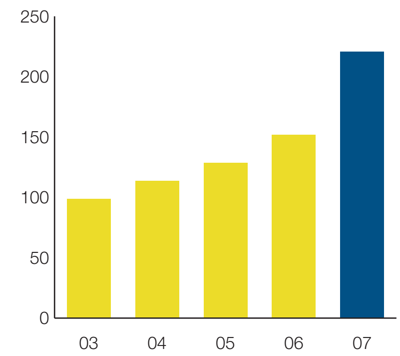
“The Banker’s Award 2007”

“Most Responsible Enterprise Award 2007”

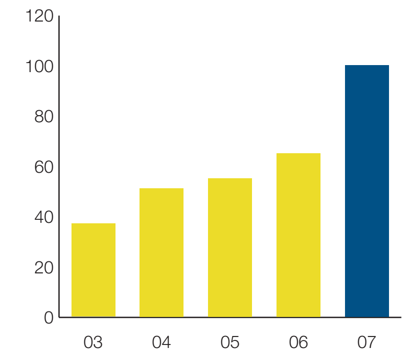
“Corporate Social Responsibility Award”

Financial Highlights

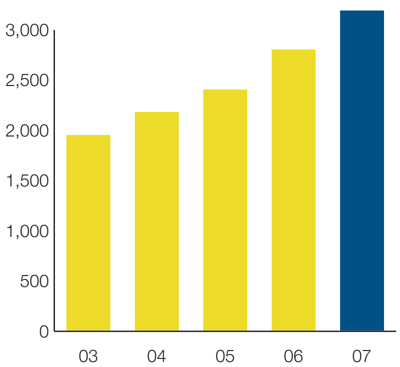
Operating income
In billions of RMB



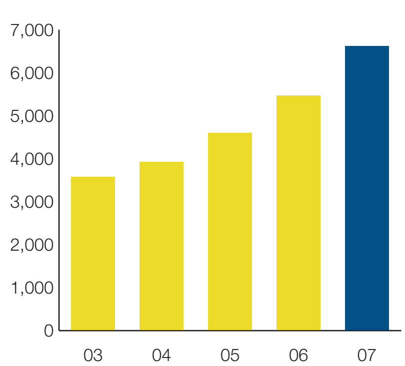
Profit before tax
In billions of RMB



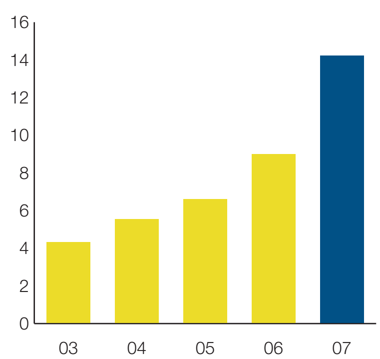
Loans and advances to customers
In billions of RMB



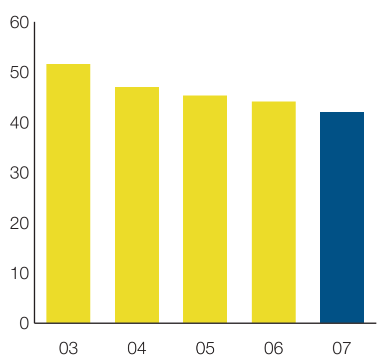
Total assets
In billions of RMB



Net fee and commission income to operating income
%



Cost-to-income ratio
%



Financial Highlights

The financial information set forth in this annual report is prepared in accordance with the IFRS on a consolidated basis, unless otherwise stated.

(Expressed in millions of RMB unless otherwise stated)	2007	2006	Change (%)	2005	2004	2003
For the year						
Operating income	**220,717**	151,593	45.60	128,714	113,976	98,604
Profit before tax	**100,816**	65,717	53.41	55,364	51,199	37,702
Net profit	**69,142**	46,319	49.27	47,096	49,040	22,533
Net profit attributable to shareholders of the Bank	**69,053**	46,322	49.07	47,103	49,042	22,533
As at 31 December						
Net loans and advances to customers	**3,183,229**	2,795,976	13.85	2,395,313	2,173,562	1,943,359
Total assets	**6,598,177**	5,448,511	21.10	4,585,742	3,909,920	3,557,066
Deposits from customers	**5,340,316**	4,721,256	13.11	4,006,046	3,491,121	3,195,673
Total liabilities	**6,175,896**	5,118,307	20.66	4,298,065	3,714,369	3,369,861
Total equity attributable to shareholders of the Bank	**420,977**	330,109	27.53	287,579	195,516	187,168
Issued and paid-up capital	**233,689**	224,689	4.01	224,689	194,230	NA
Per share (In RMB)						
Basic and diluted earnings per share	**0.30**	0.21	42.86	0.24	0.26	0.12
Interim cash dividend declared during the year	**0.067**	—	NA	NA	NA	NA
Special cash dividend declared during the year	**0.072716**	—	NA	NA	NA	NA
Final cash dividend proposed after the balance sheet date	**0.065**	0.092	NA	0.015	NA	NA
Net assets per share	**1.81**	1.47	23.13	1.28	1.01	NA

	2007	2006	Change +/(-)	2005	2004	2003
Financial ratios (%)						
Profitability indicators						
Return on average assets[1]	**1.15**	0.92	0.23	1.11	1.31	0.70
Return on average equity[2]	**19.50**	15.00	4.50	21.59	25.86	12.04
Net interest spread	**3.07**	2.69	0.38	2.70	2.77	2.84
Net interest margin	**3.18**	2.79	0.39	2.78	2.82	2.85
Net fee and commission income to operating income	**14.19**	8.95	5.24	6.57	5.68	4.65
Cost-to-income ratio	**41.83**	43.97	(2.14)	45.13	46.87	51.46
Loan-to-deposit ratio	**61.27**	60.87	0.40	61.37	63.80	62.51
Capital adequacy indicators						
Core capital adequacy ratio[3]	**10.37**	9.92	0.45	11.08	8.60	5.78[4]
Capital adequacy ratio[3]	**12.58**	12.11	0.47	13.59	11.32	6.91[4]
Total equity to total assets	**6.40**	6.06	0.34	6.27	5.00	5.26
Asset quality indicators						
Non-performing loan ratio	**2.60**	3.29	(0.69)	3.84	3.92	4.27
Allowances to non-performing loans	**104.41**	82.24	22.17	66.78	61.64	63.75
Allowances to total loans	**2.72**	2.70	0.02	2.57	2.42	2.72

1. *Calculated by dividing net profit by the average of total assets as at the beginning and end of the year.*
2. *Calculated by dividing net profit attributable to shareholders by the weighted average of total equity attributable to shareholders for the year.*
3. *Calculated in accordance with the guidelines issued by the CBRC and the consolidated financial statements prepared in accordance with the PRC GAAP.*
4. *The core capital adequacy ratio and capital adequacy ratio as at 31 December 2003 were calculated in accordance with the guidelines issued by the PBC (replaced by the CBRC guidelines since March 2004) for the bank's predecessor China Construction Bank, and therefore not comparable with the ratios as at or after 2004.*

Chairman's Statement

Dear Shareholders,

2007 marked a year of success in the Bank's trail of operation, which witnessed another record high profit, strengthened competitiveness, and heightened influence.

Our board keeps a close eye on domestic and overseas economies in order to formulate new development strategies. Based on the principle of "cultivating and enhancing sustainable value creation", the Board has laid out clear guidelines for positioning business scope and targeting customers and areas for expansion, thereby paving the way for effective management, and fine-tuning resource planning and business realignment.

In 2007, we strengthened our customer-focused corporate culture by expediting business process reengineering and pushing ahead the construction of our branch network, thereby significantly enhancing customer satisfaction. We continued to reinforce our internal control and infrastructure building. Risk management and internal audit systems continued to improve, enhancing our capability to balance risk and return. Strategic cooperation was promoted in all areas, and steady advancements were seen on this front. We successfully completed our initial public offering of A-shares, which provided us with a new capital platform and enabled domestic and overseas investors to share the results of our development.

The strategic transformation of the Bank saw remarkable results and all of our business segments gained development momentum. The fast development in personal loans, credit cards, personal wealth management and agency fund sales businesses prompted the substantial increase in contribution from our retail business. We maintained leading positions in our established businesses such as infrastructure loans and achieved remarkable growth in loans to small-sized enterprises. The proportion of fee and commission income grew significantly. Our financial market and international businesses grew steadily, and progress was made in our comprehensive operations.

Our overall profitability has reached a leading level among our peers. In 2007, the Group recorded a net profit of RMB69,142 million, an increase of 49.27% over the previous year. The return on average assets and the return on average equity were 1.15% and 19.50%, respectively, representing a respective increase of 0.23 and 4.50 percentage points over 2006, while earnings per share were RMB0.30. Asset quality has steadily improved, while the ratio and total amounts of non-performing loans have decreased. Following the declaration of an interim dividend and a special dividend in August 2007, our board of directors has recommended a final cash dividend of RMB0.065 per share.

Our outstanding performance was fully recognised by the market and the industry. We ranked 14th in *The Banker* Magazine's Top 1000 World Banks, 69th in the *Forbes* Global 2000 largest public companies, and 35th in the *Financial Times* Global 500. We were named the "Best Bank in China 2007" by the *Global Finance* Magazine, "Outstanding China Banking Corporation" by *Capital* Magazine in Hong Kong, and the "Best Domestic Bank in China" by *The Asset* Magazine in Hong Kong, and won *Asia Risk* Magazine's "Best Financial Risk Management of China" Award.

Chairman's Statement

While achieving brilliant operating results, the Bank is also committed to fulfilling its social responsibilities as a good corporate citizen. In 2007, the Bank contributed US$2 million and acted as the games partner and official bank with Bank of America to sponsor and provide financial services for the 2007 Special Olympics World Summer Games. Moreover, the Bank donated RMB120 million to launch in cooperation with the China Education Development Fund the "Subsidy Programme for Impoverished High School Students," and donated RMB50 million to initiate the "Subsidy Programme for Impoverished Mothers of Heroes & Exemplary Workers in China" with the China Women Development Foundation. In 2007, the Bank was presented the title "Charitable Organisation for Poverty Alleviation in China" by the China Foundation for Poverty Alleviation, the "Corporate Social Responsibility Contributions Award" by Xinhua Net, and the "Corporate Social Responsibility Award" by The Chamber of Hong Kong Listed Companies and the Faculty of Business Administration of the Baptist University of Hong Kong. We were also recognised as the "Most Responsible Corporate Citizen" by the Red Cross Society of China for two consecutive times.

The Bank's achievements in 2007 relied on the support and trust of all our customers and shareholders and incorporated the wisdom and hard work of the Board, the board of supervisors, the management and all our staff. To these people, I would like to express my sincere gratitude. The Bank will take on the mission of providing better services to our customers, creating more value for our shareholders, building a broader career development platform for our employees, and shouldering full corporate social responsibility for the society, all the while striding towards our strategic vision of "always standing in the forefront of China's economic modernisation, and becoming a world class bank".

Guo Shuqing
Chairman

11 April 2008

President's Report

Zhang Jianguo
Vice chairman, executive director
and president

Dear Shareholders,

I am pleased to announce that in 2007 the Group met all the operating targets set by the shareholders' general meeting and the Board, and achieved excellent operating results with rapid business growth. We successfully completed our financing plan by returning to the Mainland A-share market and fully enhanced our operational management levels and comprehensive competitiveness.

Outstanding Performance in 2007

- Brilliant operating results

In 2007, the Group achieved a pre-tax profit of RMB100,816 million, representing an increase of 53.41%, and achieved a net profit of RMB69,142 million, representing an increase of 49.27%. The levels of return on assets and return on equity both recorded significant increases. As we adjusted the brought forward deferred tax items and recognised the newly derived deferred tax items based on the reduced income tax rate of 25%, there was an increase of RMB1,512 million in current income tax expenses and a lower growth rate of net profit than that of profit before tax.

In 2007, the Group recorded an increase in operating income of 45.60% over the previous year to RMB220,717 million. As net interest income recorded a higher growth rate than that of total interest-bearing assets, the net interest margin grew by 39 basis points to 3.18%. The net fee and commission income rose by 130.73% over the previous year to RMB31,313 million, and its proportion to operating income rose to 14.19%, an increase of 5.24 percentage points over the previous year. Costs continued to be under effective control in 2007 with the cost-to-income ratio reduced to 41.83%, a decrease of 2.14 percentage points over the previous year.

At the end of 2007, gross loans and advances to customers amounted to RMB3,272,157 million, 13.87% higher than that at the end of the previous year. We satisfied the needs of strategic business development and core customers through active adjustment of our credit structure. The booming domestic securities market and broadened channels through which citizens could make investments led to greater changes in liabilities structure. Deposits from customers grew by 13.11%, while the amounts due to banks and non-bank financial institutions increased by 148.42%. Total liabilities increased by 20.66% over that at the end of the previous year to RMB6,175,896 million.

On 25 September 2007, the Bank was successfully listed on the Shanghai Stock Exchange and raised net proceeds of RMB57,119 million, representing the largest initial public offering at the time in the A-share market in terms of capital raised. As at 31 December 2007, the Group's capital adequacy ratio was 12.58%, 1.24 percentage points higher than that as at 30 June 2007, and 0.47 percentage points higher than that at the end of 2006. The core capital adequacy ratio was 10.37%, an increase of 0.45 percentage points over that at the end of 2006.

At the end of 2007, the non-performing loan ratio dropped by 0.69 percentage points to 2.60% compared with the end of 2006. The ratio of allowances for impairment losses to non-performing loans rose by 22.17 percentage points to 104.41% compared with that at the end of 2006. The asset quality continued to improve and adequate allowances for impairment losses were maintained.

At the end of 2007, the nominal amount of U.S. sub-prime mortgage loan backed securities held by the Group stood at US$1,000 million, and 93.03% of which had a credit rating of "A" or above. Allowances for impairment losses on such debt securities were US$630 million, while the carrying amount, i.e. net exposure, was US$370 million. As the U.S. sub-prime mortgage loan backed securities held by the Group accounted for only a small proportion of the Group's debt securities portfolio, it is believed the volatility in values of such debt securities market will not have a significant effect on the Group's earnings.

• Further improvements in business and customer structure

In 2007, the Bank actively responded to the trend of market changes such as the reinforcement of Government macro-adjustments by maintaining a steady pace of credit extension and speeding up credit structure adjustment, and achieved remarkable results in the development of our established products and strategic businesses.

Rapid growth in established products and strategic businesses. In 2007, infrastructure loans grew by 18.93% to RMB846,130 million, accounting for 46.96% of the increase in corporate loans; residential mortgage loans grew by 23.33% to RMB527,888 million; small business customers grew more rapidly with 10,841 new small enterprise customers opening accounts with the Bank in 2007, and the balance of loans to small businesses reached RMB224,477 million.

Continued improvement in customer structure. As the Bank maintained strict lending criteria and exit policies for different industries and customers, new loans granted were mainly focused on leading enterprises and high-quality customers. Corporate loans granted to customers with internal credit ratings of A or above accounted for 88.61% of total corporate loans, up 5.04 percentage points over that at the end of 2006. Efforts have been made to secure large-sized institutional customers, and the number of securities companies which have established cooperation relationships with the Bank on independent custodial services for stock settlement funds increased to 105, accounting for 98% of all domestic securities companies. Through active development of a high net-worth customer base, the total number of high net-worth customers reached 32,024 at the end of the year, representing a growth of 128% over that at the end of 2006.

• Fully geared to business transformation

In order to adapt itself to the changing trends of the future economic and financial markets, the Bank is committed to the full implementation of business transformation with a view to improving its business structure and profit-making model and strengthening its capability of sustainable development.

Higher contribution from retail business. In 2007, the proportion of pre-tax profit from personal banking business increased from 16.21% in the previous year to 25.93%; personal loans grew by 23.71% to RMB723,805 million while its proportion in gross loans and advances to customers increased by 1.76 percentage points to 22.12%. In 2007, agency sales of 233 mutual funds reached RMB772,751 million, with the increase in fee income accounting for 59.30% of the increase in total fee and commission income. Sound results were achieved in our bank card business: spending through debit cards increased by 91.73% to RMB407,416 million; the number of credit cards issued grew by 98.75% to 12.60 million and the total spending through credit cards increased by 94.39% to RMB78,664 million.

Strong growth in international business. In 2007, pre-tax profit from the Group's overseas operations stood at RMB2,499 million, an increase of 360.22% over the previous year. International settlement volume amounted to US$285.40 billion, up 49.95%. Market shares of the balance of and income from foreign guarantee business increased significantly. Effective progress was made in our overseas expansion strategies with the official opening of our representative office in Sydney, Australia in late November and application to open a branch in Ho Chi Minh City, Vietnam being processed by the State Bank of Vietnam.

President's Report

Expanding operating scale of financial market business. The operating scale of treasury operations was further expanded in 2007 and the yields on investments in debt securities were higher than in the previous year. Income from customer-driven RMB and foreign exchange transactions increased rapidly and our market share rose steadily. The volume of customer-driven purchases and sales of foreign exchange and foreign exchange trading grew by 65% to US$199.7 billion, while the volume of customer-driven foreign exchange derivatives business rose by 25% to US$11.1 billion.

New advancements in pilot comprehensive operations. Investment banking raised RMB115.4 billion for our customers through different means including underwriting of commercial bills, wealth management product development and asset securitisation. During the year, 242 batches of wealth management products were issued, with an amount of RMB135.05 billion. CCB Principal Asset Management Co., Ltd. experienced rapid business development with the assets under management reaching RMB52.7 billion at the end of 2007 and recorded a net profit of RMB249 million for the year. In December 2007, the financial leasing company jointly promoted and established by the Bank and Bank of America was officially incorporated. This company is currently the largest domestic financial leasing company in terms of registered capital.

- ### Customer service greatly improved

The Bank is committed to providing better services for our customers. In 2007, we continued to enhance customer experience and customer satisfaction by making efforts to improve our service mode.

Branch transformation has been highly effective. In 2007, the Bank rolled out retail branch transformation, one of the major strategic collaboration projects with Bank of America, across the Bank with a view to providing standard sales modes for branches and achieving service standardisation and consistent customer experience. By the end of the year, 5,266 retail branches had undergone functional transformation across the Bank, accounting for 39.16% of the total number of retail branches. Daily average sales volume at transformed branches was 2.15 times of that before transformation. Work efficiency improved by 30–40% and waiting time dropped by 29%.

Branch expansion has carried forward at full speed. During 2007, we implemented 2,865 overall renovation projects for our branches and set up 741 new personal finance centres and 74 new wealth management centres to provide dedicated services for high net-worth customers. At the end of 2007, the number of ATMs installed and in operation increased by 4,367 over that at the end of 2006 to a total of 23,857 and we had 2,729 self-service banking centres in operation, an increase of 1,083 over that at the end of 2006.

Electronic banking products system continued to strengthen. Since electronic banking is an important part of our strategic transformation and overall competitiveness, continuous improvements were seen in electronic banking product features with our service capability greatly enhanced. At the end of 2007, we had 70.70 million electronic banking customers, an increase of 27.41 million over 2006. The transaction volume rose by 290.81% over that of 2006 to RMB119.94 trillion.

- ### Smooth progress in risk management and other infrastructures

The Bank has been pushing forward infrastructure development in areas such as overall risk management, business processes improvement, information technology (IT) project development and human resources management reform to strengthen our development potential and ensure our sustainable and healthy business development.

An overall risk management framework has been preliminarily set up with further defined vertical reporting lines to ensure smooth transmission of the risk management policies. The Bank was the first among domestic peers to apply credit limit control by industry to mitigate industry concentration risk. Economic capital measures were adopted to adjust and optimise customers, products and regional structures, and a centralised off-site monitoring system for operational risk management at front desk operations was built with tier-one branches as the main reporting bodies for carrying out fully centralised post-auditing for accounting affairs and reinforcing the risk control mechanism contributed by all members of the "three defense lines" comprising the front, middle and back office functions.

We continued to actively revamp our human resources management by pursuing further improvement and innovation in the remuneration management system, thereby increasing the cohesion of employees. A total of 312 business processes were improved across all our business lines and branches to fully promote our customer-focused corporate culture. Greater efforts were made to achieve IT application integration, data integration and resources consolidation while IT support to product innovation, risk management and business processes optimisation was further strengthened.

- Successful strategic cooperation

The Bank has been making progressive moves since 2005 for comprehensive cooperation in our key business areas with the strategic investors and has achieved remarkable results in this regard.

In 2007, the Bank set up and implemented a total of 22 strategic assistance projects covering retail and corporate banking, risk management, electronic banking, information technology, human resources and operating management and set up 32 experience sharing projects with Bank of America. Our customers could experience obvious improvements through the full implementation of retail branch transformation and upgraded services of personal loan centre projects. The "Voice of the Customer" project has been extensively used in product innovation, channel building and process improvement with operating management measures being better aligned with customer needs. The implementation of scoring cards for mortgage lending and credit cards provided the Bank with a tool for automatic approval of loan and credit card applications by the information system. The Bank also made use of this tool to proactively adjust the credit limits of credit card customers and set up an instant limit adjustment process. The change management process jointly developed by both parties provided the Bank with an effective management tool for sustained process improvement.

The Bank set up a total of 14 assistance projects with Fullerton Financial Holdings Pte. Ltd., which provided relevant training to the Bank in major areas covering small and medium-sized enterprise financial services, wealth management, treasury transactions, market risk management, implementation of the new Basel Capital Accord, information disclosure of listed companies, and corporate governance.

Outlook for 2008

In 2008, fundamental conditions of the global economy will remain steady on the whole. However, the continuous volatility in financial markets and rising commodities and asset prices will add uncertainties to future economic growth. China's domestic economy is expected to maintain steady and relatively rapid growth. With signs of overheating in economic growth and increasing inflationary pressure, the Government will continue to strengthen and improve its macro-adjustment measures. Furthermore, we also anticipate more intense competition from foreign banks as well as domestic rivals. Meanwhile, there are still numerous beneficial factors in the operating environment including the unified income tax system for both domestic and foreign enterprises, business opportunities generated from the upcoming Olympic Games as well as the further strengthening of our customer base and

President's Report

further improvement in distribution channels. Faced with the more rigorous situation with new challenges and new opportunities, we will take proactive steps to capitalise on the economic and financial trends by making active adjustment to our operating strategies and striving for better operating management thereby realising our annual business targets.

- **Focus on major aspects to achieve steady business development**. We will maintain a steady pace of credit extension, adjust the structure for our credit business through credit limit controls by industry and improve our product-pricing capabilities. We will strengthen our proactive liability management, fine-tune our liquidity management and use our funds more effectively. Sales and marketing of foreign currency business and new product development will be strengthened to satisfy customer needs for foreign exchange businesses. We will actively pursue steady progress in comprehensive operations to satisfy our customers' diversified needs for financial services while improving the Bank's overall profitability.

- **Continue to push forward business transformation and maintain development momentum of intermediary businesses**. We will further refine product segmentation management for intermediary businesses, and improve the performance appraisal methods and incentive and disciplinary mechanism. We will strengthen our efforts in business and product innovation to create greater brand edges for the Bank's intermediary businesses. Strategic businesses such as bancassurance cooperation, credit cards, financial markets and electronic banking will be developed vigorously to lay a solid foundation for the sustainable and rapid development of intermediary businesses.

- **Continue to strengthen internal control and infrastructure with an aim to building a long-term mechanism for sound operation**. We will keep close track of domestic and overseas economic and financial trends, monitor new potential risks, stress the development and application of advanced risk measurement tools, techniques and methods, and actively respond to various business risks. We will continue to push forward the development of operational management infrastructure, and capitalise on strategic cooperation projects to drive business transformation and improve management processes, with a view to enhancing the Bank's sustainable development capabilities.

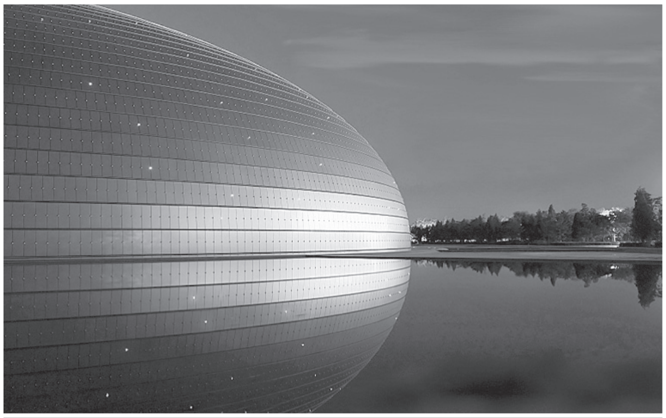
In the year ahead, I firmly believe that with the support of the Board, our staff and our customers as well as the community, we will continue to make solid progress and achieve better results in return for your kindness.

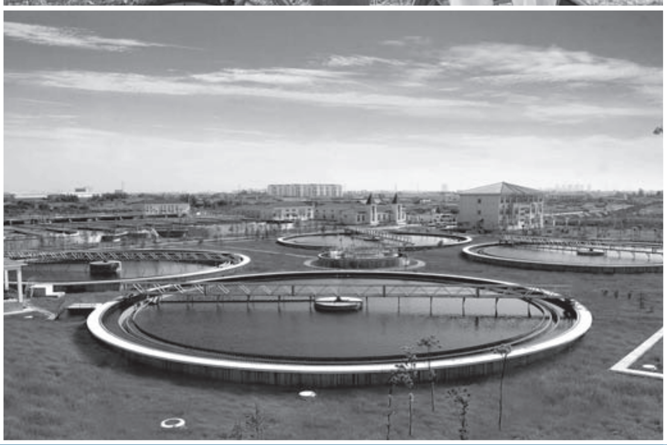
Zhang Jianguo
Vice chairman, executive director and president

11 April 2008

Xie Duyang
Chairman of the board of supervisors

Management Discussion and Analysis





Financial Review

In 2007 China's economy grew steadily and rapidly. Industrial production growth accelerated. Consumer demand was strong. Household income, corporate profits, and fiscal revenue all increased substantially. Compared with the previous year, GDP rose by 11.4%, and CPI rose by 4.8%.

China's financial industry performed in a sound manner. At the end of 2007, the outstanding broad money M2 increased by 16.7%, while the narrow money M1 rose by 21.0% compared to the previous year. Total deposits with financial institutions increased by 15.2%, while total loans made by financial institutions increased by 16.4% over the previous year. Trading in the money market was active, and market interest rates rose with fluctuations. The issuance of debt securities was brisk with yield rates rising steadily in the bond market. Transactions and financing amount in the stock market hit record highs, and the fund market developed at a fast pace. The appreciation of RMB was accelerated and the RMB appreciated by 6.9% cumulatively against the US dollar in 2007. The scale of innovative products in the foreign exchange market expanded steadily.

While the domestic economy is growing rapidly, problems such as rapid investment growth, excessive liquidity and large trade surplus have not been thoroughly resolved. Meanwhile, the inflationary pressure built up. In light of the situation, the Government implemented a series of macro-adjustment measures. The monetary policy stance gradually shifted from "a sound policy" to "a tight policy". With an aim to absorbing the liquidity in the banking system and containing the growth of money and credit, the PBC raised the benchmark deposit and lending rates for six times, raised the RMB reserve requirement ratios for ten times and absorbed funds of RMB800 billion through open market operations.

Faced with the new market environment and the macro-adjustment policies, the Group actively sought operational transformation and structural adjustment while strengthening risk control by steadily pushing forward its corporate banking business, accelerating the development of retail banking business and intensively expanding its intermediary businesses, with focus on supporting the development of strategic products and key customers. The Bank also actively promoted product innovation, improved the methods and quality of its service, and strengthened the collaboration between its domestic and overseas branches.

In 2007, the balance sheet of the Group had a steady growth, with income structure continuously improved and operational efficiency gradually raised.

- The Group achieved an operating income of RMB220,717 million, an increase of 45.60% over the previous year. Due to business expansion and the rise in net interest spread, net interest income increased by 37.34% over 2006, amounting to RMB192,775 million. Net fee and commission income increased by 130.73% over 2006, amounting to RMB31,313 million. The ratio of net fee and commission income to operating income increased to 14.19%.

- The Group achieved a profit before tax of RMB100,816 million with an increase of 53.41%, and a net profit of RMB69,142 million with an increase of 49.27% over the previous year. The growth rate of net profit was lower than that of profit before tax, mainly due to the adjustment in the corporate income tax rate for domestic enterprises effective from 2008, which resulted in a change in the deferred tax items, leading to an increase of RMB1,512 million in income tax expense.

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- Return on average assets and return on average equity were 1.15% and 19.50% respectively, an increase of 0.23 percentage points and 4.50 percentage points over the previous year.

- Basic and diluted earnings per share were RMB0.30, a rise of RMB0.09 over the previous year.

- Total assets amounted to RMB6,598,177 million, an increase of 21.10% compared with the previous year. Gross loans and advances to customers increased by 13.87% over the previous year to RMB3,272,157 million, of which the increase in infrastructure loans and personal loans amounted to RMB273,394 million, representing 68.60% of the total loan increment for 2007. The quality of loan assets continued to improve. The non-performing loan ratio was 2.60%, 0.69 percentage points lower than that of 2006.

- Total liabilities amounted to RMB6,175,896 million, an increase of 20.66% compared with the previous year. The growth rate of deposits from customers was 13.11% whereas that for amounts due to banks and non-bank financial institutions was 148.42%.

Income Statement Analysis

In 2007, the Group attained profit before tax of RMB100,816 million, an increase of RMB35,099 million over the previous year. The increase was mainly attributable to rises in net interest income and net fee and commission income, which together brought about a 45.60% increase in operating income, outweighing the 38.50% increase in operating expenses and the 43.62% increase in provisions for impairment losses. Net profit amounted to RMB69,142 million, an increase of RMB22,823 million over the previous year. Effective from 1 January 2008, the corporate income tax rate for domestic enterprises was reduced from 33% to 25%, so the Group adjusted the brought forward deferred tax and recognised deferred tax items of the current period based on the income tax rate of 25%, resulting in an increase of RMB1,512 million in income tax expense and a lower growth rate of net profit than that of profit before tax.

Net Interest Income

In 2007, the net interest income of the Group amounted to RMB192,775 million, an increase of RMB52,407 million or 37.34% over the previous year.

The table below sets forth the Group's average balance of assets and liabilities, related interest income or interest expense, and average yield or average cost during the respective periods.

(In millions of RMB, except percentages)	Year ended 31 December 2007 Average balance	Year ended 31 December 2007 Interest income/ expense	Year ended 31 December 2007 Average yield/cost (%)	Year ended 31 December 2006 Average balance	Year ended 31 December 2006 Interest income/ expense	Year ended 31 December 2006 Average yield/cost (%)
Assets						
Gross loans and advances to customers	3,140,195	198,280	6.31	2,753,100	153,456	5.57
Investment in debt securities[1]	2,112,620	69,610	3.29	1,714,993	50,139	2.92
Balances with central banks	675,076	12,036	1.78	428,701	7,276	1.70
Amounts due from banks and non-bank financial institutions	137,003	4,897	3.57	129,819	4,318	3.33
Total interest-earning assets	6,064,894	284,823	4.70	5,026,613	215,189	4.28
Total allowances for impairment losses	(86,886)			(71,551)		
Non-interest-earning assets	186,750			153,746		
Total assets	6,164,758	284,823		5,108,808	215,189	
Liabilities						
Deposits from customers	5,018,089	79,017	1.57	4,424,663	67,811	1.53
Amounts due to banks and non-bank financial institutions	581,520	10,572	1.82	220,636	4,877	2.21
Subordinated bonds issued	39,929	1,942	4.86	39,912	1,883	4.72
Other interest-bearing liabilities	10,326	517	5.01	6,050	250	4.13
Total interest-bearing liabilities	5,649,864	92,048	1.63	4,691,261	74,821	1.59
Non-interest-bearing liabilities	117,144			93,545		
Total liabilities	5,767,008	92,048		4,784,806	74,821	
Net interest income		192,775			140,368	
Net interest spread			3.07			2.69
Net interest margin			3.18			2.79

1. *Consists of trading debt securities and investment debt securities. Investment debt securities refer to available-for-sale debt securities, held-to-maturity debt securities and receivables that are included in investment securities.*

Management Discussion and Analysis

The average yield on various interest-earning assets increased over the previous year. After being partly offset by the reduced proportion of the average balance of loans and advances to customers in total interest-earning assets, the overall average yield on interest-earning assets increased by 42 basis points to 4.70%.

The average cost of deposits from customers and subordinated bonds issued increased over the previous year, after being partly offset by the decrease in the average cost of amounts due to banks and non-bank financial institutions and the increase in the proportion of its average balance in total interest-bearing liabilities over the previous year, the overall average cost of interest-bearing liabilities increased by four basis points to 1.63%.

The increase in average yield on interest-earning assets was greater than that in average cost of interest-bearing liabilities, resulting in the increase in net interest spread of 38 basis points to 3.07% over the previous year. Since the increase in net interest income of 37.34% was greater than the increase in total interest-earning assets of 20.66%, the net interest margin increased by 39 basis points to 3.18%.

The table below sets forth the effect of the movement of the average balances of the Group's assets and liabilities and movement of average interest rates on the changes in interest income or expense compared with the previous year.

(In millions of RMB)	Volume factor[1]	Interest rate factor	Change in interest income/ expense
Assets			
Gross loans and advances to customers	24,451	20,373	44,824
Investment in debt securities	13,126	6,345	19,471
Balances with central banks	4,417	343	4,760
Amounts due from banks and non-bank financial institutions	267	312	579
Change in interest income	42,261	27,373	69,634
Liabilities			
Deposits from customers	9,436	1,770	11,206
Amounts due to banks and non-bank financial institutions	6,555	(860)	5,695
Subordinated bonds issued	3	56	59
Other interest-bearing liabilities	224	43	267
Change in interest expenses	16,218	1,009	17,227
Changes in net interest income	26,043	26,364	52,407

1. *Changes caused by both average balances and average interest rates have been allocated to change in interest income or expense due to volume factor.*

Net interest income increased by RMB52,407 million over the previous year, in which RMB26,043 million was due to the movement of the average balances of various assets and liabilities, and RMB26,364 million was due to the movement of average yields or costs, i.e. the contributions of volume and interest rate factors to the increase in net interest income were 49.69% and 50.31% respectively.

Interest income

In 2007, the interest income of the Group amounted to RMB284,823 million, an increase of RMB69,634 million or 32.36% over the previous year, mainly due to the rise in the average balances and average yields of loans and advances to customers as well as investment in debt securities.

Interest income from loans and advances to customers

The table below sets forth the Group's average balance, the interest income and average yield on each component of loans and advances to customers.

	Year ended 31 December 2007			Year ended 31 December 2006		
(In millions of RMB, except percentages)	**Average balance**	**Interest income**	**Average yield (%)**	Average balance	Interest income	Average yield (%)
Corporate loans	**2,233,272**	**147,232**	**6.59**	1,964,443	116,047	5.91
Personal loans	**673,726**	**40,793**	**6.05**	517,088	29,403	5.69
Discounted bills	**147,505**	**5,403**	**3.66**	227,537	5,456	2.40
Operations outside Mainland China	**85,692**	**4,852**	**5.66**	44,032	2,550	5.79
Gross loans and advances to customers	**3,140,195**	**198,280**	**6.31**	2,753,100	153,456	5.57

Interest income from loans and advances to customers amounted to RMB198,280 million, an increase of RMB44,824 million or 29.21%, mainly due to the steady expansion of various lending businesses other than discounted bills and the increase in the average yield on domestic loans over the previous year. The average yield on loans and advances to customers increased by 0.74 percentage points compared with 2006, mainly because with the continuous increase in the benchmark lending rates set by the PBC and enhanced price negotiation ability of the Group, the average yields of its corporate loans, personal loans and discounted bills rose by 68 basis points, 36 basis points and 126 basis points respectively over the previous year, leading to the increase in the average yield of loans and advances to customers. Meanwhile, the decrease in the proportion of discounted bills and growth in the proportion of personal loans over the previous year also drove up the average yield of loans and advances to customers.

Management Discussion and Analysis

Interest income from investment in debt securities

The interest income from investment in debt securities amounted to RMB69,610 million, an increase of RMB19,471 million or 38.83% over the previous year, of which interest income from investment debt securities was RMB69,160 million, an increase of 38.29% over 2006 whereas interest income from trading debt securities was RMB450 million, an increase of 254.33% over 2006. The growth in the interest income from investment in debt securities was mainly due to an increase of 23.19% in its average balance and an increase of 37 basis points in the average yield of investment in debt securities to 3.29% compared with 2006. The growth in average yield of investment in debt securities was mainly due to a rise in market rates, and an improved mix of debt investment maturities, bond issuers and bond product types as a result of more sophisticated management of the investment portfolio by the Group.

Interest income from balances with central banks

Interest income from balances with central banks was RMB12,036 million, an increase of RMB4,760 million or 65.42%, mainly because the PBC lifted the statutory deposit reserve ratio for ten times in 2007, with a hike from 9% to 14.5%, which led to an increase of 51.74% in the average balance of the statutory deposit reserve over 2006. Meanwhile, the Group fully utilised short-term funds, and the balances under reverse repo agreements increased significantly over the previous year.

Interest income from amounts due from banks and non-bank financial institutions

Interest income from amounts due from banks and non-bank financial institutions was RMB4,897 million, an increase of RMB579 million or 13.41%, mainly due to the increase of 5.53% in the average balance of amounts due from banks and non-bank financial institutions, and the increase in its average yield as a result of the rising market interest rates over the previous year.

Interest expense

In 2007, interest expense of the Group was RMB92,048 million, an increase of RMB17,227 million or 23.02%, mainly due to increases in the average balances in deposits from customers and amounts due to banks and non-bank financial institutions and an increase in the average cost of deposits from customers.

Interest expense on deposits from customers

The table below sets forth the Group's average balance, the interest expense and average cost on each component of deposits from customers.

(In millions of RMB, except percentages)	Year ended 31 December 2007 Average balance	Year ended 31 December 2007 Interest expense	Year ended 31 December 2007 Average cost (%)	Year ended 31 December 2006 Average balance	Year ended 31 December 2006 Interest expense	Year ended 31 December 2006 Average cost (%)
Corporate deposits	**2,670,009**	**37,681**	**1.41**	2,295,178	29,259	1.27
Time deposits	**780,086**	**18,857**	**2.42**	715,280	14,890	2.08
Demand deposits	**1,889,923**	**18,824**	**1.00**	1,579,898	14,369	0.91
Personal deposits	**2,290,520**	**39,164**	**1.71**	2,110,579	37,771	1.79
Time deposits	**1,367,314**	**31,850**	**2.33**	1,340,987	32,091	2.39
Demand deposits	**923,206**	**7,314**	**0.79**	769,592	5,680	0.74
Operations outside Mainland China	**57,560**	**2,172**	**3.77**	18,906	781	4.13
Total deposits from customers	**5,018,089**	**79,017**	**1.57**	4,424,663	67,811	1.53

Interest expense on deposits from customers was RMB79,017 million, an increase of RMB11,206 million or 16.53%, mainly due to an increase in the average balance of deposits from customers and a slight increase in the average cost of deposits from customers. In 2007, the PBC lifted the benchmark rates of deposits for six times and the average cost of deposits from customers increased accordingly. However, as a result of the following changes in the deposit structure, the average cost of deposits from customers only increased by four basis points over the previous year: due to the persistently active domestic capital market in 2007, time deposits were replaced by demand deposits, and the proportion of the average balance of domestic demand deposits in deposits from customers increased by 2.96 percentage points over 2006, diluting the increase in the interest expense of deposits; also, as the average duration of time deposits was shortened and some customers withdrew their deposits before maturity to invest in the capital market, the increase in the interest expense arising from higher interest rates was partly offset.

Interest expense on amounts due to banks and non-bank financial institutions

Interest expense on amounts due to banks and non-bank financial institutions was RMB10,572 million, representing an increase of RMB5,695 million or 116.77% over the previous year, mainly because with the good relationship between the Group and its institutional customers and its quality services in the active capital market, the average balance of amounts due to banks and non-bank financial institutions increased 163.57% over 2006. The average cost of the amounts due to banks and non-bank financial institutions decreased by 39 basis points over the previous year, mainly because the Group strengthened its proactive management of its liabilities, the proportion of demand deposits in amounts due to banks and non-bank financial institutions rose to over 95%; and as a result of the declining London Inter-Bank Offered Rate (LIBOR), the average cost of foreign currency deposits from banks and non-bank financial institutions dropped by 148 basis points over 2006.

Management Discussion and Analysis

Net Fee and Commission Income

(In millions of RMB)	Year ended 31 December 2007	Year ended 31 December 2006
Fee and commission income	**32,731**	14,627
Fees for agency services	**16,439**	4,269
Bank card fees	**5,254**	3,836
Commission on trust and fiduciary activities	**3,267**	1,276
Settlement and clearing fees	**3,261**	2,768
Consultancy and advisory fees	**2,792**	1,466
Guarantee and credit commitment fees	**1,063**	636
Others	**655**	376
Fee and commission expenses	**1,418**	1,056
Net fee and commission income	**31,313**	13,571

The Group actively implements strategic transformation, strengthens marketing and product innovations, enhances incentive and disciplinary mechanism and continues to promote the development of fee-based businesses. In 2007, net fee and commission income amounted to RMB31,313 million, an increase of RMB17,742 million or 130.73% over the previous year. The ratio of net fee and commission income to operating income was 14.19%, an increase of 5.24 percentage points over the previous year.

Agency fees increased by RMB12,170 million or 285.08% over the previous year mainly because the Group capitalised on the opportunities in the active financial market, actively commenced sales and marketing, and the fee income from securities, foreign currency trading and insurance services increased by 3.06 times to RMB15,985 million, in which the fees on fund agency services increased by RMB10,735 million, representing 59.30% of the increase in total fees and commission income.

Bank card business maintained a steady growth. Bank card fees increased by 36.97% to RMB5,254 million, in which credit card fees increased by 154.92% to RMB698 million over the previous year and debit card fees increased by 58.13% to RMB3,723 million over the previous year, mainly due to the continuous enhancement of the products and function of bank card, which led to an increase in the number of credit cards and debit cards issued and a substantial increase in cardholder spending.

Commission on trust and fiduciary activities increased by RMB1,991 million or 156.03% over 2006, mainly as a result of an increase of 275.19% in the total amount of securities investment funds under custody, which drove the income from the respective custodial services up by RMB1,245 million.

Consultancy and advisory fees were RMB2,792 million, an increase of RMB1,326 million or 90.45% over the previous year, mainly due to the Group's intensive efforts in the development of investment banking business which led to the fast growth in financial advisory services and wealth management products, of which financial advisory business grew by 128.38% to RMB1,996 million over the previous year.

Guarantee and credit commitment fees increased by RMB427 million or 67.14% over the previous year, mainly due to the fast growth of fees from acceptances, guarantees and credit commitment business.

Other Net Operating Loss

In 2007, other operating loss of the Group was RMB6,209 million, in which net exchange loss arising from the appreciation of RMB was RMB7,820 million.

The net gains from the disposal of properties and equipments were RMB174 million and the net gains from the disposal of repossessed assets were RMB180 million. Other gains were RMB1,257 million.

The following table sets forth the composition of foreign exchange exposure as at 31 December 2007 and profit or loss arising from foreign exchange exposure in 2007:

(In millions of RMB)	As at 31 December 2007 Composition of foreign exchange exposures[1] On balance sheet	Off-balance sheet	Total	Year ended 31 December 2007 Foreign exchange gain/loss
Capital injection of US$22.50 billion	—	—	—	(1,533)
Foreign currency-denominated assets and derivative financial instruments[2]	287,659	(240,211)	47,448	(7,215)
Others	10,478	—	10,478	928
Net foreign exchange exposure[3]	298,137	(240,211)	57,926	
Net foreign exchange loss				(7,820)

1. *Foreign exchange exposures are expressed in RMB. Positive figures represent long positions and negative figures represent short positions.*
2. *The financial derivative instruments were currency derivative instruments.*
3. *The net foreign exchange exposures represent the net long position shown in "Currency Concentrations" of the unaudited supplementary financial information.*

Net foreign exchange loss related to capital injection

According to an agreement the Bank entered into with Huijin on 12 January 2005, the Bank purchased an option from Huijin under which the Bank might exchange a maximum of US$22.50 billion into RMB with Huijin at a predetermined exchange rate of US$1: RMB8.2769, and the option could be exercised in twelve equal monthly instalments in 2007. As of 31 December 2007, the Bank had exercised the total amount of US$22.50 billion.

In 2007, the net foreign exchange loss arising from the capital injection of US$22.50 billion was RMB1,533 million. In this amount, the foreign exchange loss arising from the US$22.50 billion assets related to which the option had been exercised was RMB4,038 million from 1 January 2007 to the date of exercise of the option, and the net gain from the exercise of the option was RMB2,505 million.

Management Discussion and Analysis

Foreign currency-denominated assets and derivative financial instruments

The Group actively developed foreign exchange business to meet the customers' needs and enhance the overall yield. In order to minimise the risk arising from foreign exchange, the Group also entered into relevant financial derivatives transactions. In 2007, the net loss arising from foreign currency-denominated assets was RMB7,215 million after deducting the impact of derivative financial instruments for hedging purpose.

Other net exchange gain

In 2007, the Group's customer-driven exchange trading and foreign exchange exposure recorded a net gain of RMB928 million.

Operating Expenses

(In millions of RMB, except percentages)	Year ended 31 December 2007	Year ended 31 December 2006
Staff costs	50,101	32,285
Premises and equipment expenses	13,217	11,133
Business tax and surcharge	12,337	8,977
Others	16,672	14,267
Total operating expenses	92,327	66,662
Cost-to-income ratio	41.83%	43.97%

In 2007, total operating expenses were RMB92,327 million, an increase of RMB25,665 million or 38.50%. The Group continued to strengthen cost control, and cost efficiency continued to improve. Ratio of operating expenses to operating income further decreased to 41.83%.

Staff costs increased by 55.18% over the previous year, mainly as a result of the increase in staff salaries in line with the increase in average salary level across the board and improved operating results, accruals for the costs arising from the early retired staff, and accruals for the employee stock incentive plan. Pursuant to relevant laws and regulations, the Group made an accrual of RMB8,998 million in 2007, being the present value of the benefits expected to be paid to early retired staff from 1 January 2008 to their statutory retirement date. Excluding this, staff costs should have increased by 27.31% over the previous year, lower than the growth of operating income.

Premises and equipment expenses increased by 18.72% over 2006, mainly due to inflation, increases in rents, property management fees and utility expenses over the previous year.

Business tax and surcharge increased by RMB3,360 million or 37.43% over the previous year, alongside with the increase in operating income.

Other operating expenses increased by 16.86% over the previous year, mainly because the Group strengthened branch transformation and marketing initiatives, which led to increases in advertising and business development expenses compared to 2006.

Provisions for Impairment Losses

(In millions of RMB, except percentages)	**Year ended 31 December 2007**	Year ended 31 December 2006
Loans and advances to customers	**20,106**	18,997
Investments	**7,075**	272
— available-for-sale financial assets	**2,113**	213
— held-to-maturity debt securities	**4,853**	59
— receivables in debt securities investment	**109**	—
Property and equipment	**34**	42
Others[1]	**380**	(97)
Total provisions for impairment losses	**27,595**	19,214

1. Consist of provisions for impairment losses on intangible assets and other assets.

In 2007, the Group's provisions for impairment losses were RMB27,595 million, an increase of RMB8,381 million or 43.62% over the previous year.

Management Discussion and Analysis

Provisions for impairment losses on loans and advances to customers

(In millions of RMB)	Year ended 31 December 2007 Allowances for loans and advances which are collectively assessed	Allowances for impaired loans and advances which are collectively assessed	Allowances for impaired loans and advances which are individually assessed	Total
As at 1 January	22,133	13,930	41,570	77,633
Write-offs	–	(620)	(5,825)	(6,445)
Transfers out	–	(31)	(490)	(521)
Recoveries	–	–	94	94
Charge for the year				
— reclassification[1]	–	(6,750)	6,750	–
— new impairment allowances charged to the income statement	13,652	–	18,305	31,957
— impairment allowances released to the income statement	–	(1,601)	(10,250)	(11,851)
Unwinding of discount	–	–	(1,939)	(1,939)
As at 31 December	35,785	4,928	48,215	88,928

1. *As at and prior to 31 December 2006, the impairment allowance for corporate loans and advances graded as substandard was collectively assessed. With effect from 1 January 2007, the Group commenced to individually assess the impairment allowance for corporate loans and advances graded as substandard. Consequently, a reclassification of the opening balance of the collective impairment allowance of the respective loans and advances has been made to the individual impairment allowances.*

In 2007, the provisions made for impairment losses on loans and advances were RMB20,106 million, an increase of RMB1,109 million over the previous year. As at 31 December 2007, the allowances for impairment losses on loans and advances to customers were RMB88,928 million, an increase of RMB11,295 million over the previous year. The ratio of allowances for impairment losses to total loans was 2.72%, an increase of two basis points over the previous year. The ratio of allowances for impairment losses to non-performing loans was 104.41%, an increase of 22.17 percentage points over the previous year.

Provisions for impairment losses on investments

Provisions for impairment losses on investments were RMB7,075 million, in which the provision for impairment losses on available-for-sale financial assets was RMB2,113 million and the provisions for impairment losses on held-to-maturity debt securities were RMB4,853 million. The increase of RMB6,803 million in the provisions for impairment losses on investments was mainly due to the provision for impairment losses on foreign currency investment portfolios of US$899 million, equivalent to RMB6,566 million. In this amount, the provisions for impairment losses on US sub-prime mortgage loan backed securities were US$630 million, equivalent to RMB4,602 million. Please see "Investments — debt instruments" for details in this annual report.

Provisions for impairment losses on other assets

In 2007, provisions for impairment losses on other assets of RMB380 million were made, in which the provisions for impairment losses on repossessed assets were RMB273 million. As at 31 December 2007, the total repossessed assets and the related allowances for its impairment losses were RMB3,326 million and RMB1,710 million respectively.

Income Tax

In 2007, income tax of the Group was RMB31,674 million, an increase of RMB12,276 million over the previous year. Apart from the increase in profit before tax, due to the implementation of new enterprise income tax rate effective from 2008, the Group adjusted the brought forward deferred tax items and recognised the newly derived deferred tax items based on the lowered 25% income tax rate, resulting in an increase of RMB1,512 million in current income tax. The Group's effective income tax rate for 2007 was 31.42% which was lower than the statutory tax rate of 33%, mainly because the interest income arising from PRC government bonds was exempt from PRC income tax in accordance with the tax law.

Balance sheet analysis

Assets

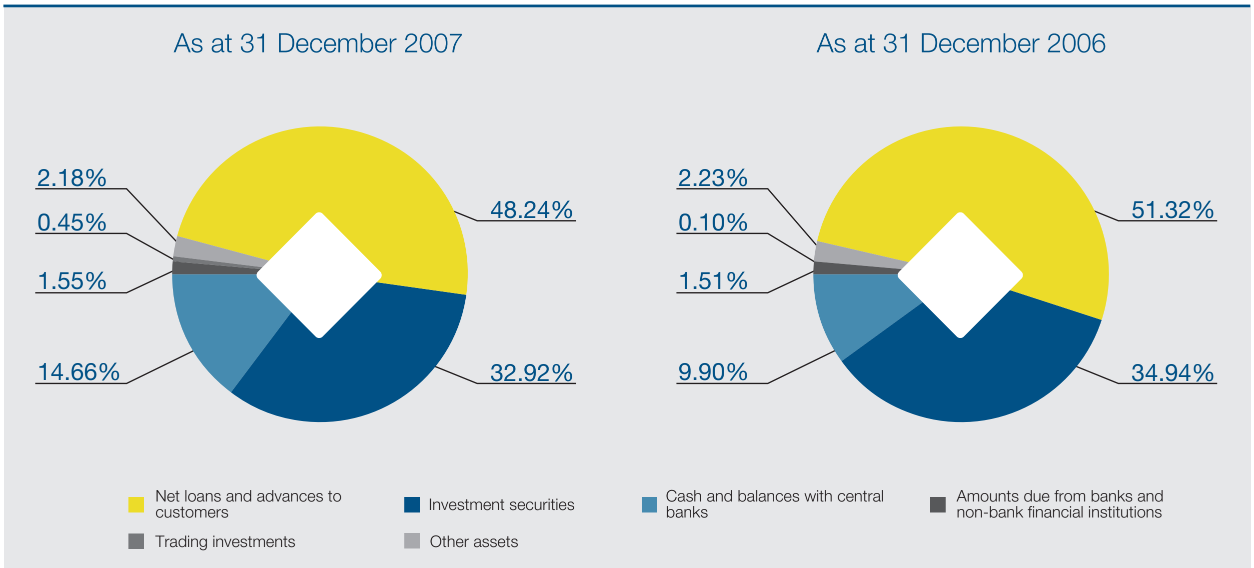
The table below sets forth the composition of the Group's total assets as at the dates indicated.

	As at 31 December 2007		As at 31 December 2006	
(In millions of RMB, except percentages)	**Amount**	**% of total**	Amount	% of total
Gross loans and advances to customers	**3,272,157**		2,873,609	
Allowances for impairment losses on loans	**(88,928)**		(77,633)	
Net loans and advances to customers	**3,183,229**	**48.24**	2,795,976	51.32
Investment securities	**2,171,991**	**32.92**	1,903,776	34.94
Cash and balances with central banks	**967,374**	**14.66**	539,673	9.90
Amounts due from banks and non-bank financial institutions	**102,393**	**1.55**	82,185	1.51
Trading investments	**29,819**	**0.45**	5,616	0.10
Other assets[1]	**143,371**	**2.18**	121,285	2.23
Total assets	**6,598,177**	**100.00**	5,448,511	100.00

1. *Consist of positive fair value of derivatives, interests in associates, property and equipment, goodwill, deferred tax assets and other assets.*

Management Discussion and Analysis

Composition of total assets



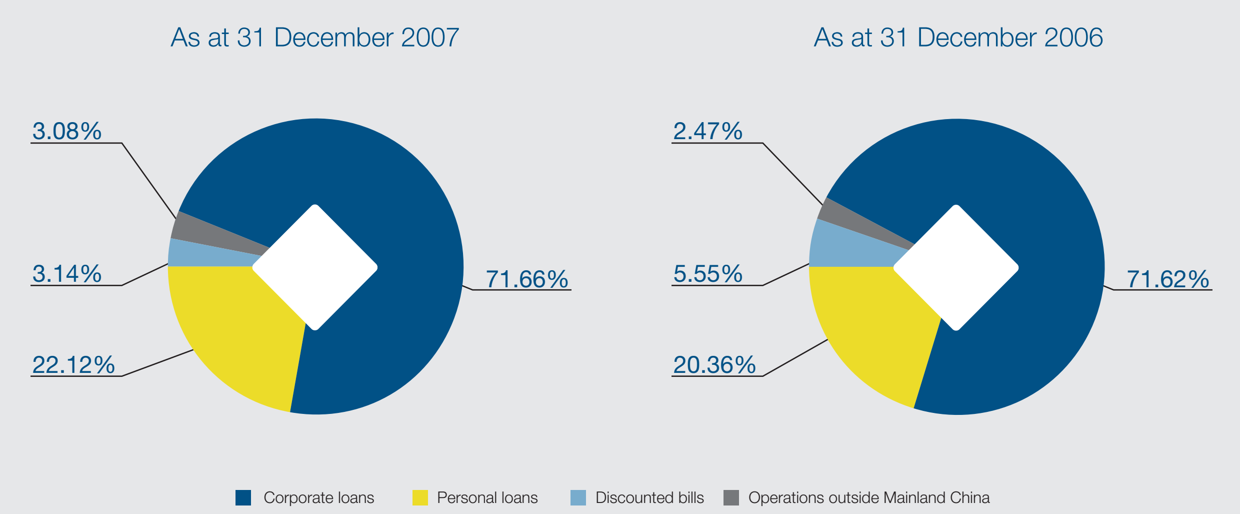
As at 31 December 2007, the Group's total assets amounted to RMB6,598,177 million, representing an increase of RMB1,149,666 million or 21.10% compared with 2006. Among these, gross loans and advances to customers and investment securities increased by 13.87% and 14.09% respectively. Cash and balance with central banks increased by RMB427,701 million or 79.25% compared with 2006, mainly because the PBC lifted the statutory deposit reserve ratio for ten times in 2007, which led to the increase in the balance of statutory deposit reserve; the Bank also expanded investment in financial assets under reverse repo agreement with an aim to better utilise short-term funds. Amount due from banks and non-bank financial institutions increased by RMB20,208 million or 24.59% compared with 2006, mainly attributable to the rise in money market placements. As a result of the growth of proprietary trading of debt securities, trading investments increased by RMB24,203 million, or an increase of 4.31 times compared with 2006.

Loans and advances to customers

(In millions of RMB, except percentages)	As at 31 December 2007 Amount	As at 31 December 2007 % of total	As at 31 December 2006 Amount	As at 31 December 2006 % of total
Corporate loans	**2,344,757**	**71.66**	2,057,961	71.62
Short-term loans	**820,908**	**25.09**	743,701	25.88
Medium to long-term loans	**1,523,849**	**46.57**	1,314,260	45.74
Personal loans	**723,805**	**22.12**	585,085	20.36
Residential mortgage loans	**527,888**	**16.13**	428,039	14.90
Personal consumer loans	**66,573**	**2.03**	72,620	2.52
Other loans[1]	**129,344**	**3.96**	84,426	2.94
Discounted bills	**102,826**	**3.14**	159,368	5.55
Operations outside Mainland China	**100,769**	**3.08**	71,195	2.47
Gross loans and advances to customers	**3,272,157**	**100.00**	2,873,609	100.00

1. *Consist of individual commercial property mortgage loans, personal business loans, home equity loans, credit card loans and education loans.*

Composition of loans and advances to customers



Management Discussion and Analysis

As at 31 December 2007, the Group's gross loans and advances to customers were RMB3,272,157 million, an increase of RMB398,548 million or 13.87% compared with 2006. The Group proactively responded to the macro-adjustment measures by adjusting its credit structure, and well met the needs of strategic business growth and demands of key customers.

Corporate loans rose to RMB2,344,757 million with an increase of RMB286,796 million or 13.94% compared with 2006. Among these, infrastructure loans increased by 18.93% to RMB846,130 million, the increase of which accounted for 46.96% of that of corporate loans. Faced with the strong credit demand of customers, the Bank further improved the customer structure of the corporate loans through careful selection of customers and implementation of strict credit access and exit standards. The proportion of customers with internal credit ratings of A and above in corporate loans increased by 5.04 percentage points to 88.61% compared with the end of 2006.

Personal loans amounted to RMB723,805 million, an increase of RMB138,720 million or 23.71% compared with 2006. The proportion of personal loan to gross loans and advances to customers increased by 1.76 percentage points compared with 2006 to 22.12%. Personal residential mortgage loans, which is the priority of the Group's development, increased by RMB99,849 million or 23.33% compared with 2006, maintaining a leading position among domestic peers. Personal consumer loans decreased by RMB6,047 million compared with 2006, mainly because the Group took initiatives to adjust its loan structure in line with changes in the market to support the development of residential mortgage loans business. Other loans increased by RMB44,918 million or 53.20% compared with 2006, mainly due to the rapid growth in home equity loans, personal business loans and credit card loans.

Discounted bills stood at RMB102,826 million as at 31 December 2007, with a decrease of RMB56,542 million compared with 2006. It was mainly due to the Group's strategy to increase asset yields and provide support for strategic business development. The Group took initiatives to scale down bill discounting business, in particular the inter-bank discounting business with lower yields, while managing to satisfy the funding needs with bills of premium customers.

The loans and advances outside Mainland China were RMB100,769 million, an increase of RMB29,574 million compared with 2006. This was mainly because the Group continued to strengthen its support in terms of resources to overseas branches, which developed their markets and approached their customers proactively, leading to rapid growth of lending business.

The table below sets forth the distribution of loans and advances by type of collateral as at the dates indicated.

(In millions of RMB, except percentages)	As at 31 December 2007 Amount	As at 31 December 2007 % of total	As at 31 December 2006 Amount	As at 31 December 2006 % of total
Loans secured by monetary assets	**325,515**	**9.94**	265,074	9.22
Loans secured by tangible, other than monetary assets	**1,453,056**	**44.41**	1,212,165	42.18
Guaranteed loans	**748,904**	**22.89**	681,167	23.71
Unsecured loans	**744,682**	**22.76**	715,203	24.89
Gross loans and advances to customer	**3,272,157**	**100.00**	2,873,609	100.00

The Group continued to strengthen credit risk management, and demanded more borrowers to provide tangible assets to secure their loans. As at 31 December 2007, the balance of loans secured by assets was RMB1,778,571 million, an increase of RMB301,332 million compared with 2006, with its proportion in gross loans and advances to customers up by 2.95 percentage points to 54.35%. The proportions of guaranteed loans and unsecured loans decreased by 0.82 percentage points and 2.13 percentage points respectively compared with 2006.

Investments

The following table sets forth the composition of the Group's investment as at the dates indicated.

(In millions of RMB, except percentages)	As at 31 December 2007 Amount	As at 31 December 2007 % of total	As at 31 December 2006 Amount	As at 31 December 2006 % of total
Debt instruments[1]	**1,613,679**	**73.29**	1,353,418	70.88
Receivables	**551,336**	**25.04**	546,357	28.62
Equity instruments[2]	**36,795**	**1.67**	9,617	0.50
Total investments	**2,201,810**	**100.00**	1,909,392	100.00

1. *Consist of held-to-maturity debt securities, available-for-sale debt securities and debt investments held for trading.*
2. *Consist of equity investments and fund investments.*

Management Discussion and Analysis

In 2007, the total amount of investments of the Group increased by RMB292,418 million, or 15.31%. Investment in debt instruments continued to maintain a relatively fast growth, of which held-to-maturity and available-for-sale debt securities increased by RMB152,322 million and RMB85,962 million, or 14.66% and 27.81% respectively compared with 2006. Receivables were RMB551,336 million, an increase of RMB4,979 million compared with 2006. Investment in equity instruments increased by RMB27,178 million or 282.60% compared with 2006, mainly because of the increase of RMB26,175 million in the fair value of the shares subject to selling restrictions held through debt equity swap. Please see the "Major issues — interests in shares of other listed companies" section for details of shares held through debt equity swap.

Debt instruments

The following table sets forth the composition of the Group's debt instruments by currency as at the dates indicated.

	As at 31 December 2007		As at 31 December 2006	
(In millions of RMB, except percentages)	**Amount**	**% of total**	Amount	% of total
Debt securities investments in local currency	**1,335,229**	**82.74**	1,029,869	76.09
Debt securities investments in foreign currencies	**278,450**	**17.26**	323,549	23.91
Total debt instruments	**1,613,679**	**100.00**	1,353,418	100.00

Debt securities in foreign currencies

As at 31 December 2007, the Group's debt securities investments in foreign currencies were US$38,123 million (equivalent to RMB278,450 million).

As at 31 December 2007, the nominal value of the bonds with US sub-prime mortgage loan backed securities held by the Group was US$1,000 million (equivalent to RMB7,304 million). The carrying amount was US$370 million (equivalent to RMB2,702 million), representing 0.97% of the portfolio of debt securities investment in foreign currencies. Based on the Bloomberg composite rating, the percentages of securities with a rating of AAA, AA and A were 85.95%, 3.93% and 3.15% respectively.

The following table sets forth the composition of the US sub-prime mortgage loan backed securities held by the Group at the end of reporting periods.

(In million of US dollars)	Allowances for impairment losses	Carrying amount[1]
US sub-prime mortgage loan backed securities		
— US sub-prime mortgage debts	171	370
First lien debt securities	114	323
Second lien debt securities	57	47
— Residential mortgage collateralised debt obligations (CDO) related to US sub-prime mortgage debts	459	—
Total	**630**	**370**

1. *Carrying amount after deducting the allowances for impairment losses.*

Taking into account the credit position and the market condition of these securities, as at 31 December 2007, the allowances for impairment losses on the US sub-prime mortgage loan backed securities held by the Group were US$630 million (equivalent to RMB4,602 million), in which allowances for impairment losses of US$171 million were made for US sub-prime mortgage debts (equivalent to RMB1,249 million); allowances for impairment losses of US$459 million were made for the full amount of residential mortgage CDOs related to US sub-prime mortgage debts (equivalent to RMB3,353 million).

As at 31 December 2007, the carrying amount of the Alt-A bonds held by the Group was US$515 million (equivalent to RMB3,762 million), representing 1.35% of the portfolio of debt securities investment in foreign currencies, and 98.38% of the Alt-A bonds had a Bloomberg composite rating of AAA.

As the proportion of the above debt securities held by the Group was relatively small against the total foreign currency denominated debt securities portfolio, the Group believes that the market fluctuation for such debt securities will not have significant effect on earnings. The Group will continue to track market movement and development trend in US.

Liabilities

The following table sets forth the composition of the Group's total liabilities as at the dates indicated.

	As at 31 December 2007		As at 31 December 2006	
(In millions of RMB, except percentages)	**Amount**	**% of total**	Amount	% of total
Deposits from customers	**5,340,316**	**86.47**	4,721,256	92.24
Amounts due to banks and non-bank financial institutions	**606,061**	**9.81**	243,968	4.77
Amounts due to central banks	**50,973**	**0.83**	1,256	0.02
Subordinated bonds issued	**39,928**	**0.65**	39,917	0.78
Other liabilities[1]	**138,618**	**2.24**	111,910	2.19
Total liabilities	**6,175,896**	**100.00**	5,118,307	100.00

1. *Consist of negative fair value of derivatives, certificates of deposits issued, current tax liabilities, deferred tax liabilities and other liabilities and provisions.*

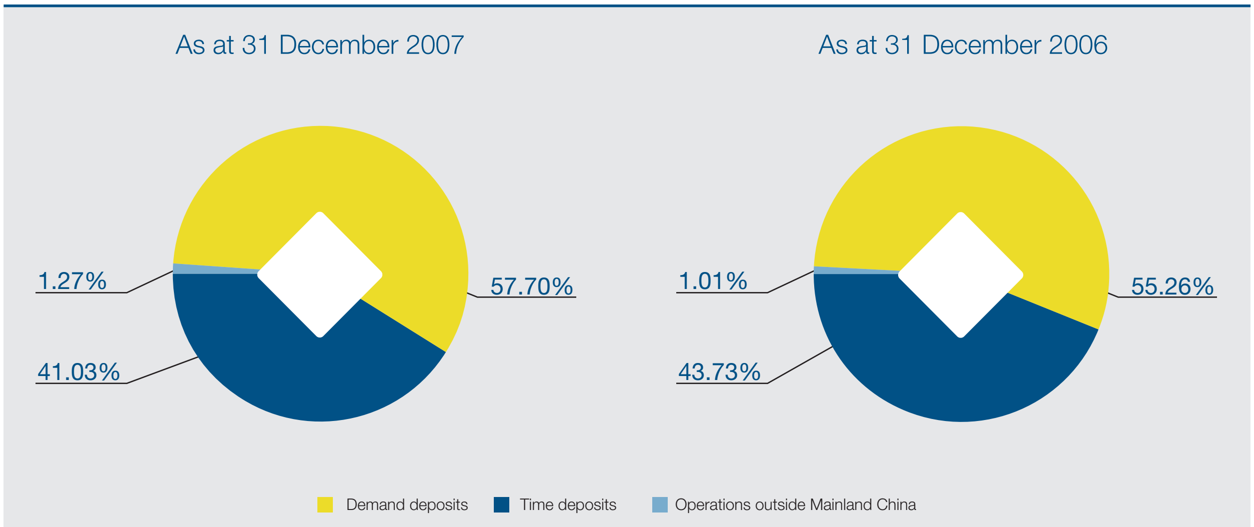
As at 31 December 2007, the Group's total liabilities amounted to RMB6,175,896 million, an increase of RMB1,057,589 million or 20.66% compared with 2006. Deposits from customers remained the Group's primary source of funding. Deposits from customers increased by RMB619,060 million compared with 2006, with the growth rate down to 13.11% compared with 17.85% in 2006. Its proportion in total liabilities decreased by 5.77 percentage points compared with the previous year to 86.47%, mainly because more customers withdrew their deposits before maturity and made investments in the active capital market. In contrast with the slower growth rate of deposits from customers, deposits from banks and other financial institutions rose significantly as a result of the close cooperation between the Group and financial institutions in securities and fund industries, with the amounts due to banks and non-bank financial institutions up by RMB362,093 million or 148.42% and its share in total liabilities up by 5.04 percentage points compared with 2006 to 9.81%. While fully utilising the funds, the Group used more repo transactions to satisfy temporary needs, and the amounts due to central banks increased by RMB49,717 million compared with 2006. Other liabilities increased by RMB26,708 million or 23.87% compared with 2006, mainly due to the substantial increase in current tax liabilities.

Deposits from customers

The following table sets forth the Group's deposits from customers by product type as at the dates indicated.

(In millions of RMB, except percentages)	As at 31 December 2007 Amount	As at 31 December 2007 % of total	As at 31 December 2006 Amount	As at 31 December 2006 % of total
Corporate deposits	**2,945,305**	**55.15**	2,466,284	52.23
Demand deposits	**2,084,193**	**39.03**	1,778,715	37.67
Time deposits	**861,112**	**16.12**	687,569	14.56
Personal deposits	**2,327,130**	**43.58**	2,207,442	46.76
Demand deposits	**997,164**	**18.67**	830,402	17.59
Time deposits	**1,329,966**	**24.91**	1,377,040	29.17
Operations outside Mainland China	**67,881**	**1.27**	47,530	1.01
Total deposits from customers	**5,340,316**	**100.00**	4,721,256	100.00

Composition of deposits from customers



Management Discussion and Analysis

As at 31 December 2007, the Group's deposits from customers amounted to RMB5,340,316 million, an increase of 13.11% compared with 2006. Corporate deposits in Mainland China increased by 19.42%, higher than the 5.42% increase in personal deposits. The proportion of personal deposits decreased by 3.18 percentage points to 43.58%. This was mainly attributable to the persistently active domestic capital market, which partially absorbed the savings deposits from residents. For the same reason, the maturities of deposits became shortened. Growth of domestic demand deposits was 18.10%, higher than the 6.13% increase in domestic time deposits. The proportion of the domestic demand deposits to total deposits from customer increased by 2.44 percentage points to 57.70% compared with 2006.

Shareholders' Equity

(In millions of RMB)	**As at 31 December 2007**	As at 31 December 2006
Share capital	**233,689**	224,689
Capital reserve	**90,241**	42,091
General reserve	**31,548**	10,343
Retained earnings	**32,164**	43,092
Other reserves[1]	**33,335**	9,894
Total equity attributable to shareholders of the Bank	**420,977**	330,109
Minority interests	**1,304**	95
Total equity	**422,281**	330,204

1. *Consist of statutory surplus reserve, investment revaluation reserve and exchange reserve.*

The Bank issued 9,000 million A-shares in PRC in September 2007, and raised a proceed of RMB58,050 million, or RMB57,119 million after deducting flotation expenses. The entire amount was used to supplement the capital base and improve the capital adequacy level of the Bank. As at 31 December 2007, the Group's shareholders' equity was RMB422,281 million, an increase of RMB92,077 million compared with 2006. The ratio of total equity to total assets was 6.40%, an increase of 0.34 percentage points compared with 2006.

Capital Adequacy Ratio

The following table sets forth, as at the dates indicated, the information related to the Group's capital adequacy ratios.

(In millions of RMB, except percentages)	As at 31 December 2007	As at 31 December 2006
Core capital adequacy ratio[1]	**10.37%**	9.92%
Capital adequacy ratio[2]	**12.58%**	12.11%
Components of capital base		
Core capital:		
Share capital	**233,689**	224,689
Capital reserve, investment revaluation reserve and exchange reserve	**85,408**	40,852
Surplus reserve and general reserve	**49,393**	21,476
Retained earnings[3, 4]	**16,609**	22,421
Minority interests	**1,304**	95
	386,403	309,533
Supplementary capital:		
General provisions for doubtful debts	**33,373**	28,736
Positive changes in fair value of available-for-sale investments and trading financial instruments[4]	**10,527**	—
Term subordinated bonds	**40,000**	40,000
	83,900	68,736
Total capital base before deductions	**470,303**	378,269
Deductions:		
Goodwill	**(1,624)**	(1,743)
Unconsolidated equity investments	**(4,687)**	(2,040)
Others	**(810)**	(91)
Total capital base after deductions	**463,182**	374,395
Risk weighted assets[5]	**3,683,123**	3,091,089

1. *Core capital adequacy ratio is calculated by dividing the net amount of core capital, which is after deductions of 100% goodwill and 50% unconsolidated equity investments and others, by risk-weighted assets.*
2. *Capital adequacy ratio is calculated by dividing the total capital base after deductions by risk-weighted assets.*
3. *Retained earnings have been deducted by the dividend declared after the balance sheet date.*
4. *As at 31 December 2007, the reserve arising from the cumulative net positive changes in the fair value of available-for-sale investments is excluded from core capital and 50% of the balance is included in supplementary capital. Such cumulative net positive changes in the fair value were included in the core capital for the calculation of capital adequacy ratio as at 31 December 2006. In addition, as at 31 December 2007 the unrealised cumulative net positive changes in fair value of trading financial instruments, net of income tax, are excluded from the core capital and included in the supplementary capital, but which were included in the core capital for the calculation of capital adequacy ratio as at 31 December 2006.*
5. *The balances of risk-weighted assets include 12.5 times of the market risk capital.*

Management Discussion and Analysis

In accordance with the *Administration Measures for Capital Adequacy Ratios of Commercial Banks* as published by the CBRC, on a consolidated basis provided therein, as at 31 December 2007, the Group's capital adequacy ratio was 12.58% and the core capital adequacy ratio was 10.37%, 0.47 and 0.45 percentage points higher than the end of 2006.

The higher capital adequacy ratio compared with 2006 was because the growth rate of total capital base after deductions exceeded that of risk-weighted assets. Total capital base after deduction increased by RMB88,787 million or 23.71% compared with 2006, of which core capital increased by RMB76,870 million and supplementary capital increased by RMB15,164 million. The increase in core capital was mainly attributable to the substantial increase in profits for the year and the successful issuance of A-shares in the Mainland. The effect was partially diluted by the special dividends in 2007 of RMB16,339 million. The increase in supplementary capital was mainly due to the increase of fair value of shares subject to selling restrictions held through debt equity swaps, which resulted in the increase of RMB9,816 million in investment revaluation reserve. As a result of the steady growth of on-balance sheet assets and rapid development of off-balance sheet business, the risk-weighted assets increased by RMB592,034 million or 19.15% over the end of 2006.

Loan Quality Analysis

Distribution of Loans by the Five-Category Classification

The following table sets forth, as at the dates indicated, the distribution of the Group's loans by the five-category classification under which non-performing loans (NPLs) include sub-standard, doubtful and loss loans.

	As at 31 December 2007		As at 31 December 2006	
(In millions of RMB, except percentages)	**Amount**	**% of total**	Amount	% of total
Normal	**2,959,553**	**90.45**	2,513,322	87.46
Special mention	**227,434**	**6.95**	265,888	9.25
Sub-standard	**25,718**	**0.79**	29,261	1.02
Doubtful	**48,159**	**1.47**	55,983	1.95
Loss	**11,293**	**0.34**	9,155	0.32
Gross loans and advances to customers	**3,272,157**	**100.00**	2,873,609	100.00
Non-performing loans	**85,170**		94,399	
Non-performing loan ratio		**2.60**		3.29

In 2007, the risk monitoring and early warning mechanism for the Group was further strengthened, and monitoring of risks associated with credit granted was conducted on a real time basis. Risks associated with large credit customers were mitigated on a per account basis, and groups of experts worked together to find solutions for large non-performing loans. With strengthened efforts in liquidity enhancement, recovery, and writing-off of the existing non-performing loans, the quality of credit assets continued to improve. As at 31 December 2007, the balance of the Group's non-performing loans was RMB85,170 million, a decrease of RMB9,229 million compared with 2006. The non-performing loan ratio was 2.60%, a decrease of 0.69 percentage points compared with 2006. Special mention loan was reduced to 6.95% of the gross loans, down by 2.30 percentage points compared with 2006.

Distribution of Loans and NPLs by Product Type

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

(In millions of RMB, except percentages)	As at 31 December 2007 Loans	NPLs	% of NPLs to loans	As at 31 December 2006 Loans	NPLs	% of NPLs to loans
Corporate loans	**2,344,757**	**76,877**	**3.28**	2,057,961	83,844	4.07
Short-term loans	**820,908**	**43,489**	**5.30**	743,701	52,831	7.10
Middle to long-term loans	**1,523,849**	**33,388**	**2.19**	1,314,260	31,013	2.36
Personal loans	**723,805**	**7,925**	**1.09**	585,085	10,378	1.77
Residential mortgage loans	**527,888**	**4,222**	**0.80**	428,039	5,843	1.37
Personal consumer loans	**66,573**	**1,966**	**2.95**	72,620	2,424	3.34
Other loans[1]	**129,344**	**1,737**	**1.34**	84,426	2,111	2.50
Discounted bills	**102,826**	**—**	**—**	159,368	—	—
Operations outside Mainland China	**100,769**	**368**	**0.37**	71,195	177	0.25
Total	**3,272,157**	**85,170**	**2.60**	2,873,609	94,399	3.29

1. *Consist of individual commercial property mortgage loans, personal business loans, home equity loans, credit card loans and education loans.*

Management Discussion and Analysis

In 2007, the Group accelerated its steps in strategic transformation of its business models, and actively improved its credit structure. The credit quality continued to improve with the steady growth of various lending businesses. As at 31 December 2007, the NPL ratio for corporate loans dropped to 3.28%, 0.79 percentage points lower compared with 2006. The NPL ratio for personal loans dropped to 1.09%, 0.68 percentage points lower compared with 2006. Following the gradual implementation of the Group's overseas business development strategies, the size of overseas business grew rapidly. The balance of loans increased by 41.54% compared with 2006 and the non-performing loan ratio remained at a relatively low level.

Distribution of Loans and NPLs by Industry

The following table sets forth, as at the dates indicated, loans and NPLs by industry.

(In millions of RMB, except percentages)	As at 31 December 2007				As at 31 December 2006			
	Loans	% of total	NPLs	% of NPLs to loans	Loans	% of total	NPLs	% of NPLs to loans
Corporate loans								
Manufacturing	592,502	18.11	24,834	4.19	510,427	17.76	28,791	5.64
Production and supply of electric power, gas and water	377,285	11.53	5,957	1.58	318,493	11.08	4,348	1.37
Transportation, storage and postal services	370,732	11.33	5,978	1.61	326,715	11.37	4,932	1.51
Real estate	317,780	9.71	15,372	4.84	302,290	10.52	18,290	6.05
Water, environment and public utilities management	106,693	3.26	1,258	1.18	92,173	3.21	1,400	1.52
Construction	101,467	3.10	2,582	2.54	96,580	3.36	3,755	3.89
Leasing and commercial services	92,968	2.84	2,911	3.13	63,659	2.22	3,119	4.90
Wholesale and retail trade	89,289	2.73	7,816	8.75	73,526	2.56	8,170	11.11
Education	78,153	2.39	1,430	1.83	77,458	2.69	1,234	1.59
Mining	69,666	2.13	636	0.91	55,909	1.95	672	1.20
Telecommunications, computer services and software	35,846	1.10	1,159	3.23	38,962	1.36	1,452	3.73
Others	112,376	3.43	6,944	6.18	101,769	3.54	7,681	7.55
Sub-total	2,344,757	71.66	76,877	3.28	2,057,961	71.62	83,844	4.07
Personal loans	723,805	22.12	7,925	1.09	585,085	20.36	10,378	1.77
Discounted bills	102,826	3.14	–	–	159,368	5.55	–	–
Operations outside Mainland China	100,769	3.08	368	0.37	71,195	2.47	177	0.25
Total	3,272,157	100.00	85,170	2.60	2,873,609	100.00	94,399	3.29

In 2007, the Group strictly executed standards on customer credit access and exit for different industries. Policy initiatives such as limit on risks for different industries were administered. With further improvement in loan composition by industry, the quality of loans continued to improve. In particular, the amounts and ratios of non-performing loans for manufacturing, real estate, and wholesale and retail trade industries, which used to have higher non-performing loan ratios, dropped substantially, with their non-performing amounts down by RMB3,957 million, RMB2,918 million and RMB354 million respectively, and non-performing loan ratio down by 1.45, 1.21 and 2.36 percentage points respectively compared with that in 2006.

Restructured Loans and Advances to Customers

The following table sets forth the Group's restructured loans and advances to customers as at the dates indicated.

	As at 31 December 2007		As at 31 December 2006	
(In millions of RMB, except percentages)	**Amount**	**% of gross loans and advances**	Amount	% of gross loans and advances
Restructured loans and advances to customers	**3,648**	**0.11**	3,384	0.12
Less:				
—Restructured loans and advances to customers overdue for more than 90 days	**(2,471)**	**(0.08)**	(1,929)	(0.07)
Restructured loans and advances to customers overdue for 90 days or less	**1,177**	**0.03**	1,455	0.05

Overdue Loans

The following table sets forth the Group's overdue loans and advances to customers by aging analysis as at the dates indicated.

	As at 31 December 2007		As at 31 December 2006	
(In millions of RMB, except percentages)	**Amount**	**% of gross loans and advances**	Amount	% of gross loans and advances
Loans and advances to customers with the principal or interest overdue for the following period:				
— 3 to 6 months	**6,847**	**0.21**	9,798	0.34
— 6 to 12 months	**8,017**	**0.25**	14,295	0.50
— over 12 months	**52,159**	**1.59**	53,536	1.86
Total loans and advances to customers overdue	**67,023**	**2.05**	77,629	2.70

Off-Balance Sheet Items

The Group's off-balance sheet items were mainly commitments and contingent liabilities, which consisted of credit commitment, capital commitment, commitment for operating lease, pending litigations and disputes, underwriting liabilities, undertaking for acceptance, commitments and allowances for contingent liabilities. Among these, the credit commitment was the most significant part. As at the end of 2007, the balance of credit commitment amounted to RMB969,559 million.

Please refer to Note 36 to the "Financial Statements" for details of commitments and contingent liabilities.

Significant Accounting Estimates and Judgements

In determining the carrying amounts of some assets and liabilities, the Group makes estimates of the effects of uncertain future events on those assets and liabilities at the balance sheet date. These estimates and judgements involve assumptions about such items as risk adjustment to cash flows or discount rates used and future changes in prices affecting other costs. The Group makes estimates based on historical experience and reasonable expectations of future events, and reviews the critical assumptions and uncertainties to the judgements involved in such estimates on an ongoing basis. The Group's management believe that the estimates and judgements made by the Group reflect appropriately the economic context the Group is subject to. The major areas affected by the estimates and judgements include impairment losses on loans and advances and held-to-maturity investments, impairment of available-for-sale equity investments, fair value of financial instruments, held-to-maturity investments, and income tax. Please refer to Note 41 to the "Financial Statements" for the accounting estimates and judgements related to the issues above.

Differences between the Financial Statements Prepared under IFRS and those Prepared under PRC GAAP

There is no difference in the net profit for the year ended 31 December 2007 or total equity as at 31 December 2007 between the Group's consolidated financial statements prepared under IFRS and those prepared under PRC GAAP.

Business Operations

The Group's major business segments are corporate banking, personal banking, treasury operations, and others and unallocated operations which include equity investments and overseas operations. The following table sets forth, in the periods indicated, the profit before tax of each major business segment:

(In millions of RMB, except percentages)	**For the year ended 31 December 2007**		For the year ended 31 December 2006	
	Amount	**% of total**	Amount	% of total
Corporate banking	**61,391**	**60.89**	36,642	55.76
Personal banking	**26,146**	**25.93**	10,655	16.21
Treasury operations	**13,347**	**13.24**	18,348	27.92
Others and unallocated	**(68)**	**(0.06)**	72	0.11
Profit before tax	**100,816**	**100.00**	65,717	100.00

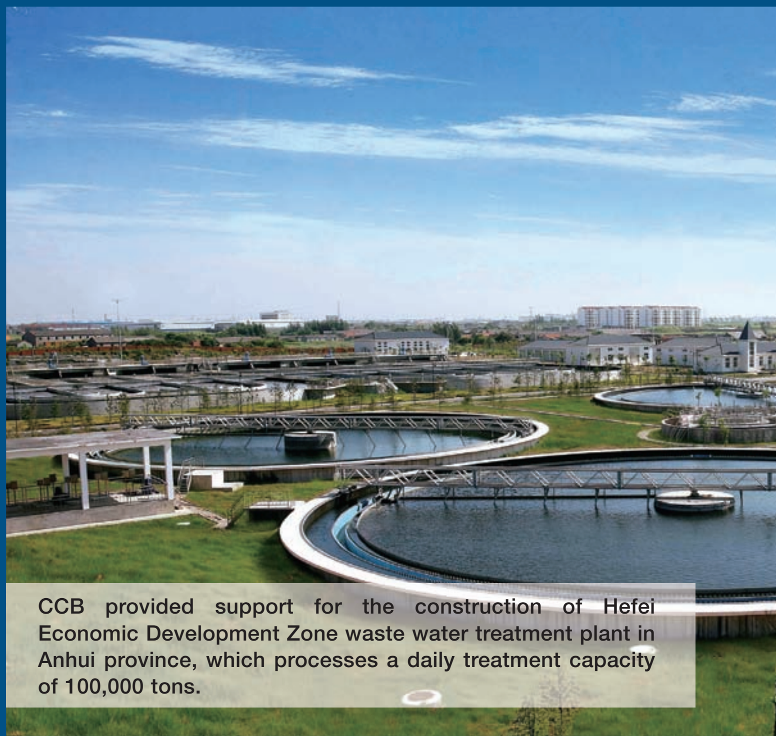
Corporate Banking

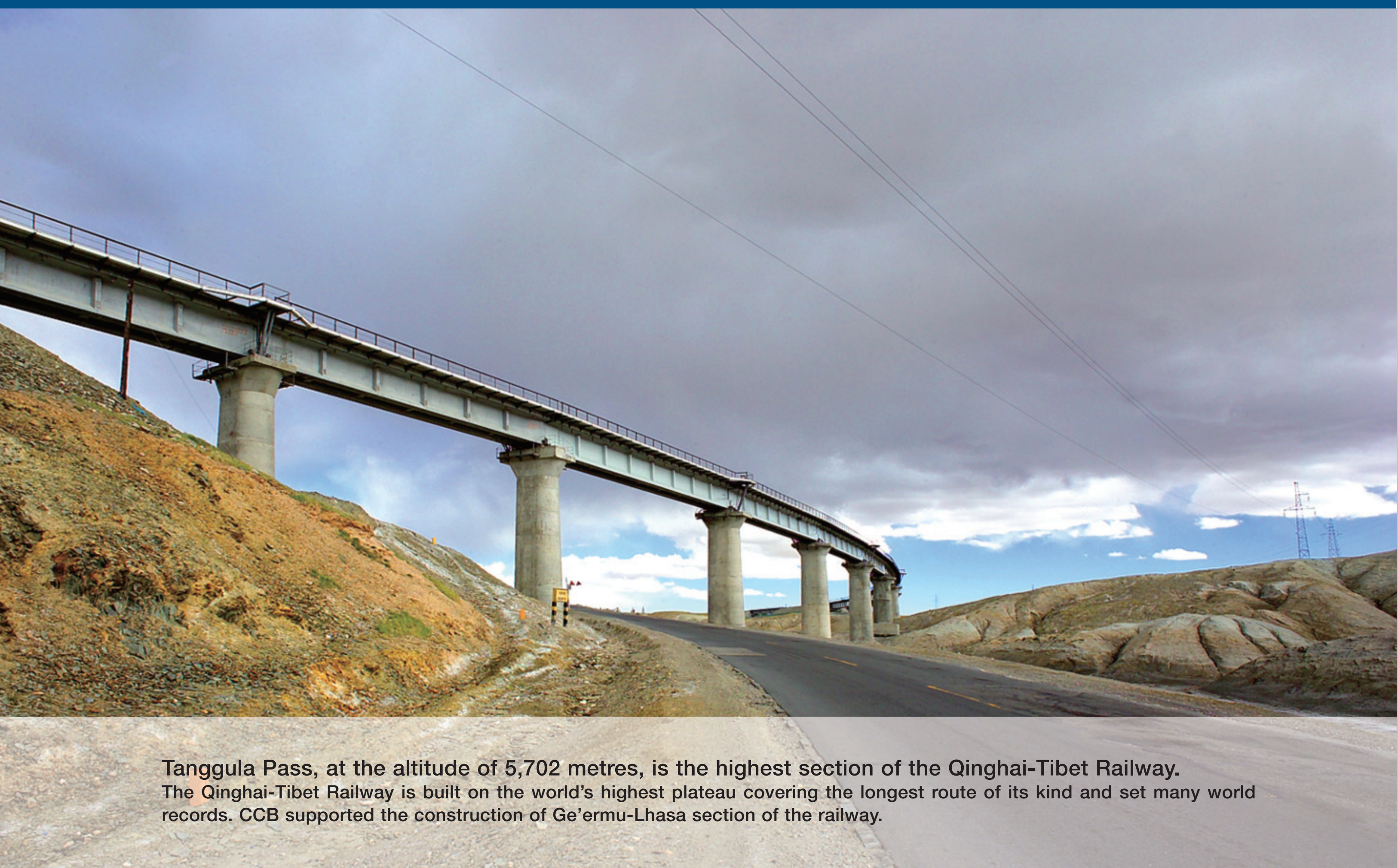
The following table sets forth the major operating information and changes related to corporate banking:

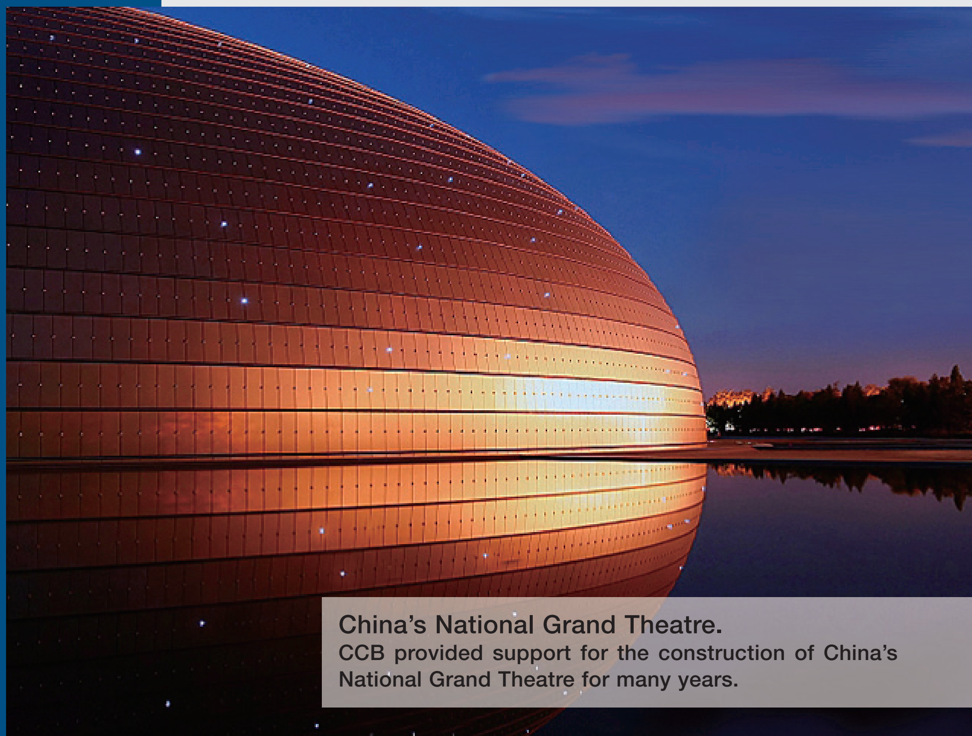
(In millions of RMB, except percentages)	**For the year ended 31 December 2007**	For the year ended 31 December 2006	**Change (%)**
Net interest income	**109,412**	78,033	40.21
Net fee and commission income	**7,471**	5,635	32.58
Other operating income	**178**	874	(79.63)
Operating income	**117,061**	84,542	38.46
Operating expenses	**(37,787)**	(31,387)	20.39
Provisions for impairment losses	**(17,883)**	(16,513)	8.30
Profit before tax	**61,391**	36,642	67.54
	As at 31 December 2007	As at 31 December 2006	
Segment assets	**2,748,782**	2,499,153	9.99

Management Discussion and Analysis

In 2007, the Group's corporate banking recorded a profit before tax of RMB61,391 million with an increase of 67.54% over 2006, accounting for 60.89% of the Group's profit before tax, and remained a major source of income of the Group. The major reasons for the significant growth in the profit before tax of corporate banking include: contributed by the higher net interest margin and growth in the loan portfolio, net interest income grew by 40.21%; a rapid development in fee and commission based products such as financial advisory, asset custody, guarantee, settlement and insurance agency services enabled net fee and commission income to grow by 32.58% to RMB7,471 million; the continuous improvement in asset quality leading to a decrease of 0.64% in corporate NPL ratio over 2006 to 3.14% and an increase of 8.30% in provisions for impairment losses.


CCB provided support for the construction of Hefei Economic Development Zone waste water treatment plant in Anhui province, which processes a daily treatment capacity of 100,000 tons.


Tanggula Pass, at the altitude of 5,702 metres, is the highest section of the Qinghai-Tibet Railway.
The Qinghai-Tibet Railway is built on the world's highest plateau covering the longest route of its kind and set many world records. CCB supported the construction of Ge'ermu-Lhasa section of the railway.



China's National Grand Theatre.
CCB provided support for the construction of China's National Grand Theatre for many years.

Continued improvement in industry and customer structure of loans

At the end of 2007, the corporate loans reached RMB2,344,757 million with a 13.94% increase compared with the end of 2006. Among these, the infrastructure loans increased by 18.93% to RMB846,130 million, the increase of which represented 46.96% of the increase in corporate loans. The balance of discounted bills decreased by RMB56,542 million compared with 2006 to RMB102,826 million. Through credit limits control by industry and internal rating mechanism, the Bank formulated industry entry and exit criteria. Before approving or issuing the loans, assessment was conducted on each customer based on the industry credit policy so that new loans were made to leading enterprises and premium customers in the industry; the Bank set higher threshold for industries with excess capacity as well as high energy consumption and high pollution industries, and refused to grant credit lines to those who fail to comply with the macro-adjustment requirements, industrial policy and environmental protection requirements. At the end of 2007, corporate loans granted to customers with internal credit ratings of A or above accounted for 88.61% of total corporate loans, representing an increase of 5.04 percentage points over 2006; both the amounts and ratio of NPLs declined for industries with higher loan balances such as the manufacturing and real estate sectors.

Boosting business development in small enterprise sector

Learning from international best practices, the Bank created and promoted a model of small enterprise banking centre, enhanced market recognition of our brands of "Easy Loan" and "Growing Path", and built and trained up a dedicated sales and management team, with a view to fostering steady and healthy development of small enterprise banking business. In 2007, 10,841 new small enterprise customers opened accounts with the Bank and loans to small businesses reached a balance of RMB224,477 million.

Management Discussion and Analysis

Enhanced competitiveness in asset custodial service

Following the innovation in the domestic capital market, we strengthened marketing to new QFII and QDII custodial customers as well as fund custodial customers, and became the first among domestic peers to launch custodial service for collaterals against corporate bonds. During the year, the Bank acquired qualifications for trustee and account managers for annuity funds and improved its market competitiveness. At the end of 2007, the balance of assets under custody reached RMB928,243 million, up 249.97% over 2006. In this amount, the balance of securities investment funds under custody amounted to RMB721,679 million, an increase of 275.19% over 2006. The Bank remained the second largest among domestic peers in terms of market share of net value of funds under custody.

Institutional business winning the market by innovations

In 2007, the brand of "Xincunguan" was built for the Bank's independent custodial services for securities settlement funds. The Bank entered into cooperation with 98% of all domestic securities companies, and ranked first in terms of the market share in domestic peers, effectively lowering our cost of liabilities. Our payment processing of public finance business maintained a leading position. We developed the payment system of the Three Gorges migration fund and became the exclusive provider of such service. Also, we successfully developed reimbursement system in relation to civil card for public service institutions that operated on the central budget. In 2007, insurance agency services recorded an income of RMB976 million with a year-on-year increase of 51% and ranked first in the growth of market volume. A new series of "Longxintong" wealth management products were launched for corporate customers. The Bank became the first pilot bank for lending against standard futures godown warrants. The development of the customised system for the Index Futures special clearing members was completed so as to prepare for the launch of Index Futures.

The Bank was the first domestic bank to launch import & export commodity finance.

Robust growth in international business

In 2007, the international settlement volume rose to US$285,395 million, a growth of 49.95% over 2006. Foreign guarantee balance grew 242.65% over 2006 to US$12,324 million. The Bank made considerable efforts to expand its foreign exchange clearing business for small to medium-sized commercial banks, and was successfully qualified as the Hong Kong dollar settlement bank under the China foreign exchange payment system hosted by the PBC. The Bank was the first bank to launch new trade finance products such as import & export commodity finance, direct export factoring, non-recourse export credit insurance finance and vessels export factoring, thereby further enriching the trade finance product catalogue. As a result, the Bank was awarded "Best Trade Finance Bank in China" by Global Finance magazine.

Personal Banking

The following table sets forth the major operating information and changes related to personal banking:

(In millions of RMB, except percentages)	**For the year ended 31 December 2007**	For the year ended 31 December 2006	**Change (%)**
Net interest income	**52,958**	35,484	49.24
Net fee and commission income	**20,344**	7,182	183.26
Other operating income	**139**	557	(75.04)
Operating income	**73,441**	43,223	69.91
Operating expenses	**(44,799)**	(30,084)	48.91
Provisions for impairment losses	**(2,496)**	(2,484)	0.48
Profit before tax	**26,146**	10,655	145.39
	As at 31 December 2007	As at 31 December 2006	
Segment assets	**786,851**	621,550	26.59

In 2007, personal banking of the Group entered a new stage of development and offered a significant increase in contribution to the profit. Profit before tax of personal banking increased by 145.39% to RMB26,146 million, accounting for 25.93% of the Group's profit before tax, representing an increase of 9.72 percentage points over that in 2006. The growth in personal banking business was mainly attributable to the rapid development of high quality personal loan business which promoted a significant increase in net interest income, and the well-performed intermediary businesses such as fund agency and bank card, which made net fee and commission income an important source of profit growth in personal banking business.

Steady growth in personal deposits

In 2007, personal deposit-taking business focused on upgrading services. Key integrations and improvements were made in "Swift Remit", personal deposit certification and inter-branch cash withdrawal for RMB personal time deposit and demand deposit. The Bank launched personal cheque business and small-sum payment system for inter-bank deposits and withdrawals, and payment and settlement services were improved to satisfy customers' need for efficient, safe and convenient personal banking services. Market competitive edge was strengthened and sustained and steady development of personal deposit business was realised. As at 31 December 2007, the balance of personal deposits totalled RMB2,327,130 million, an increase of RMB119,688 million over 2006.

Swift Remit

Management Discussion and Analysis

Sound development of personal loans

As at 31 December 2007, the personal loans reached RMB723,805 million, an increase of RMB138,720 million or 23.71% compared with 2006. The percentage of personal loans in total loans of the Group increased by 1.76 percentage points to 22.12% compared to 2006.

In 2007, the Bank vigorously pushed forward personal loan system improvements and process transformation, accelerated the innovation and integration of personal loan products and services, and rolled out a variety of new products and services such as "Safe House Trading" housing transaction funds custody business, Provident Housing Fund Long Card offering various settlement features such as inquiry and withdrawal of provident housing funds, "Borrow and Save" value added account for personal loans, and personal loan SMS service. While tremendous efforts have been made in the development of its traditional residential mortgage loans, the Group also actively explored the second hand residential mortgage market. As at 31 December 2007, the balance of residential mortgage loans reached RMB527,888 million, an increase of RMB99,849 million or 23.33% over 2006.

Rapid growth in bank card business

Debit card product series continued to improve. By the end of 2007, the Bank had issued 224 million debit cards in total, representing an increase of 37.41 million over that in 2006. Spending via debit cards during the year reached RMB407,416 million, an increase of 91.73% over 2006. Fee and commission income from debit cards amounted to RMB3,723 million, representing an increase of 58.13% over 2006. The Bank responded to customer needs and launched the "Virtual Card", a debit card product tailored for online shoppers to make payments through Internet. In addition, the Bank's original Long savings card underwent a feature upgrade in 2007 following the launch of the "Long Card All-in-One" product brand, thereby formulating a clear structure of debit card products comprising our two major brands — the wealth management card and the "Long Card All-in-One".

Credit card business retained rapid growth. At the end of 2007, the total number of Long credit cards issued was 12.60 million, of which 6.26 million were issued during the year, an increase of 98.75% over the

"Want to buy a home but feel financially scant? Why don't you come to CCB?" Our residential mortgage is well recognised countrywide.

previous year; spending via credit cards during the year was RMB78,664 million, an increase of 94.39% over 2006; the balance of credit card loans was RMB10,037 million, an increase of 115.76% over 2006; operating income from credit card business reached RMB1,187 million, representing an increase of 95.39% over 2006.

Innovations and feature improvements of credit card products have been undertaken by the Bank as major initiatives to enhance the competitiveness of our products and our brand edges of the three major types of cards, which include those targeting at specific groups namely the Long Business Card, Auto Card, Civil Card, Education Card, Tennis Card and University Student Card, the co-branded affinity cards namely the Renowned University Credit Card, the City Credit Card and the Corporate Credit Card, and those aiming at strategic alliance namely the Department Store Long Card, the Digital Long Card, Airline Long Card and the Insurance Long Card were further strengthened. Meanwhile, the Bank developed and launched new products such as the Diamond/Platinum Cards and the Yao VISA credit card targeting at meeting diversified needs for different customers. Such launches further expanded our credit card product mix, thus consolidating and enhancing the market presence and competitiveness of our products.

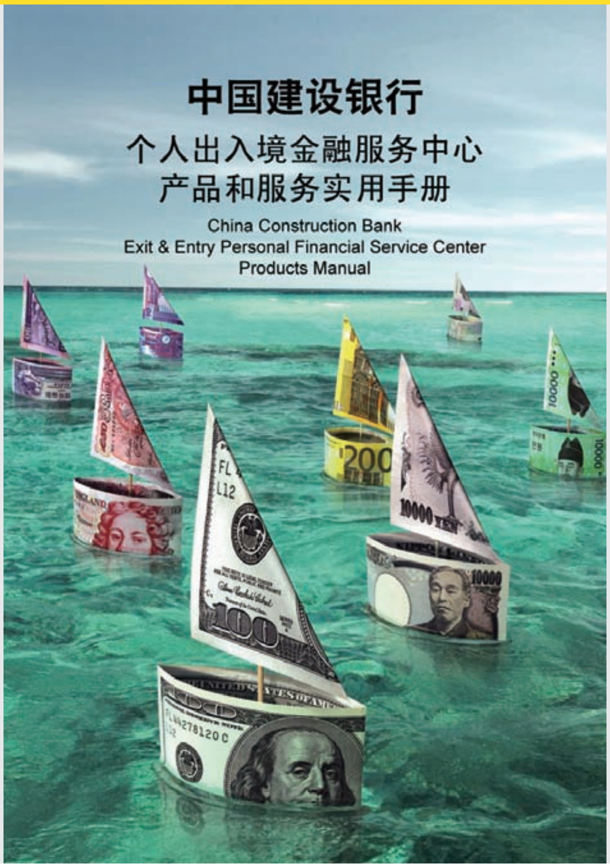
Diamond Credit Card and Yao Card launched by CCB.

Management Discussion and Analysis

Big leap in the development of personal intermediary business

The Bank is in a leading position in the fund agency service in the industry. In 2007, agency sales of funds reached RMB772,751 million, achieving a seven fold increase over 2006. The fee income stood at RMB11,745 million, a year-on-year increase of more than ten times, accounting for 37.51% of the total net fee and commission incomes of the Group; by the end of 2007, our fund agency business had reached 11.37 million customers, an increase of ten times over 2006.

To build up the personal wealth management product brand in full swing, in 2007, the Bank actively explored markets for innovative wealth management products with the successful launch of its wealth management product series, namely the "Profit from Interest", "Profit from Exchange" and QDII, thereby laying a solid foundation for the integrated supporting system of wealth management products and satisfying different needs of our customers. The Bank issued a total of 138 batches of RMB/foreign exchange personal wealth management products in the year, of which 109 batches were "Profit from Interest" RMB wealth management products; 27 batches were "Profit from Exchange" personal foreign exchange structured products; and QDII products accounted for two batches. The Bank's personal wealth management products were widely recognised by the market and customers and received numbers of awards.



The entrusted housing finance business continued to maintain a leading position in the banking industry. At the end of 2007, the balance of housing fund deposits totalled RMB289,862 million, an increase of RMB35,856 million over 2006, with a market share of 61.09%. At the end of 2007, the balance of provident fund loans amounted to RMB242,250 million, an increase of RMB55,415 million over 2006, with a market share of 50.25%. In 2007, the Bank reinforced its cooperation with provident housing funds management centres in various places and jointly launched the co-branded Provident Housing Funds Long Card and actively promoted new products and services such as entrusted services of withdrawal of and repayment with provident housing funds as well as electronic service channels so as to provide convenient services to our customers.

The personal foreign exchange business developed rapidly. The Bank expanded personal foreign exchange outlets and launched a series of marketing campaigns so as to effectively enhance the contributions of income from personal foreign exchange business. In 2007, income from personal purchases and sales of foreign exchange against RMB reached RMB317 million or 121.68% over 2006, reflecting a breakthrough in the development of this business. Furthermore, a rapid growth in the income from personal settlement of foreign exchange was made through strengthening cooperation with international remittance companies for expanding the personal foreign remittance business.

Treasury Operations

The following table sets forth the major operating information and changes related to treasury operations:

(In millions of RMB, except percentages)	**For the year ended 31 December 2007**	For the year ended 31 December 2006	**Change (%)**
Net interest income	**29,577**	27,078	9.23
Net fee and commission income	**2,750**	580	374.14
Net trading gain	**345**	264	30.68
Net gain arising from investment securities	**318**	234	35.90
Other operating loss	**(7,873)**	(6,193)	27.13
Operating income	**25,117**	21,963	14.36
Operating expenses	**(5,015)**	(3,615)	38.73
Provisions for impairment losses	**(6,755)**	—	NA
Profit before tax	**13,347**	18,348	(27.26)
	As at 31 December 2007	As at 31 December 2006	
Segment assets	**2,960,545**	2,199,334	34.61

In 2007, the treasury operations of the Group recorded a profit before tax of RMB13,347 million, accounting for 13.24% of the Group's profit before tax. With a further expansion of the operating scale of its treasury operations in 2007, an increase was seen in the yield on investment in debt securities. The development in the fee and commission based products such as customer-driven trading business and financial advisory brought about a significant increase in net fee and commission income. Largely due to the provision for impairment losses on US sub-prime mortgage loan backed securities, the provisions for impairment losses had a substantial increase, leading to a decrease of 27.26% in profit before tax compared to 2006.

Financial market business

In 2007, the Bank actively aligned its strategies on investment in debt securities in response to market changes. For the RMB portfolio, in view of the economic and financial trends of increasing inflationary pressure and tightening of monetary policy, the Bank adapted itself to the ever-changing market environment by taking prudent strategies and adopting quantitative analysis and refined management, thereby further strengthening its portfolio management capability. For the foreign currency portfolio, in the face of a highly volatile international financial market, the Bank implemented, in a reasonable manner, asset structure, duration and yield curve strategies to optimise asset allocation of its

Management Discussion and Analysis

portfolio. In response to the impact of the US sub-prime mortgage crisis, a number of measures have been taken including mandate adjustment, more frequent valuations, risk tracking, contingency plan and improvement of the internal control mechanism, with a view to strengthening overall risk management throughout the Group and minimising the loss arising from sub-prime mortgage.

In 2007, in light of more demand deposits and amounts due to banks and non-bank financial institutions in deposits, increased volatility was experienced in the money market. The Bank fully utilised the money market instruments to square the positions and increase return on short term funds. In 2007, the volume of RMB money market trading of the Bank increased significantly. The turnover of repurchase transactions amounted to RMB5,076.80 billion, a 125% growth over 2006. The turnover of inter-bank lending was RMB1,136.80 billion, a 1,281% growth over 2006.

A rapid growth in operating income and a steady increase in the market share of our customer-driven foreign exchange transactions were seen. In 2007, the volume of customer-driven purchases and sales of foreign exchange and foreign exchange trading reached US$199,700 million, a year-on-year increase of 65%, realising an income of RMB2,255 million, a year-on-year increase of 44%; the volume of customer-driven derivatives transactions totalled US$11,100 million, an increase of 25% over 2006, realising an income of RMB362 million, an increase of 174% over 2006.

In response to the successive rising trend of RMB interest rate and strong demand from corporate customers for RMB debt management, the Bank made a timely move to launch its risk management products for RMB debts. By capitalising on the opportunities arising from the volatility of the international financial market, particularly yield curve movements, the Bank created value for its customers and grabbed the market by making use of derivative financial instruments.

Investment banking

Keeping pace with the rapid development of the financial market and the changing trend of domestic regulatory policy, the Bank viewed the development of investment banking business as the key measures for accelerating comprehensive operation and achieving diversity of income. In 2007, our investment banking business recorded operating income of RMB2,490 million, which more than doubled compared with 2006.

In 2007, while maintaining standard development for traditional financial advisory businesses such as corporate finance advisory, the Group exerted considerable efforts to explore new types of financial advisory businesses including corporate initial public offering (IPO) and re-financing, merger, acquisition and restructuring, equity investment and debt financing.

CCB entered into a financial cooperation agreement with the client.

Income from financial advisory business for the year was RMB1,996 million, an increase of 128.38% over 2006. Underwriting of commercial bills was RMB62,580 million, representing a market share of 18.68%, which ranked first among domestic players for the third consecutive year both in terms of accumulated underwriting volume and current year underwriting volume. Wealth management brands such as "Profit from interest", "CCB Fortune" and "Qiantu Financial Products" were established in the market and fulfilled diversified investment and financing needs of customers and the market while bringing considerable fee and commission income to the Bank. The Bank's "Jianyuan 2007-1 Personal Residential Mortgage-backed Securities" with a total issue amount of RMB4,161 million was successfully structured and issued, reflecting continued exploration in asset securitisation business.

Overseas Business and Subsidiaries

As at 31 December 2007, the Group's overseas assets were RMB103,911 million; profit before tax rose to RMB2,499 million, with an increase of 360.22% over 2006.

The Bank currently has branches in Hong Kong, Singapore, Frankfurt, Johannesburg, Tokyo and Seoul and representative offices in London, New York and Sydney. In 2007, the Bank's overseas branches capitalised on the advantageous position of the Group in terms of domestic network, capital and customer base, and leveraged the geographical advantage and favourable factors of each other, to develop the cross-border operating business of Chinese enterprises in full swing and explore opportunities for financial services related to corporate acquisition and cooperation with domestic financial institutions in overseas business. As a result, the business structure continued to improve with enhanced services.

Following the Bank's acquisition of the 100% equity interest in Bank of America (Asia) Limited and its subsidiaries, institutions and resources in Hong Kong underwent an effective consolidation. The retail banking and small and medium-sized enterprise business at the Bank's Hong Kong Branch and China Construction Bank (Asia) Limited (formerly Jian Sing Bank Limited) were all

The opening ceremony of Sydney Representative Office.

transferred to CCB Asia. Upon completion of the above-mentioned consolidation in September 2007, the Bank has established itself into a fully-fledged financial service provider operating in the Hong Kong region, through its Hong Kong branch, CCB Asia and CCB International, with its scope of business covering three major business segments: wholesale banking, retail banking and investment banking.

Major subsidiaries

CCB Asia, formerly known as Bank of America (Asia) Limited, is a licensed bank registered in Hong Kong mainly engaged in providing a wide range of personal and commercial banking services to customers. In 2007, CCB Asia actively explored retail and commercial banking businesses, expanded operation network in the Hong Kong and Macau regions, accelerated product innovations and marketing initiatives, fostered business collaborations with the Bank's branches and sub-

Management Discussion and Analysis

branches in Mainland China while at the same time strengthened risk and compliance management and internal control to maintain superior asset quality. At the end of 2007, its total assets were HK$63,998 million, net assets were HK$8,617 million, and the profit before tax for the year was HK$725 million.

CCB International, with a registered capital of US$301 million, is mainly engaged in sponsoring and underwriting stocks and debt securities listed in Hong Kong, as well as corporate acquisition, merger and restructuring, debt and equity financing, market research, direct investment, asset management and financial advisory. In 2007, CCB International successfully completed a number of major projects and achieved remarkable progress in all business segments showing considerable economic benefits while shaping a good brand image on the market. At the end of 2007, the company's total assets were HK$3,782 million, net

assets were HK$3,259 million, and profit before tax was HK$772 million.

Sino-German Bausparkasse was jointly established by the Bank and Bausparkasse Schwaebisch Hall in February 2004 with a registered capital of RMB150 million, of which 75.1% was contributed by the Bank. It is primarily engaged in the provision of services such as home savings deposit-taking, provision of home savings loans, inter-bank lending, investment in debt securities, and extension of personal mortgages. At the end of 2007, the company's total assets were RMB907 million, and it managed to breakeven for the year. In order to expand the scope of business and enhance the capital strengths of Sino-German Bausparkasse, the shareholders planned to increase their investments in Sino-German Bausparkasse to RMB1,000 million in phases. The plan was approved by the relevant regulators on 11 January 2008.

The Bank established CCB Principal Asset Management Co., Ltd. with Principal Financial Services, Inc and China Huadian Group Corporation in September 2005. The Bank holds 65% and the other two parties hold 25% and 10% respectively of the registered capital of RMB200 million. At the end of 2007, four funds were managed by CCB Principal Asset Management Co. Ltd., with the size growing in a healthy manner and continuously bringing substantial return to fund investors. Its net profit for the year was RMB249 million.

CCB Financial Leasing was established jointly by the Bank and Bank of America in December 2007 with a registered capital of RMB4,500 million, of which 75.1% was contributed by the Bank. CCB Financial Leasing is currently the largest domestic financial leasing company in terms of registered capital and is one of the first innovative financial leasing companies to obtain business license granted by the CBRC in PRC. It is

The opening ceremony of CCB Financial Leasing Corporation Limited.

mainly engaged in financial leasing, receiving security deposit from lessees, transferring rent receivables to commercial banks, issuing financial bonds, inter-bank lending, borrowing from financial institutions, and borrowing overseas.

Analysed by Geographical Locations

The Bank adheres to the strategy of prioritising the development of branches in central cities and regards the market in the Yangtze River Delta, Pearl River Delta and Bohai Rim as key areas of development to take care of the large and medium cities along the coastline in the Mainland. In 2007, the Bank's profit before tax of the Yangtze River Delta, Pearl River Delta and Bohai Rim regions recorded a 54.67% rise over 2006, contributing 57.34% of the Group's profit before tax. At the end of 2007, gross loans and advances of the Yangtze River Delta, Pearl River Delta and Bohai Rim regions were RMB1,892,506 million, an increase of 13.78% over the previous year, representing 57.85% of the Group's loans and advances.

The following table sets forth the distribution of the Group's profit before tax by geographical segment:

	For the year ended 31 December 2007		For the year ended 31 December 2006	
(In millions of RMB, except percentages)	**Amount**	**% of total**	Amount	% of total
Yangtze River Delta	**25,934**	**25.73**	18,757	28.54
Bohai Rim	**16,920**	**16.78**	9,146	13.91
Central	**15,459**	**15.33**	8,843	13.45
Western	**15,347**	**15.22**	10,199	15.52
Pearl River Delta	**14,947**	**14.83**	9,467	14.41
Northeast	**5,140**	**5.10**	1,988	3.03
Head office	**4,570**	**4.53**	6,774	10.31
Outside Mainland China	**2,499**	**2.48**	543	0.83
Profit before tax	**100,816**	**100.00**	65,717	100.00

The following table sets forth the distribution of the Group's loans and advances by geographical segment:

	For the year ended 31 December 2007		For the year ended 31 December 2006	
(In millions of RMB, except percentages)	**Amount**	**% of total**	Amount	% of total
Yangtze River Delta	**816,085**	**24.95**	714,373	24.86
Bohai Rim	**602,943**	**18.43**	549,755	19.13
Western	**530,805**	**16.22**	469,428	16.34
Central	**519,388**	**15.87**	463,670	16.14
Pearl River Delta	**473,478**	**14.47**	399,229	13.89
Northeast	**199,106**	**6.08**	177,771	6.19
Head office	**29,583**	**0.90**	28,188	0.98
Outside Mainland China	**100,769**	**3.08**	71,195	2.47
Gross loans and advances to customers	**3,272,157**	**100.00**	2,873,609	100.00

The following table sets forth the distribution of the Group's deposits by geographical segment:

(In millions of RMB, except percentages)	For the year ended 31 December 2007 Amount	% of total	For the year ended 31 December 2006 Amount	% of total
Yangtze River Delta	1,106,728	20.72	984,000	20.84
Bohai Rim	1,053,579	19.73	924,942	19.59
Central	913,466	17.11	810,662	17.17
Western	871,416	16.32	776,246	16.44
Pearl River Delta	820,711	15.37	735,391	15.58
Northeast	405,490	7.59	369,657	7.83
Head office	101,045	1.89	72,828	1.54
Outside Mainland China	67,881	1.27	47,530	1.01
Deposits from customers	5,340,316	100.00	4,721,256	100.00

The following table sets forth the geographical distribution of the Group's assets, branches and staff:

	As at 31 December 2007					
	Assets (In millions of RMB)	% of total	Number of branches	% of total	Number of staff	% of total
Yangtze River Delta	1,308,774	19.84	2,216	16.47	42,742	14.30
Pearl River Delta	952,276	14.43	1,662	12.35	35,940	12.03
Bohai Rim	1,172,087	17.76	2,191	16.28	50,669	16.95
Central	968,641	14.68	3,288	24.43	67,288	22.51
Western	917,902	13.91	2,713	20.16	62,540	20.93
Northeast	436,686	6.62	1,376	10.23	34,639	11.59
Head office	3,091,749	46.86	2	0.01	4,694	1.57
Outside Mainland China	103,911	1.57	9	0.07	356	0.12
Elimination	(2,353,884)	(35.67)				
Unallocated assets	35	–				
Total	6,598,177	100.00	13,457	100.00	298,868	100.00

Distribution Channels

Enhancing functions and standards of operating branches services

The Bank implements an organisational hierarchy under which the head office administers its branches, and the branches are further organised into different levels, including tier-one branches, tier-two branches, sub-branches, and entities under the sub-branches (operating offices and deposit-taking offices). The outlets of these branches are the primary distribution channels of the Bank. At the end of 2007, the Bank had 13,448 branches at various levels within Mainland China, including head office and 38 tier-one branches, 291 tier-two branches, 5,985 sub-branches, 7,115 entities under the sub-branches and 18 banking departments.

Since the beginning of 2007, the Bank rolled out the branch transformation project across the Bank. The project is one of the key strategic cooperation projects launched by the Bank and Bank of America, its strategic investor. As of the end of 2007, 5,266 retail outlets of the Bank completed functional transformation, which was 39.16% to the total number of the Bank's retail outlets as a whole. The branch transformation helped to standardise the service and sales mode in all retail outlets so as to render service standardisation and customer experience consistency. The daily average sales volume of outlets after the transformation was 2.15 times of that before the transformation. Work efficiency increased by 30 to 40%. Customer waiting time decreased by 29%. Satisfactions of both customers and staff were improved significantly.

During 2007, the Bank devoted additional efforts to renovate, acquire and transform its outlets. A total of 2,865 outlets went through overall renovation during the year, accounting for 21.29% of the total existing outlets, while 46.81% of the transformed outlets went through partial improvements. The scope of branch improvements expanded substantially and the overall look of our branches improved remarkably.

Expanding the coverage of self-service banks and automated teller machines

In order to expand the scope of customer service and provide more convenient services to customers, as of the end of 2007,

Management Discussion and Analysis

the Bank installed and operated 23,857 automated teller machines (ATMs), an increase of 4,367 ATMs or 22.41% higher than that at the end of 2006. A total of 2,729 self-service banks were put into operation, an increase of 1,083 over 2006. Most of the self-service banks were located at busy districts with higher flow of people. The development of self-service banks and ATMs effectively expanded the coverage of the Bank's operations. The Bank's image was enhanced, and strongly supported the manned outlets.

Making new progress in electronic banking through innovation

With the mission to establishing an electronic banking service that is "leading in domestic market and first class in international market", the electronic banking business achieved a remarkable growth through increased input of resources and strengthened marketing efforts in 2007, effectively reducing business flow at the front desk and lowering the operating cost. During 2007, the volume of transaction through electronic banking channels was 36.19% of the volume of transactions at front desk for the Bank, an increase of 18.53 percentage points over 2006. The cumulative number of customers for the Bank's electronic banking operations amounted to 70,697,500, an increase of 63.32% over 2006. There were 1,899 million of transactions, an increase of 134.16%. Amount of transactions reached RMB119.94 trillion, an increase of 290.81% from 2006.

Capabilities and processes of online banking products were further improved. There were improvements in the functions of online mutual funds trading, online payment, online personal loan and online insurance agency sales. A new version of corporate online banking was launched, which allowed nationwide real-time fund transfer and "24 hours a day, 7 days a week" service. The Bank launched corporate annuity service and civil card online services. The Bank's online banking in 2007 was awarded "Best Online Banking in China" at the China Online Banking Annual Conference.

A number of innovations were made to cash management business of the VIP service system. Cash management products, such as civil card reimbursement, guarantee letter service in E-customs, cash management for foreign currencies, staple settlement services in local and foreign currencies, and group funds custody, together with services of B-share custody transfer system were launched during 2007. The average transaction volume per account through the VIP service system amounted to RMB28,317 million.

The 95533 Customer Service System made important progress. The Bank completed integration projects for the call centres of most branches. The platform for 95533 system is unified in principle. New services, such as multi-lingual services, trading of mutual funds, gold, foreign exchange options and booking of air-tickets and hotels were launched recently. To integrate the channel resources and unify the experience of customers, the inbound services at 24 branches were transferred to 95533 Chengdu call centre. An electronic banking centre and a 95533 call centre were newly established in Beijing and Lanzhou respectively. 95533 Customer Service Centre was awarded "2007 Customer Caring Benchmarking Enterprise in China", "2007 Ten

Mobile Banking Product

Year Achievement Award for China Call Centre", "Best Customer Service Award in China" and "Best Customer Service Award for Service Industry in Asia Pacific Region" within and outside Mainland China.

Mobile banking business maintained a leading position in the industry. In 2007, WAP mobile banking operations fully covered two major operators, namely China Mobile and China Unicom. All tier-one branches within Mainland China jointly developed SMS financial services with mobile telecommunication operators. The wealth management functions of mobile banking were further enhanced, and functions such as fund transfer via mobile phone, inter-bank transfer, mutual fund trading via mobile phone, and stock fund transfer between the Bank and securities companies through the custody transfer system were recently added.

Information Technology

In 2007, the Bank devoted more efforts to integration of information technology applications, data and information technology resources. Different strategic projects were completed according to the plans.

Enhancing the support to the Bank's product innovation and customer service

In November 2007, the Bank completed the promotion for a new personal loan system across the Bank, improved the entire personal loan service processes, such as loan origination, loan disbursement and accounting, and post-disbursement management, and supported the establishment and operation of personal loan centres. Through the upgrade and renovation of securities operation system, banking services are now conducted 24 hours a day non-stop. Under the circumstances of exponential growth in number of customers and transaction volume, stable operation of the system was thus maintained. The Bank completed the consolidation of call centre, with average daily transactions reaching four times of that in 2006. The online banking system also completed optimisation and upgrade to functions and processes of personal investment products. Operations were significantly enhanced in terms of versatility and ease of use. Transaction volume tripled in 2007. The mobile banking system was optimised in all ways. A series of functions, such as money transfer via mobile handset, mutual fund investment, and customised webpage menu were introduced. Online trading function was recently introduced for trade finance, which supported the sales and marketing, as well as business development of international operations.

Enhancing the support to the Bank's internal process optimisation as well as operation and management decision-making

The Bank rolled out the corporate credit process management system across the Bank. The system covered the entire process of credit transactions, allowed real time connection with rating system, and standardised the Bank's corporate lending process and operation. The enterprise resource planning financial (ERPF) system was completed and implemented across the Bank. The level of standardisation for internal expenses and asset management, and the timeliness and standardisation of financial information were significantly enhanced. In 2007, a total of RMB115 million were invested in the building of data warehouse, and operating data storage and transmission systems for operation at both head office and branches levels. Through integration of data, the range and quality of information for decision-making was improved.

Enhancing the support to the Bank's risk management

The development of the 12-grade classifications of credit assets system was completed and the system was launched across the Bank for pilot operation. A front desk operation monitoring system was deployed within the Bank so as to facilitate the staff in the back office operation centres to conduct real time surveillance to doubtful or erroneous transactions, as well as unusual operation of tellers through defined risk alert model. Through technical means, controls are executed over the teller cash drawer limit. Alerts are also given when the limits on an entity or teller are exceeded. These measures have effectively controlled the risks over cash operations. A monitoring system was developed for the credit granting business so that the risk monitoring department can timely spot dubious and other acts that might bring about potential risks to the Bank in the business operations.

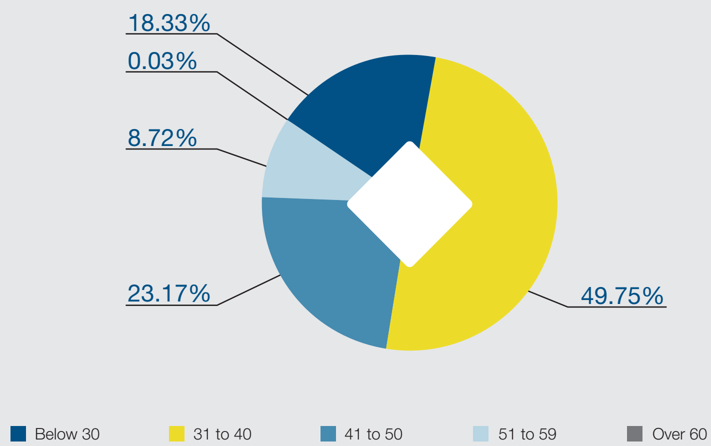
The Bank centralised the administration of information technology at tier-one branches, and completed the consolidation of the servers from tier-two to tier-one branches. This has effectively reduced the maintenance cost for the Bank's information technology operation, and enhanced the central administration capacity and level of safety for information technology resources.

Staff and Human Resources Management

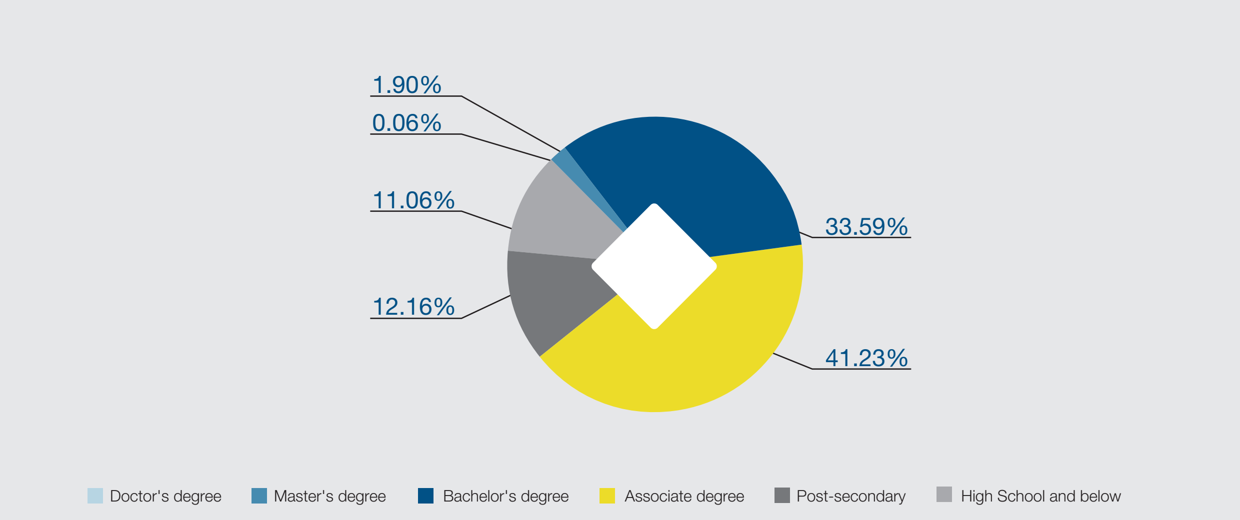
As of the end of 2007, the Bank had 298,868 staff of which 106,246 or 35.55% had academic qualification of bachelor's degree and above. In addition, the Bank had 44,191 workers dispatched by labour leasing companies, and had to assume the expenses of 29,350 retired employees.

The composition of staff as classified by age, academic qualification and responsibilities is as follows:

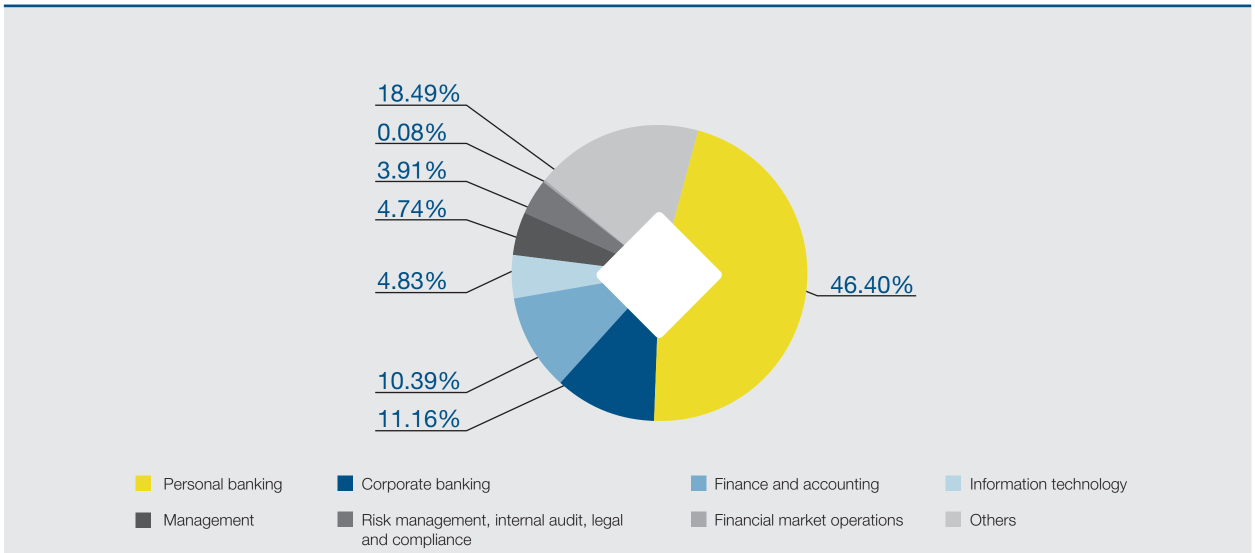
Composition of staff classified by age



Composition of staff classified by academic qualification



Composition of staff classified by responsibilities



Management Discussion and Analysis

The Bank proactively drove reform for human resources management. The building for a team of core operation expertise was strengthened. It is essential for the Bank to select staff of different working styles yet possessing the expert knowledge and know-how as well as skills in the breeding for a team of core operation expertise covering all business aspects.

By adhering to the rationale of building a harmonious labour relationship, the Bank continued to improve and innovate the remuneration administration system. In order to attract, motivate and retain outstanding staff members to serve the Bank in long term, the Bank implemented the first batch of employee stock ownership plan in 2007. While complying with the principles set in the new Labour Contract Law, the Bank strengthened its compensation features, refined the corporate annuity plan, and paid close attention to the remuneration policies for various groups with an aim to building a harmonious reward system. To meet the diversified needs of its employees, the Bank built a flexible welfare plan and effectively enhanced the competitiveness of the Bank in terms of benefit package. The Bank has established a performance appraisal system on key performance indicators, so as to motivate its staff to meet various business targets. In order to motivate its staff members, the Bank awarded 16 employees that delivered outstanding performance in areas such as operational management and front desk marketing with "CCB Outstanding Contribution Award".

The Bank placed considerable emphasis on the cultivation and development of people, and continued to increase the input of training resources, expand training channels, and innovate training modes. To cope with the need of rapid business development, the Bank launched in-house trainings on a large scale, and the coverage and quality of training improved substantially. Through cooperating with renowned universities and strategic investors at home and abroad, core employees at key positions are trained to be more professional with international insights. Staff with outstanding performance were selected to receive international certifications such as certified financial planners and financial risk managers. Excellent employees were selected for overseas secondments to develop interdisciplinary expertise with a global view. The Bank has placed considerable emphasis on the training of front desk staff, and gradually expanded the programme for the training of excellent base level staff in Hong Kong. In 2007, the Bank as a whole conducted 7,400 sessions of training for 431,900 staff.

The Bank cooperated with Bank of America to organise and implement two projects, namely "Voice of Associate" and "Leadership Development". The "Voice of Associate" project was implemented across the Bank, which established an effective communication platform for the corporate entity and its staff. Six-sigma methodology was applied in project management, which explores the method and tools for standardised leadership development. A "Senior Management Leadership Competency Model" was created. "Success Profiles" for key positions such as customer service managers, dealers and project managers were developed, and "On-boarding Plans" were implemented in some pilot departments and branches to assist new recruits in adapting to the new environment.

Mr Xie Duyang, Chairman of the Board of Supervisors, met with outstanding employees of the Sixth Top Ten Outstanding Employees Election.

Risk Management

In 2007, the Bank continued to reinforce the reform of its risk management system. It strengthened the development of risk management tools, refined its credit risk management policies, improved the managing mechanism of market risks, and tightened its operational risk management. The effectiveness of risk management rose significantly on the whole. In 2007, the Bank was awarded "Best Financial Risk Management of China" by AsiaRisk Magazine.

Reinforcement of Reform of its Risk Management System

In 2007, with the appointment of all risk supervisors in tier-one branches and risk heads in tier-two branches, the Bank completed its delegation of the risk managers to county-level branches. The vertical risk management structure has been substantially established. The Bank has fully implemented the parallel operation structure to its large and medium-sized corporate customers. Some branches have been implementing this parallel operation structure to the credit business of retail customers and medium and small-sized corporate customers. Besides executing the risk management mechanism reform, the Group also evaluated the effectiveness of this reform in a timely manner and further improved supporting policies such as authorisation management and performance appraisal. The reform of the market risk management process has also been put in place to further improve market risk management mechanism. With the reform measures above, the effectiveness and independence of risk management has been further enhanced.

Strengthening the Development of its Risk Management Tools

In 2007, through total fund pricing management, the Bank effectively guided the adjustments in percentage composition, maturity composition and product composition of assets and liabilities. The Bank has adjusted industry composition through the use of risk limits for each industry. Economic capital was employed to adjust the customer, product and regional structures. This effort facilitated the continuous improvement of overall structure. The key achievements of the Bank's development of risk management tools were as follows:

- ***Implementation of total funds pricing management***

In 2007, the Bank rolled out fund transfer pricing management for all fund transfers across the Bank, and was able to price each transaction and set up links between the fund transfer pricing system, the accounting system and the enterprise resource planning financial system. The pricing results were automatically recorded in the accounting system and financial analysis system of various operating units at product level.

- ***Implementation of risk limits monitoring by industry***

The Bank took the lead among its counterparts to implement the monitoring of risk limits by industry. It monitors composition of loan portfolio by industry on a timely basis and releases information of its monitoring regularly to remind the relevant branches and sub-branches to take measures so as to control the extent of loans to different industries. This has lowered the industry concentration risk.

- ***Optimisation of economic capital management***

Along with its business development, the Bank continues to improve its measurement and management of economic capital. When measuring the economic capital by the asset volatility method, the Bank adjusted and optimised such measurement parameters as probability of default and loss given default for some customers. It has also developed software to measure the economic capital on the basis of its internal rating system to monitor and assess the utilisation of economic capital. The Bank uses the economic capital in several areas such as business planning, budget management, performance appraisal and establishment of risk limits. It proactively facilitates the optimisation of its business structure that provides tremendous support to the business operation in terms of management and decision-making.

Acceleration of the Implementation of the New Basel Capital Accord

In 2007, the Bank accelerated the implementation of the New Basel Capital Accord. The overall planning for the implementation of this Accord went smoothly. The overall plan has been formulated and laid a solid foundation for the smooth implementation of this Accord. It has also facilitated the enhancement for such sub-projects as grading of corporate exposures and retail exposures.

Risk Management Structure

The key objective of the Bank's risk management is to enhance its risk management capability and attain a balance between risks and rewards through active and vigorous risk management activities. The Bank aims to develop a comprehensive risk management system covering all businesses, products and activities to ensure the continuing development of every business.

The risk management committee under the Board is endowed with responsibilities to review the risk strategy and risk management policies and monitor and evaluate the respective implementations and effectiveness, to monitor and assess the organisational structure, reporting lines, working procedures and effectiveness for risk management departments, and to evaluate the performance of its senior management responsible for risk management.

The Bank has established a vertical and centralised risk management structure. The vertical risk reporting route "chief risk officer — risk supervisors — risk heads — risk managers" was formed.

At the head office level, a risk management and internal control committee has been established under the management. This committee is responsible for reviewing the risk policies and the proposal of development and implementation of internal control. The chief risk officer is responsible for the comprehensive risk management under the direct leadership of the president. The risk management department, risk monitoring department and credit approval department are all under the leadership of the chief risk officer. These departments implement the Bank's overall risk management in the risk policies and measurement and analysis, risk control and credit approval respectively. Other departments of the head office also perform their corresponding risk management duties in their respective scope of duty.

At the branch level, there are risk supervisors in tier-one branches who report to the chief risk officer. The risk supervisor is responsible for organising and facilitating the comprehensive risk management and credit approval in all entities under the branch. There are risk heads in tier-two branches and risk managers in sub-branches. They are responsible for the risk management in their respective branch or sub-branch. Two reporting lines are executed in this risk management. The first reporting line is to risk management officers at higher levels, with an additional reporting line to managers of their respective entities or business units. This mechanism has enhanced the timeliness and effectiveness of risk reporting and also strengthened the independence and professionalism of risk management.

Credit Risk Management

Credit risk represents the potential loss that may arise from the failure of a debtor or counterparty to meet its obligation or commitment to the Bank.

In 2007, the Bank further enhanced its credit risk management level by refining its credit policies, improving its credit risk management processes and expediting the development of its risk management information technology.

Review and Refinement of its Risk Management Policies

In 2007, the Bank continued to refine its risk management policies in line with the changing economic environment and internal management requirements. It established retail credit policies, and following-up management procedures for corporate customers that triggered early warning. It has also set a bottom line for the credit policies regarding such industries as highways, education and textiles. Assessment and monitoring measures relating to collaterals were formulated, and measures of classifying credit assets into 12 grades and risk reporting mechanism were also improved. Policies in respect of credit structure adjustment were put in place. Meanwhile, the Bank reviewed and improved its authorisation system that highlights the differentiation and refinement of authorisation to ensure the compatibility between business development and risk management capability.

Refinement of Approval Guidelines by Industry and Reinforcement in Risk Control

The Bank continued to improve its industrial approval guidelines in 2007. An addition of 13 guidelines has been put in place, together with the existing 21 industrial approval guidelines. In accordance with macroeconomic adjustment policies, the approval principles were elaborated in details to reinforce its requirements of energy saving and pollution reduction in the credit approval. The approval requirements were more clear-cut, stringent and applicable. Meanwhile, the Bank particularly strengthened its risk control over group clients, customers with large special mention loans and non-performing loans, and specific regions. Development of the risk monitoring system was emphasized, which continuously improved the asset quality.

Optimisation of the Credit Operation Process

The Bank strived to optimise its credit business process. At the stage of loan origination and investigation, the accuracy of customer evaluation was further improved through optimising the corporate exposure projects and the implementation of several retail exposure projects. The procedures of credit approval were further adjusted to optimise the Group's reporting and approval procedures of credit extensions for group customers. Members of a group client can apply for credit directly within the control of the relevant authorised credit limit for respective group client. While effectively controlling the overall credit risks of group customers and the credit risks of single customers, it enhanced the efficiency of credit reporting and approval. For the post-disbursement management, the Group established a monitoring and management protocol for customers that have triggered early warning, which improved its capability to identify its customers' risk levels. The post-disbursement management was further strengthened.

In 2007, the Bank implemented a parallel operation structure in respect of its customer credit extensions to large and medium-sized corporate customers in full gear. Under this structure, the customer managers and risk managers would work together. Risk managers would be involved in all the procedures of the credit operation. As a result, the foresight, independence and effectiveness of risk management was significantly improved.

Acceleration of Development of Management Information System

In 2007, the Bank accelerated the promotion, utilisation and development of its credit risk management information systems. The corporate credit process management system and personal loan collection system were put into use, which standardised business process and lowered risks. The risk monitoring system for the credit extension business was launched to fulfil real time risk control over loans on a gradual basis.

Development of a system for managing provisions for impairment losses on credit assets was completed. The Bank has completed the trial operation of 12-grade classifications of credit assets and this system will be fully rolled out in 2008. The development and utilisation of this information technology system has enhanced the accuracy of credit asset classification and reinforced the management of credit assets, further enhancing the Bank's credit risk management.

In line with the new Basel Capital Accord, the Bank has accelerated the development of its internal rating system (phase 2). Optimisation of corporate exposures has been achieved to some extent, and the rating accuracy and stability of the system has been enhanced. In respect of retail exposures, the Bank is the first among its Mainland counterparts to accomplish its in-house research and development of such key rating technology as credit cards and personal housing loans. Its support in automatic approval and risk monitoring for most of its retail credit business has facilitated the rapid and healthy development of its retail lending business.

Concentration of Credit Risks

In 2007, the Group's lending to the largest single borrower accounted for 4.70% of the net capital; and that to the ten largest customers accounted for 19.86% of the net capital. These indicators all complied with regulatory requirements.

The Key Regulatory Indicators

Key regulatory indicators	Regulatory standards	As at 31 December 2007	As at 31 December 2006	As at 31 December 2005
Ratio of loans to the single largest customer (%)	≦10	**4.70**	5.82	6.71
Ratio of loans to the ten largest customers (%)	≦50	**19.86**	23.40	28.38

Concentration of Borrowers

The Group's ten largest single borrowers as at the specific dates were listed as follows:

	Specific Industry	As at 31 December 2007 Amount	% of total loans
		(In millions of RMB, except percentage)	
Customer A	Railway transport	**21,766**	**0.67**
Customer B	Road transport	**9,701**	**0.30**
Customer C	Real estate	**8,500**	**0.26**
Customer D	Road transport	**8,340**	**0.25**
Customer E	Oil processing, coking and nuclear fuel processing	**8,284**	**0.25**
Customer F	Road transport	**8,209**	**0.25**
Customer G	Production and supply of electricity and heat	**7,766**	**0.24**
Customer H	Management of public facilities	**7,411**	**0.23**
Customer I	Road transport	**7,029**	**0.21**
Customer J	Road transport	**5,000**	**0.15**
Total		**92,006**	**2.81**

Liquidity Risk Management

Liquidity risk is the risk that funds will not be available to meet liabilities as they fall due.

The Bank's liquidity management aims at maintaining a reasonable level of the liquidity, ensuring payment and settlement security while complying with the financial regulatory requirements. It also strives to deploy its funds in an effective way so as to enhance the yield rate. The Bank achieves its management objectives mainly through setting up a designated liquid asset portfolio consisting of a multi-layered stock of liquid assets including highly-liquid assets such as purchases under reverse repo agreements, short-term PBC bills and government bonds.

In 2007, a persistently active capital market and stringent measures frequently implemented by the PBC affected the Bank in a way that its source of funds changed relatively significantly. Liquidity risk management was even more challenging. On the one hand, the stability of customers' deposits declined due to the fluctuation of inter-bank deposits and the tendency to maintain demand deposits. There were 123 new issues of shares in 2007. The large withdrawal and deposit of the funds for new issues made it more difficult to lower the surplus reserve rate. On the other hand, the PBC raised the statutory reserve requirement ratio for ten times and issued designated PBC bills for six times during 2007. These all lowered the liquidity of commercial banks' funds. Under these circumstances, the Bank achieved payment security and lower surplus reserve rate through flexible anticipation of liquidity position, formulation of a contingency plan and balanced investment.

In order to ensure its liquidity, the Bank has formulated a scheme of limits on recycling of funds from RMB investment portfolio in bonds and money market instruments. Under this scheme, the Bank has prudently anticipated the source of funds according to circumspect principles. It has comprehensively anticipated the fund utilisation and set the quarterly and annual limits for recycling of funds due in bond investment accordingly. Liquidity is secured through the continuing, stable and reliable recycling of funds.

Management Discussion and Analysis

Analysis of the remaining maturity of the Group's assets and liabilities as at the balance sheet date is set below:

	As at 31 December 2007							
(In millions of RMB)	Repayment on demand	Within 1 month	Between 1 and 3 months	Between 3 months and 1 year	Between 1 and 5 years	More than 5 years	Undated	Total
Assets								
Cash and balances with central banks	107,178	109,320	14,330	–	–	–	736,546	967,374
Amounts due from banks and non-bank financial institutions	17,255	55,839	15,457	13,548	137	3	154	102,393
Loans and advances to customers	27,271	122,830	250,102	924,681	941,207	880,105	37,033	3,183,229
Investments	–	114,462	133,683	341,943	1,071,124	489,263	51,335	2,201,810
Others	30,978	2,926	11,263	11,427	2,673	1,497	82,607	143,371
Total assets	182,682	405,377	424,835	1,291,599	2,015,141	1,370,868	907,675	6,598,177
Liabilities								
Amounts due to central banks	6	50,000	967	–	–	–	–	50,973
Amounts due to banks and non-bank financial institutions	510,163	80,154	11,126	4,587	31	–	–	606,061
Deposits from customers	3,354,269	209,972	436,796	1,069,347	261,755	8,177	–	5,340,316
Certificates of deposit issued	–	245	1,078	3,563	4,398	–	–	9,284
Others	83,694	3,902	6,686	12,748	13,794	7,739	771	129,334
Subordinated bonds issued	–	–	–	–	–	39,928	–	39,928
Total Liabilities	3,948,132	344,273	456,653	1,090,245	279,978	55,844	771	6,175,896
Net (short)/long positions in 2007	(3,765,450)	61,104	(31,818)	201,354	1,735,163	1,315,024	906,904	422,281
Net (short)/long positions in 2006	(2,720,669)	(190,295)	34,075	323,679	1,268,448	1,070,983	543,983	330,204

The Group regularly monitors the gap between its assets and liabilities of all businesses in various maturities to assess the liquidity risk under any particular period of maturities. As at 31 December 2007, the accumulated gap of various maturities of the Group was RMB422,281 million, an increase of RMB92,077 million compared with 2006, which was mainly due to the shortened funding source as a result of the faster growth of customers' demand deposits and inter-bank deposits. In spite of the negative gap for repayment on demand totalled RMB3,765,450 million, the Group's customers' deposit base was strong and expansive, with a relatively high proportion of core demand deposit which provided a stable funding source.

Market Risk Management

Market risk is the risk of loss in the Bank's on and off-balance sheet activities, arising from adverse movements in market rates including interest rates, foreign exchange rates, commodity prices and stock prices etc.

The Bank has been striving to establish a comprehensive market risk management mechanism. In 2007, the Bank formulated and promulgated the scheme on market risk management according to regulatory requirements and the Bank's actual internal management situation. The scheme has further clarified the market risk management structure and departmental duties, improved the reporting process and management mechanism of market risk and facilitated the enhancement of the standard of market risk management.

Based on the nature, scale, complexity and risk characteristics of the operations, together with the overall business development strategies, management capability and capital strength, the Bank has identified the level of its overall risk exposures. It has clarified the tolerance to the potential loss of economic capital of market risk, banking book's interest rate risk and the maximum loss rate of RMB and foreign currency investment portfolios as well as the basic management requirements relating to trading book and derivative products.

The Bank adjusted and optimised its management system of market risk limits. The system has expanded the coverage of limit management and improved the interpretation and operation of the limit management. A comprehensive and all-round limit management system that takes into account various entities, products and types is established.

In 2007, the Bank improved the asset and liability management information system according to the business development and needs for management. The asset and liability management information system includes a number of system modules such as liquidity management, market risk management, monitoring and multidimensional analysis of interest rates, internal fund transfer pricing management and loan pricing management so as to provide technical support to price discrimination, refined management of capital and interest rate risk unifying management. A portion of the system modules are launched and applied across the Bank.

Interest Rate Risk Management

The primary source of interest rate risk is the mismatches between the repricing dates of assets and liabilities. The Bank regularly measures the interest rate sensitivity repricing gap, and assesses the impact of interest rate changes upon its net interest income and economic value under various scenarios of interest rate movements, and conducts stress testing on a regular basis.

The analysis of the expected next repricing dates (or maturity dates whichever are earlier) of the Bank's assets and liabilities as at the balance sheet date is set below:

	As at 31 December 2007					
(In millions of RMB)	Total	Non-interest-bearing	Less than 3 months	Between 3 months and 1 year	Between 1 year and 5 years	More than 5 years
Assets						
Cash and balances with central banks	967,374	32,240	935,134	–	–	–
Amounts due from banks and non-bank financial institutions	102,393	–	88,663	13,545	182	3
Loans and advances to customers	3,183,229	–	1,420,365	1,697,293	30,795	34,776
Investments	2,201,810	36,795	331,537	513,923	916,255	403,300
Others	143,371	143,371	–	–	–	–
Total assets	6,598,177	212,406	2,775,699	2,224,761	947,232	438,079
Liabilities						
Amounts due to central banks	50,973	–	50,973	–	–	–
Amounts due to banks and non-bank financial institutions	606,061	–	601,443	4,588	30	–
Deposits from customers	5,340,316	38,056	3,963,298	1,073,451	257,440	8,071
Certificates of deposit issued	9,284	–	6,659	1,363	1,262	–
Others	129,334	129,334	–	–	–	–
Subordinated bonds issued	39,928	–	–	9,920	30,008	–
Total Liabilities	6,175,896	167,390	4,622,373	1,089,322	288,740	8,071
Repricing gap in 2007	422,281	45,016	(1,846,674)	1,135,439	658,492	430,008
Accumulated repricing gap in 2007			(1,846,674)	(711,235)	(52,743)	377,265
Repricing gap in 2006	330,204	19,794	(1,536,503)	1,149,734	269,811	427,368
Accumulated repricing gap in 2006			(1,536,503)	(386,769)	(116,958)	310,410

As at 31 December 2007, the Group's accumulated negative interest rate sensitivity gap within one year widened by RMB324,466 million to RMB711,235 million over 2006, which was primarily due to the increase of the negative gap within three months. Affected by the withdrawal of time deposits before maturity and the increase in proportion of demand deposits to new deposits, the proportion of demand deposits to deposits from customers of the Group rose from 55.42% at the end of 2006 to 58.63% at the end of 2007, leading to the widening of the negative gap within three months for the Group. The ratio of accumulative negative gap within one year to the interest-earning assets at the end of year was 11.14%, 3.83 percentage points higher than that at the end of the previous year.

The Bank performs value at risk (VAR) analysis on its trading portfolios and available-for-sale debt securities to measure and monitor the potential losses on positions due to shifts in factors such as interest rates, exchange rates and prices. The Bank calculates the VAR on foreign currency-denominated investment portfolio on a daily basis and the VAR on RMB-denominated investment portfolio at least once a month (at 99% confidence level and one-day holding period). At the balance sheet date and the respective year, VARs of the Bank's trading book portfolio and available-for-sale bonds are as follows:

	2007				2006			
(In millions of RMB)	**Year end**	**Daily average**	**Maximum value**	**Minimum value**	Year end	Daily average	Maximum value	Minimum value
RMB trading portfolios								
Interest rate risk	**4**	**3**	**7**	**2**	2	4	6	2
RMB available-for-sale debt securities								
Interest rate risk	**258**	**209**	**291**	**93**	133	219	320	128
Foreign currency trading portfolios								
Interest rate risk	**93**	**44**	**93**	**17**	61	107	168	16
Foreign exchange risk	**203**	**24**	**203**	**12**	2	6	7	–
Diversification	**(96)**	**(15)**	**(96)**	**(11)**	(2)	(6)	(8)	–
Total	**200**	**53**	**200**	**18**	61	107	167	16
Foreign currency available-for-sale debt securities								
Interest rate risk	**662**	**551**	**720**	**366**	369	427	666	220

A regular interest rate risk reporting mechanism has been set up by the Bank, and a monitoring system is being implemented. The Bank uses derivatives such as interest rate swaps and options to hedge interest rate risk associated with its foreign currency business. As interest rate hedging tools have not been adequately developed in the RMB market, the Bank manages RMB interest rate risk largely by adjusting business volumes and maturity profiles.

Foreign Exchange Risk Management

The Bank is exposed to foreign exchange risks primarily because it holds deposits, loans, marketable securities and other financial derivatives that are denominated in currencies other than RMB. The Bank's foreign exchange risks comprise structural exposure and trading exposure, and different strategies are applied to manage each of these exposures.

The Bank mitigates structural exchange exposure by matching assets and liabilities based on the currency involved. The amounts and periods of lending and borrowing are matched, as much as possible, on a currency-by-currency basis. Open positions are hedged with instruments such as spot and forward contracts as well as swaps and options.

Trading exchange exposure is the Bank's foreign exchange exposure from customer-driven and proprietary foreign exchange purchases and sales, foreign exchange trading and foreign exchange derivative business. The Bank controls the trading exchange exposure by setting a trading limit. The Bank uses the asset and liability management information system to measure and monitor structural and trading exchange risks on a daily basis.

Operational Risk Management

Operational risk is the potential of loss resulting from inadequate or failed internal processes, people and systems, or from external events.

In 2007, the Bank continued to improve its operational risk management. The new initiatives mainly included:

- promulgating the policies of operational risk management to clearly define the departmental duties, management process and principles. It has established the overall framework for the Group's operational risk management and provides guidelines for operational risk management.

- actively researching and facilitating the development of operational risk management tools. Some branches have completed their own pilot project for self-assessment of operational risk and internal control. The operational risk management has been gradually shifted to precautionary.

- setting up the standards for measuring loss in relation to operational risk and facilitating the development of a data base for this loss. This initiative has laid a foundation for more accurate measurement of risk. The Bank has also studied the development of a system in respect of key indicators of operational risks to enhance its ability to monitor and be alert to the conditions of key risks.

- commencing the adjustment of incompatible positions to ensure effective segregation and cross-control between various positions. It helps prevent and control the internal operational risk in an active manner.

- enhancing business continuity management. A business contingency plan has been formulated for the main information systems, which clearly specifies the processes in respect of early warnings, contingent actions and management afterwards to ensure safe operation of the main production systems. Contingency drills have been carried out in respect of malfunctions of its data centres to reinforce its ability to manage contingencies.

- enhancing the development of its information system to improve the effectiveness and timeliness of identifying, controlling and reporting operational risks, credit risks and market risks.

- promoting the formation of risk culture to strengthen team development. It has improved all the employees' awareness to risks through training and employment assessment.

Reporting and Monitoring of Non-compliance

By the end of 2007, 16 criminal offences committed by the Bank's employees, totalling RMB17.27 million, had been reported to the head office. Both the volume and the values involved in these offences were considerably lower than those of 2006. Of these, two cases involved a sum of RMB1 million or above, totalling RMB11.22 million. Staff misconduct showed that internal controls were still not sufficient in some of the Bank's branches. Nevertheless, these criminal offences have not, individually or in the aggregate, had any material adverse effects on the Bank's business, financial conditions or operating results.

Internal Audit

The Bank continued to enhance the internal audit system, which is vertically managed by the head office. It strived to enhance the centralisation, professionalism, standardisation and informationisation of its internal audit tasks with improved and innovative audit techniques and methods. It has also improved the level, quality and efficiency of the internal audit tasks to facilitate the development of effective internal control and corporate governance environment.

In 2007, the Bank's internal audit department conducted a total of 24 system audit projects covering business audit, financial management audit, real estate loans audit, personal loans audit, group customers' credit extensions audit, and audit of information system development. This initiative plays an important role in standardising operation management and risk prevention. Meanwhile, attention in respect of audit has shifted from operation level to management level. It has specifically conducted several projects such as audit researches on the business of Global 500 Enterprises in the Bank and on the lending business to small-sized enterprises. These projects have supported the enhancement of the Bank's operation and management ability.

Prospects

In 2008, the global economy remains steady on the whole. Under the influence of the spreading sub-prime mortgage lending crisis in the United States, rocketing international oil prices, strong international gold prices and higher inflationary pressure, uncertainty in the prospect of global economic growth grows.

In 2008, China's domestic economy is expected to maintain a relatively rapid growth. In view of the signs of overheating in economic growth and the growing risk of inflation, it is anticipated that the Government will continue to strengthen and improve its macro-adjustment measures. The securities market will maintain its momentum, but with greater volatility, which will pose impact on businesses relevant to the banks and securities market. With the opening-up of the banking industry, foreign banks have reinforced their investments in the PRC Market. At the same time, all the leading commercial banks in China have been actively executing business transformation, making competition among counterparts more intense. There are also a number of favourable factors in the operating environment of the Bank including "unified income tax", the extensive business opportunities brought about by the upcoming Olympic Games and strengthened customer base and enhanced channels of the Bank.

Faced with the more rigorous new challenges and opportunities, the Group will keep an eye on macroeconomic movements. It will continue to keep track of and analyse changes in policies and the market, grasp the opportunities and take initiatives to adjust its operating strategies to enhance its operating standards and achieve the operating objectives for the year.

First of all, the Group will carry out adjustment in credit structure in a sound manner to realise a steady development of its business. The Group will reasonably handle the pace and scale of credit extension, utilise industry limit management to adjust the structure of its credit business and raise the pricing capacity. It will also reinforce its proactive liability management and refined liquid management, scientifically project its funding source and structure change, and use the fund more effectively. Marketing as well as product development and innovation for foreign currency business will be strengthened to boost a faster development in foreign currency business. By means of joint ventures, acquisitions, cooperation and other methods, the Group will establish platforms for development of various businesses, actively and carefully facilitate an integrative operation so as to provide a variety of financial services to the customers while lifting the overall profitability.

Furthermore, the Group will relentlessly pursue its strategic transformation to maintain its satisfactory growing trend in intermediary businesses. It will refine product segmentation management of the intermediary business, formulate distinct development strategies according to the features of various products, and enhance the performance assessment method and incentive and disciplinary mechanism. Innovations in the business and products will be strengthened to build up the brand of intermediary business of the Group. It will accelerate the development of key businesses such as bancassurance, e-banking, credit card, financial market, emerging businesses such as investment banking and other prospective businesses so as to lay a solid basis for sustained rapid development of the intermediary business.

Last but not the least, the Group will continue to enhance its risk management and infrastructure development to establish a long-term mechanism. It will closely track the financial trends of domestic and international economies to appreciate changes of risks. Focus will be put on the development and application of advanced tools and methods to measure risks, and initiatives will be taken to deal with various types of risks in operations. The Group will also strengthen its technology support to develop a safe information system that is service-oriented and supportive to product innovation. Besides, it will steadily advance its strategic cooperation with Bank of America. Various projects such as branch transformation, development of its capability to serve small and medium-sized enterprises and improvement of its internet banking system will be strongly executed to strengthen its capacity of sustainable development. The Group will reinforce its product innovation and management to greatly strengthen its capability of product production and customer services. A better allocation of human resources will be employed to establish a sound employment system that fits into the requirements of modern financial enterprises. Furthermore, it will actively cultivate a corporate culture that complies with the modern banking requirements and possesses the characteristics of the Bank.

Corporate Social Responsibility

In 2007, the Bank's business developed steadily. While catering for the benefits of the country, its customers, shareholders and staff, the Bank strived to show concern for problems and challenges encountered by the community during the course of its development, and took an active part in supporting the development of charitable and social causes such as education, sports, natural disaster response and poverty alleviation so as to fulfil its role as a good corporate citizen.

In 2007, the Bank supported a total of 14 charitable projects, with a donation amount of RMB197 million, of which HK$720,000 was donated to the Community Chest of Hong Kong for funding the Youth Employment Network in Hong Kong in order to provide career support and assistance to local young people.

As a result of the Bank's initiatives to undertake and fulfil the social responsibility of a corporate citizen, its efforts and contributions have gained wide recognition. The Bank was presented the "Most Responsible Enterprise Award 2007" by China News Week and institutions including the Red Cross Society of China for the second time after 2006, and was awarded the honourable titles of "Charitable Organisation for Poverty Alleviation in China" by the China Foundation for Poverty Alleviation, "Corporate Social Responsibility Contributions Award" by Xinhua Net and "Charitable Enterprise for Women in China" by All-China Women's Federation and China Women's Development Foundation. The Bank was the only Hong Kong listed company honoured with the "Corporate Social Responsibility Award" by The Chamber of Hong Kong Listed Companies and the Faculty of Business Administration of the Baptist University of Hong Kong.

Volunteers from CCB cheered on the athletes at 2007 Special Olympics World Summer Games.

Publishing the First Corporate Social Responsibility Report

In May 2007, the Bank published its first Corporate Social Responsibility Report and became the first large state-controlled commercial bank in China to release such report. The report reviewed the trail of accomplishment and expedition to fulfil its social responsibility of the Bank since its establishment, and its initial public offering in particular. The report seeks to communicate with the broad community effectively on the Bank's valued principles and social responsibility, as a means of contribution to the nation and fulfilment of its social responsibility.

Corporate Social Responsibility

Actively Supporting Educational development

Supporting the educational development has been a significant part in the Bank's fulfilment of social responsibility. In 2007, the Bank extended its support to the field of education and will consider the sector as a major area in the Bank's charitable support planning in the coming ten years.

The Bank donated RMB120 million to the China Education Development Foundation to specifically subsidise impoverished high school students in China, particularly the west and central regions. The programme will run for six successive years, and help 13,300 impoverished students each year with RMB1,500 for each student. A total of 80,000 students have received the subsidies. The donation made is, up to this moment, the largest amount donated to education by domestic banks.

The Bank donated RMB3.50 million to the China Foundation for Poverty Alleviation and jointly set up the "Passion to Tibet — CCB & Jianyin Scholarships and Grants" with Jianyin to subsidise outstanding impoverished university and high school students in Tibet to complete their studies.

The Bank donated US$3 million to the School of Economics and Management of the Tsinghua University to set up the "CCB Tsinghua University Chair Professorship Fund" for inviting international renowned scholars to chair as professors at the Tsinghua University so as to enhance the educational standard at the University.

The Bank donated RMB530,000 to the China Youth Development Fund for building "CCB Hope Primary Schools", equipping the schools with sports equipment and libraries, and sponsoring trainings for teachers.

Supporting Sports Development for Communities with Special Needs

In 2007 the Bank, acting as the games partner and official bank, sponsored The 2007 Special Olympics

Staff of CCB Hunan branch loading supplies for disaster relief under snowy weather.

World Summer Games together with Bank of America. Starting from May 2007, the Bank launched a series of charitable activities "Care for the community with action". The Bank promoted and solicited donations for the Special Olympics in nearly 3,000 outlets by issuing Care Card and collecting change donations, and launched joint projects with special schools for mentally challenged children so as to support the sports events for the mentally challenged.

Active Response to Disasters, Poverty Alleviation and Relief Activities

In 2007, the Bank donated RMB2 million to the regions of Anhui and Chongqing that were stricken by floods for the reconstruction of the stricken areas. In early 2008, the Bank donated RMB12 million to ten provinces such as Hunan, Hubei, Anhui and Guizhou that are stricken by the severe snowstorm and cold weather to help victims with combating and rescuing work in the affected areas. Meanwhile, staff at the Bank made voluntary monetary or gift donations to help victims of the disasters. In particular, the staff at Beijing branch donated over RMB650 thousand to the Red Cross Society of China, and those at Hunan branch donated around RMB113 thousand and over 2,500 pieces of clothes.

The Bank donated RMB50 million to China Women Development Foundation to specifically offer financial support to the mothers and wives of soldiers, policemen and public securities who are killed or injured while on duty or who have outstanding performance but have financial difficulties at home. The scheme has run for ten successive years. 1,800 deprived mothers and wives were subsidised each year with RMB2,500 to RMB5,000 each person. A total of 18,000 people have received the subsidies.

The Bank donated 334 computers to the China Association for Poverty Alleviation and Development to support poverty alleviation campaign of "China Villages Project".

Integrating Business Development with Support for Environmental Protection

The Bank has always shared the responsibility on environmental protection with the community. In Gansu, the Bank made a cumulative injection of funding of over RMB7 million to support a green construction in mountain areas. In Inner Mongolia Autonomous Region, the Bank launched the "Love Our Country" tree planting campaign and put up the "CCB Youth Forest" in Engebei, the national desert eco-demonstration region in Dalateqi. In Sichuan, the Bank actively supported and participated in regional tree-planting and forest-building, nearly 10,000 trees were planted.

The Bank regards environmental protection as a major part of its social responsibility and actively promotes the "green credit" policy. The "one ballot veto system" is adopted in credit approvals and no loans will be extended to projects and enterprises that are officially prohibited from operation by the Government due to their breach of the regulations for environmental protection. After loans are granted, the Bank will continue to oversee the implementation of pollution preventive measures of the related projects. Loans granted will be recalled if the projects do not meet the regulations for environmental protection. At the same time, the Bank gives preference in terms of loan access to environmentally friendly and clean energy projects such as wind power generation and urban sewage treatment so as to boost the sustainable development of environmental protection and the community.

I can go to school now.

Encouraging Staff Participation in Charity Work

To motivate and encourage staff to take on social responsibility, the Bank, as specified in its Code of Conduct, requires staff to support charitable causes, care for the underprivileged and take the initiative to demonstrate their kindness, and encourage staff to actively participate in voluntary service and other charitable activities. In 2007, staff at the Bank made donations of RMB15.86 million to fund the subsidies programme for the impoverished high school students. During the 2007 Special Olympics World Summer Games, nearly a thousand volunteers from the Bank took part in the promotion campaigns for the Special Olympics. Their dedicated efforts helped spread care and understanding for special communities such as the mentally challenged in the community.

Changes in Share Capital and Particulars of Shareholders

Changes in Shares

Unit: share

	1 January 2007		Increase/(Decrease) during the reporting period					31 December 2007	
	Number of shares	Percentage (%)	Issuance of additional shares	Bonus issue	Shares converted from capital reserve	Others	Sub-total	Number of shares	Percentage (%)
(I) Shares subject to selling restrictions[1]									
1. State-owned shares[2]	138,150,047,904	61.48	–	–	–	–	–	138,150,047,904	59.12
2. Shares held by state-owned legal persons[3]	28,292,250,000	12.59	–	–	–	(7,600,000,000)	(7,600,000,000)	20,692,250,000	8.85
3. Shares held by other domestic investors	–	–	2,700,000,000[4]	–	–	(2,700,000,000)	–	–	–
Comprising:									
Shares held by domestic non-state-owned legal persons	–	–	–	–	–	–	–	–	–
Shares held by domestic natural persons	–	–	–	–	–	–	–	–	–
4. Shares held by foreign investors[5]	29,038,717,096	12.93				(4,952,871,375)	(4,952,871,375)	24,085,845,721	10.31
Comprising:									
Shares held by foreign legal persons	–	–	–	–	–	–	–	–	–
Shares held by foreign natural persons	–	–	–	–	–	–	–	–	–
(II) Shares not subject to selling restrictions									
1. RMB ordinary shares	–	–	6,300,000,000	–	–	2,700,000,000[4]	9,000,000,000	9,000,000,000	3.85
2. Domestically listed foreign investment shares	–	–	–	–	–	–	–	–	–
3. Overseas listed foreign investment shares	29,208,069,000	13.00	–	–	–	5,476,932,375	5,476,932,375	34,685,001,375	14.84
4. Others	–	–	–	–	–	7,075,939,000	7,075,939,000	7,075,939,000	3.03
(III) Total number of shares	224,689,084,000	100.00	9,000,000,000	–	–	–	9,000,000,000	233,689,084,000	100.00

1. *Shares subject to selling restrictions refer to shares held by shareholders who are subject to selling restrictions in accordance with laws, regulations and rules or under commitment.*

2. *H-shares of the Bank held by Huijin.*

3. *H-shares of the Bank held by Jianyin, State Grid, Baosteel Group and Yangtze Power. State Grid, Baosteel Group and Yangtze Power held 7,600,000,000 H-shares of the Bank as at 1 January 2007, and 7,075,939,000 H-shares of the Bank as at 31 December 2007, which is set forth in "Shares not subject to selling restrictions — Others" in this table.*

4. *2,700,000,000 shares are A-shares placed through offline offering. The lock-up was lifted on 25 December 2007 after the three months lock-up period from 25 September 2007.*

5. *H-shares of the Bank held by the foreign strategic investors: Bank of America and Fullerton Financial.*

Changes in Shares Subject to Selling Restrictions

Name of shareholder	Number of shares subject to restrictions at the beginning of the year	Number of shares released from restrictions during the year	Number of new shares subject to restrictions in the year	Number of shares subject to restrictions at the end of the year	Reasons for the restrictions	Date of release from restrictions
Huijin	138,150,047,904	–	–	138,150,047,904	The 5-year lock-up period since issuance of H-shares (27 October 2005)	27 October 2010
Jianyin	20,692,250,000	–	–	20,692,250,000	The 5-year lock-up period since issuance of H-shares (27 October 2005)	27 October 2010
State Grid	3,000,000,000	3,000,000,000	–	–	The 22-month lock-up period since issuance of H-shares (27 October 2005)	27 August 2007
Baosteel Group	3,000,000,000	3,000,000,000	–	–	The 22-month lock-up period since issuance of H-shares (27 October 2005)	27 August 2007
Yangtze Power	1,600,000,000	1,600,000,000	–	–	The 22-month lock-up period since issuance of H-shares (27 October 2005)	27 August 2007
Bank of America	19,132,974,346	–	–	19,132,974,346	The 3-year lock-up period since issuance of H-shares (27 October 2005)	27 October 2008
Fullerton Financial	9,905,742,750	4,952,871,375	–	4,952,871,375	4,952,871,375 H-shares are transferrable on or after 29 August 2007. The 3-year lock-up period since 29 August 2005 for the remaining 4,952,871,375 H-shares.	29 August 2008
A-share offline subscription investor	–	2,700,000,000	2,700,000,000	–	The 3-month lock-up period since issuance of A-shares (25 September 2007)	25 December 2007
Total	195,481,015,000	15,252,871,375	2,700,000,000	182,928,143,625		

Details of Securities Issuance and Initial Public Offering

On 27 October 2005, the Bank was listed on Hong Kong Stock Exchange through the issuance of 30,458,834,000 H-shares in its overseas IPO (including the H-shares issued by exercising over-allotment option on 9 November 2005) at an issue price of HK$2.35 per share. At the same time, all the shares issued before the overseas IPO (194,230,250,000 shares) were converted into the overseas listed shares (H-shares). Upon completion of the overseas IPO, the total number of shares (H-shares) of the Bank was 224,689,084,000 and both the registered capital and paid-in capital were RMB224,689,084,000.

On 25 September 2007, the Bank was listed on Shanghai Stock Exchange through the issue of 9 billion A-shares in its domestic IPO at an issue price of RMB6.45 per share. Upon completion of the domestic IPO, the total number of shares of the Bank was 233,689,084,000 (H-share 224,689,084,000, A-share 9,000,000,000) and both the registered capital and paid-in capital were RMB233,689,084,000.

Changes in Share Capital and Particulars of Shareholders

Number of Shareholders and Particulars of Shareholdings

As at the end of the reporting period, the Bank had a total of 1,516,445 shareholders, of which 55,409 were holders of H-shares and 1,461,036 were holders of A-shares.

Unit: share

Particulars of shareholding of the top ten shareholders

Name of shareholder	Nature of shareholder	Shareholding percentage (%)	Total number of shares held	Number of shares subject to selling restrictions	Number of shares pledged or frozen
Huijin	State-owned	59.12	138,150,047,904 (H-shares)	138,150,047,904	None
HKSCC Nominees Limited[1]	Foreign legal person	12.07	28,209,724,301 (H-shares)	–	Unknown
Jianyin[2]	State-owned legal person	8.85	20,692,250,000 (H-shares)	20,692,250,000	None
Bank of America	Foreign legal person	8.19	19,132,974,346 (H-shares)	19,132,974,346	None
Fullerton Financial	Foreign legal person	5.65	13,207,316,750 (H-shares)	4,952,871,375	None
Baosteel Group	State-owned legal person	1.30	3,000,000,000 (H-shares)	–	None
			39,000,000 (A-shares)	–	None
Yangtze Power	State-owned legal person	0.51	1,200,000,000 (H-shares)	–	None
Reca Investment Limited	Foreign legal person	0.34	800,000,000 (H-shares)	–	None
Agricultural Bank of China – China Post Core Growth Stock Fund	Domestic non-state-owned legal person	0.12	284,051,722 (A-shares)	–	None
China Life Insurance Company Limited – Participating – Individual participating – 005L – FH002 SH	Domestic non-state-owned legal person	0.10	233,696,000 (A-shares)	–	None

1. *As at 31 December 2007, State Grid, one of the Bank's promoters, held 2,875,939,000 H-shares of the Bank, which were held under the name of Hong Kong Securities Clearing Company Nominees Limited.*
2. *Jianyin is a wholly owned subsidiary of Huijin. Apart from this, the Bank is not aware of any connections among the above shareholders or whether they are parties acting in concert.*

Particulars of shareholding of the top ten shareholders not subject to selling restrictions

Name of shareholder	Shares not subject to selling restrictions	Type of share
HKSCC Nominees Limited	28,209,724,301	H-share
Fullerton Financial	8,254,445,375	H-share
Baosteel Group	3,000,000,000	H-share
	39,000,000	A-share
Yangtze Power	1,200,000,000	H-share
Reca Investment Limited	800,000,000	H-share
Agricultural Bank of China – China Post Core Growth Stock Fund	284,051,722	A-share
China Life Insurance Company Limited[1] – Participating – Individual participating – 005L – FH002 SH	233,696,000	A-share
China Life Insurance (Group) Company – Traditional – Ordinary insurance products	189,705,000	A-share
Agricultural Bank of China – China Post Core Selected Stock Fund	143,000,000	A-share
China Life Insurance Company Limited – Traditional – Ordinary insurance products – 005L – CT001 SH	124,922,850	A-share

1. *China Life Insurance Company Limited is a subsidiary controlled by China Life Insurance (Group) Company. Some of the shareholders mentioned above were managed by the same fund manager. Apart from this, the Bank is not aware of any connections among the shareholders or whether they are parties acting in concert.*

Substantial Shareholders of the Bank

As at the end of the reporting period, Huijin directly held 59.12% of the shares of the Bank and, through its wholly owned subsidiary Jianyin, indirectly held 8.85% of the shares of the Bank. Huijin is the controlling shareholder of the Bank.

Huijin is a wholly state-owned investment company established on 16 December 2003 with the approval of the State Council and in accordance with the Company Law. The registered capital is RMB372,465 million and the legal representative is Hu Xiaolian. Huijin is funded by the state and exercises the investors' rights and obligations on behalf of the state in financial institutions such as the Bank, Bank of China and Industrial and Commercial Bank of China.

Please refer to the *Announcement on the Matters related to the Incorporation of China Investment Corporation* published by the Bank on 9 October 2007 for details of China Investment Corporation.

There were no other institutional shareholders holding 10% or more of shares (excluding Hong Kong Securities Clearing Company Nominees Limited). There was no employee share.

Changes in Share Capital and Particulars of Shareholders

Dates on which Shares Subject to Selling Restrictions May Commence Trading

Unit: share

Date	Number of shares released at expiry of lock-up period	Total number of outstanding shares subject to selling restrictions	Total number of outstanding shares not subject to selling restrictions	Remarks
29 August 2008	4,952,871,375	177,975,272,250	55,713,811,750	Release from lock-up of H-shares held by Fullerton Financial
27 October 2008	19,132,974,346	158,842,297,904	74,846,786,096	Release from lock-up of H-shares held by Bank of America
27 October 2010	158,842,297,904	—	233,689,084,000	Release from lock-up of H-shares held by Huijin and Jianyin

Particulars of Shareholding of the Shareholders Subject to Selling Restrictions and the Conditions of Selling Restrictions

Unit: share

No.	Name of shareholder subject to selling restrictions	Shares subject to selling restrictions	Date on which shares may commence trading	Number of new tradeable shares	Selling restrictions
1	Huijin[1]	138,150,047,904	27 October 2010	138,150,047,904	Lock-up period of H-shares
2	Jianyin	20,692,250,000	27 October 2010	20,692,250,000	Lock-up period of H-shares
3	Bank of America[2]	19,132,974,346	27 October 2008	19,132,974,346	Lock-up period of H-shares
4	Fullerton Financial[3]	4,952,871,375	29 August 2008	4,952,871,375	Lock-up period of H-shares

1. *In accordance with the letter of undertaking issued by Huijin and Jianyin in July 2005, in the five years starting from the first day that the H-shares were issued by the Bank on the Mainboard of Hong Kong Stock Exchange for trading ("lock-up period"), Huijin and Jianyin, without written consents from the Bank, CICC and Morgan Stanley, will not, by any means, directly or indirectly sell, offer for sale, pledge, lend, confer any options, transfer and dispose of any shares, equities or economic benefits of the Bank that are held currently or will be held during the lock-up period (including but not limited to the new shares held by means such as share transfer, share split and bonus issue).*

2. *In accordance with the "Share Purchase and Options Agreement" signed by Bank of America and Huijin on 17 June 2005 and the "Investment Agreement" signed by the Bank and Bank of America on the same day, Bank of America undertakes that unless under exceptional circumstances, (i) the 17,482,209,346 shares that were acquired from Huijin on 29 August 2005 and any H-shares that were acquired in the overseas IPO (1,650,765,000 shares) cannot be transferred without the Bank's written consent in the three years starting from the close of the overseas IPO; (ii) any H-shares that were acquired from Huijin due to the exercise of subscription options cannot be transferred without the Bank's written consent during the period as from the date of acquisition to 29 August 2011; (iii) any H-shares that were acquired based on the pre-emptive rights conferred by Huijin cannot be transferred without the Bank's written consent in the three years starting from the date of acquisition. By 31 December 2007, Bank of America had not exercised the subscription options and pre-emptive rights conferred by Huijin.*

Exceptional circumstances in the above mentioned arrangement on restrictions of sales include: (i) transfer of shares to Huijin, the Bank or the Bank's subsidiaries; (ii) transfers within companies of the Group; (iii) transfers that are carried out according to any proposed acquisitions, mergers or amalgamation, or similar transactions approved or recommended by the Bank's board of directors, and those that will generally be submitted to the Bank's shareholders; (iv) transactions that are carried out during the daily business procedures of Bank of America's business including asset management, trust, brokerage, underwriting, purchase and sales or securities transactions, and which are not intended to evade the arrangement on restrictions of sales.

3. *In accordance with the "Investment Agreement" signed by the Bank and Fullerton Financial on 1 July 2005 and the "Share Purchase Agreement" signed by Huijin and Fullerton Financial on the same day, Fullerton Financial undertakes that*

   (i) *the shares that were acquired from Huijin on 29 August 2005 and any H-shares that were acquired in the overseas IPO cannot be transferred without written consent from CICC and Morgan Stanley in the one year starting from the close of the overseas IPO, unless the transfer is within companies of the Group;*

   (ii) *unless under exceptional circumstances, the 9,905,742,750 shares that were acquired from Huijin on 29 August 2005 cannot be transferred prior to 29 August 2008 without written consent from Huijin, unless the related transfer:*

      (a) *is conducted under the transfer request submitted in good faith by the Bank and Huijin any time after the close date of global issuance;*

      (b) *involves a maximum of 4,952,871,375 shares of the Bank's shares any time after 29 August 2007;*

      (c) *is within companies of the Group.*

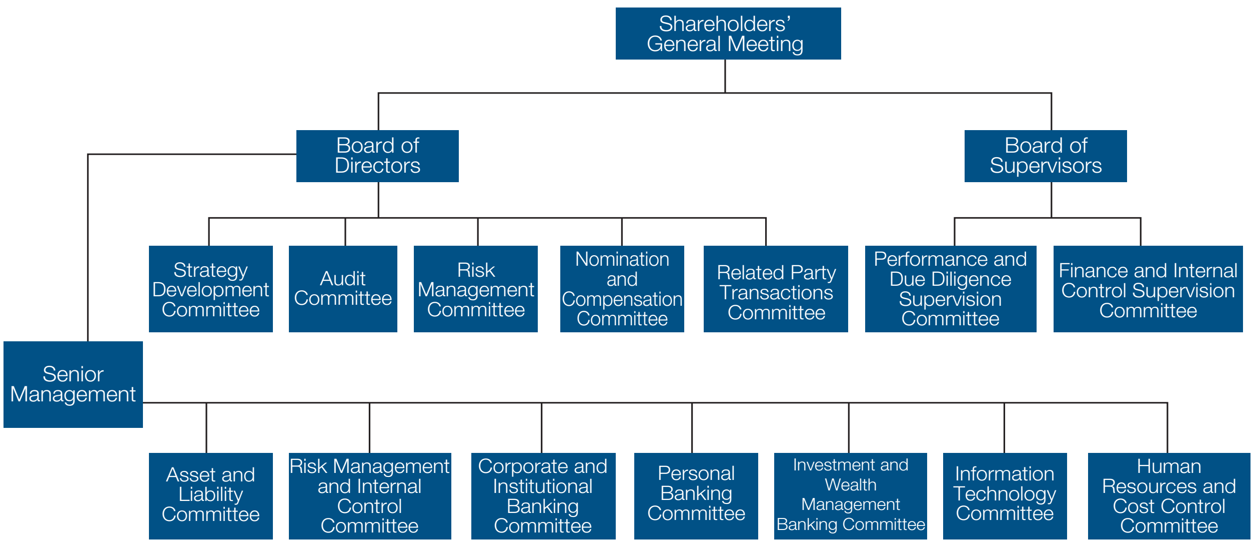
   (iii) *any H-shares that were acquired in the overseas IPO cannot be transferred without the Bank's written consent within one year from the close of the overseas IPO, unless the transfer is within companies of the Group.*

Corporate Governance Report

In accordance with the Company Law, the Commercial Banks Law of the People's Republic of China, Listing Rules of Shanghai Stock Exchange, Listing Rules of Hong Kong Stock Exchange and other laws and regulations, the Bank has established the governance structure consisting of the shareholders' general meeting, board of directors, board of supervisors and senior management, and formulated a reconciliation and checks and balance mechanism among the decision-making body, supervising body and management. In 2007, in line with its corporate governance practice, the Bank amended and perfected the Articles of Association, the rules of procedure for the shareholders' general meeting, board of directors and board of supervisors and other corporate governance documents in accordance with the relevant PRC laws, regulations and regulatory requirements on A-share listed companies, so as to ensure well-defined power and responsibility, proper performance of respective duties, scientific decision-making and coordinated operation of the shareholders' general meeting, board of directors, board of supervisors and senior management.

In accordance with the Code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules of Hong Kong Stock Exchange, the Bank has gradually established and perfected relevant systems. The Bank has complied with the code provisions of the Code on Corporate Governance Practices and has substantially complied with the recommended best practices therein.

The chart of corporate governance structure of the Bank is set out below:



Shareholders' General Meeting

Please refer to the "Introduction to Shareholders' General Meeting" for relevant information of the shareholders' general meeting.

Board of Directors

Responsibilities of the Board

The Board is the executive body of the shareholders' general meeting, which is accountable to the general meeting of shareholders, and performs the following duties in accordance with relevant laws:

- convening the general meeting of shareholders and reporting to the general meeting of shareholders;
- implementing the resolutions of the general meeting of shareholders;
- determining the Bank's development strategy, and supervising the implementation of the development strategy;
- deciding on operational plans, investment plans and risk capital distribution plans of the Bank;
- preparing annual financial budget plans, final accounting plans, profit distribution plans and loss recovery plans;
- preparing plans related to the increase or reduction of registered capital; the issuance and listing of convertible bonds, subordinate bonds, corporate bonds or other securities; and plans related to merger, split, dissolution and liquidation of the Bank;
- preparing plans relating to material acquisitions and the repurchase of shares of the Bank;
- exercising other powers under the Articles of Association of the Bank and authorised by the general meeting of shareholders.

The Board's Implementation of Resolutions of the Shareholders' General Meeting

In 2007, the Board strictly implemented the resolutions of general meeting of shareholders and the matters authorised by the general meeting of shareholders to the Board, carefully enforced the profit distribution plan for 2006, the interim dividend authorisation plan for 2007, the plan of A-share initial public offering and its listing and other plans reviewed and approved by the general meeting of shareholders.

Composition of the Board

The Board comprises 17 directors, including four executive directors, namely, Mr. Guo Shuqing, Mr. Zhang Jianguo, Mr. Zhao Lin and Mr. Luo Zhefu; seven non-executive directors, namely, Mr. Wang Yonggang, Mr. Wang Yong, Ms. Wang Shumin, Mr. Liu Xianghui, Mr. Zhang Xiangdong, Ms. Li Xiaoling and Mr. Gregory L. Curl; and six independent non-executive directors, namely, Lord Peter Levene, Mr. Song Fengming, Ms. Jenny Shipley, Ms. Elaine La Roche, Mr. Wong Kai-Man and Mr. Tse Hau Yin, Aloysius.

The biographies of the directors are set out in "Profiles of Directors, Supervisors and Senior Management". The information is also available on the Bank's website at www.ccb.com.

Chairman and President

Mr. Guo Shuqing is the chairman of the Board and legal representative of the Bank, and is responsible for business strategy and overall development. Mr. Zhang Jianguo is the president of the Bank, and is responsible for the day-to-day management of its business and operations. The president is appointed by the Board, accountable to the Board, and discharges his duties in accordance with the Articles of Association of the Bank and the scope of delegation by the Board. The roles of the chairman and the president are separate and their duties are clearly defined.

Appointment of Directors

The term of office of directors is three years (ending on the date of the annual general meeting of the final year of the term of their office), and they may be re-elected upon expiration of their term of office.

The Bank convened the annual general meeting for the year 2006 on 13 June 2007. Mr. Guo Shuqing, Mr. Zhang Jianguo, Mr. Zhao Lin and Mr. Luo Zhefu were reappointed as executive directors of the Bank; Mr. Wang Yonggang, Ms. Wang Shumin, Mr. Liu Xianghui, Mr. Zhang Xiangdong and Mr. Gregory L. Curl were reappointed, and Mr. Wang Yong and Ms. Li Xiaoling were appointed as non-executive directors of the Bank; and Lord Peter Levene, Mr. Song Fengming, Ms. Elaine La Roche and Mr. Tse Hau Yin, Aloysius were reappointed as independent non-executive directors of the Bank. Mr. Zhu Zhenmin and Mr. Jing Xuecheng, the non-executive directors, and Mr. Yashiro Masamoto, the independent non-executive director resigned from their posts upon expiration of term of office.

The Bank convened the first extraordinary general meeting for 2007 on 23 August 2007. Ms. Jenny Shipley and Mr. Wong Kai-Man were elected as independent non-executive directors of the Bank. Ms. Jenny Shipley and Mr. Wong Kai-Man officially assumed the post upon the approval of China Banking Regulatory Commission on 12 November 2007.

Operation of the Board

The Board convenes regular meetings, generally not less than four times per year, and extraordinary meetings are convened, if and when required. Board meetings may be convened by on-site conference or written resolutions. Directors are consulted to include matters in the agenda for regular Board meetings. Board meeting documents and relevant materials are usually circulated to all directors and supervisors 14 days in advance of Board meetings.

All directors keep good communication with the secretary to the Board and company secretary, with a view to ensuring compliance with Board procedures and all applicable rules and regulations. Detailed minutes of Board meetings are kept, and minutes are circulated to all attending directors for review after the meeting. Directors will provide comments after receiving the minutes. After the minutes have been approved, the secretary to the Board sends the finalised minutes to all directors promptly. Minutes of the Board meetings are kept by the secretary to the Board and are open for inspection by directors at any time.

Communication and reporting mechanism has been established between the Board, directors and senior management. The president reports his work to the Board on a regular basis, and is supervised by the Board. Relevant senior executives are from time to time invited to attend Board meetings to make presentations or answer questions.

At Board meetings, an open environment exists in which directors can put forward alternative views and major decisions are made after deliberate discussions. Directors may also retain external advisers, at the Bank's expense, to provide independent professional advice if they deem necessary. If any director has material interests in a matter proposed by the Board, the director concerned must abstain from discussion and voting on the relevant proposal and is not counted in the quorum of the relevant proposal.

Induction programmes are organised to provide the basic information of the Bank to new directors, the relevant rules and regulations by which the directors shall abide in performing their functions and duties and to assist them in becoming familiar with the management, operations and governance practices. The Bank periodically organises trainings for all directors, and encourages them to participate in professional development seminars and courses organised by professional institutions, to ensure that they continuously upgrade their skills and are kept abreast of the latest development or changes to the laws and regulations required to enable them to properly discharge their responsibilities.

We effected directors' liability insurance policy for all directors in 2007.

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

The Bank has adopted a code of practice in relation to securities transactions by directors and supervisors as set out in the *Model Code for Securities Transactions by Directors of Listed Issuers* in Appendix 10 of the Listing Rules of Hong Kong Stock Exchange. All directors and supervisors have confirmed that during the year ended 31 December 2007, they have complied with the provisions of this code. Upon enquiry, the secretary to the Board, Mr. Chen Caihong indirectly holds 19,417 H-shares of the Bank through participating in the Employee Stock Ownership Plan before assuming the office of the secretary to the Board. Except for Mr. Chen Caihong, none of the directors, supervisors or senior management holds any securities of the Bank.

Corporate Governance Report

Board Meetings

In 2007, the Bank convened 11 Board meetings in total including six on-site meetings and five meetings through written resolutions. During the Board meetings, the Board has reviewed and approved the proposals including strategy development outline, business plan, capital expenditure budget, financial report, profit distribution, A-shares initial public offering and listing, appointment of the secretary to the Board, appointment of company secretary, amendment to the corporate governance documents, establishment of offshore operational institutions and establishment of financial leasing joint venture, and has disclosed relevant information pursuant to the provisions in relevant laws, regulations and listing rules of the listing venues. Individual attendance records of the directors in Board meetings in 2007 are set out as follows:

Board members	Number of meetings attended/ Number of meetings during term of office	Attendance rate (%)
Executive directors		
Mr. Guo Shuqing	11/11	100
Mr. Zhang Jianguo	11/11	100
Mr. Zhao Lin	11/11	100
Mr. Luo Zhefu	11/11	100
Non-executive directors		
Mr. Wang Yonggang	11/11	100
Mr. Wang Yong	3/3	100
Ms. Wang Shumin	11/11	100
Mr. Liu Xianghui	11/11	100
Mr. Zhang Xiangdong	11/11	100
Ms. Li Xiaoling	3/3	100
Mr. Gregory L. Curl	11/11	100
Independent non-executive directors		
Lord Peter Levene	11/11	100
Mr. Song Fengming	11/11	100
Ms. Jenny Shipley	1/1	100
Ms. Elaine La Roche	11/11	100
Mr. Wong Kai-Man	1/1	100
Mr. Tse Hau Yin, Aloysius	11/11	100
Resigned directors		
Mr. Zhu Zhenmin	5/5	100
Mr. Jing Xuecheng	5/5	100
Mr. Yashiro Masamoto	5/5	100

Performance of Duties by Independent Directors

Currently the Bank has six independent non-executive directors, exceeding one third of the total number of directors of the Bank, which is in compliance with the provisions of relevant laws, regulations and Articles of Association of the Bank. The independent non-executive directors of the Bank do not have any business or financial interests in the Bank and its subsidiaries, neither do they assume any management position in the Bank, which effectively ensure their independence. The Bank has received from each independent non-executive director the annual confirmations with regard to his or her independence, which confirm their independence.

The attendance rates for independent non-executive directors of the Bank in attending both Board meetings and Board committee meetings in 2007 were 100%. During the review of relevant matters by the Board, the independent non-executive directors did not raise any objections to the relevant matters.

Delegation by the Board

The division of authority between the Board and senior management is in strict compliance with the Articles of Association of the Bank and other corporate governance documents. By virtue of the authority conferred on him by the Articles of Association and the Board, the president decides operational, management and decision-making issues within his scope of authority. Specifically, his primary responsibilities include:

- being in charge of the operation and management of the Bank and initiating the implementation of Board resolutions;
- submitting operational plans and investment proposals of the Bank to the Board and initiating the implementation of such plans or proposals upon approval by the Board;
- formulating proposals for the establishment of internal management departments within the Bank;
- formulating the general management system of the Bank;
- formulating specific rules and regulations of the Bank;
- proposing to the Board the appointment or dismissal of vice presidents and other senior management officers (excluding the chief audit officer and the secretary to the Board);
- exercising other authorities conferred by the Board and the Articles of Association of the Bank.

Accountability of the Directors in Relation to the Financial Statements

The directors are responsible for overseeing the preparation of the financial statements for each financial period to give a true and fair view of the Group's state of affairs, performance results and cash flow for that period. In preparing the financial statements for the year ended 31 December 2007, the directors have selected appropriate accounting policies, applied them consistently, and made judgments and estimates that are prudent and reasonable.

During the reporting period, in accordance with the provisions of relevant laws, regulations and listing rules of listing venues, the Bank has released annual report 2006, interim report 2007, and the report for the third quarter of 2007 on time.

Independent Operating Capability of the Bank

The Bank is independent from its controlling shareholder Huijin with respect to business, personnel, assets, institutions and finance. The Bank has independent and complete operating assets, independent operating capacity and the capacity of independently facing the market.

Internal Control

The overall internal control objective of the Bank is to establish a system on a basis of sound corporate governance and advanced internal control culture, with effective risk identification and sound monitoring and evaluation system as prerequisites, with sturdy framework and rigorous measures as the core, supported by strict audit evaluation and objective assessment system, and underpinned by strong information system and expedite communication channel, to maintain and improve the effectiveness of the system.

The management structure of internal control consists of decision-making level, implementing level, and supervision and assessment level with the heads of branches at various levels and functional departments taking responsibility and all the staff being involved. In 2007, the Bank's corporate governance continued to improve and work well, facilitating the healthy and continuous business development. The enriched corporate culture essence strengthened the building of corporate culture of the Bank. The economic capital assessment and non-compliance score management was adopted to play incentive and disciplinary as well as guiding roles in performance assessment, resource allocation, risk limit management and proper operations. The reform on the internal audit system and internal control assessment proceeded, and the building of internal control system continued to strengthen, with a higher level of concentration of internal audit and stronger audit capabilities. The risk management system proceeded with its reform, and the innovation and utilisation of risk management tools was accelerated, enhancing the overall risk management capabilities. The Bank pushed forward the reform of accounting and operation management system by segregating core operations into front and back office functions, and the back office activities were gradually centralised, enhancing the risk control capabilities and service quality. The business processes were improved continuously, and the internal control measures were also strengthened. The use of IT techniques in internal control was expanded, and the technological level of internal control against non-compliance was enhanced, achieving the synergetic effect of internal control by both people and machines. The anti-money laundering activities were strengthened, and non-compliance risk was controlled. The Bank focused on the correction of problems found in the investigations carried out by internal and external auditors, and set up an accountability system for such corrections.

In order to improve the internal control system by putting in place a set of standardised and consistent internal control procedures, the Bank continued to carry on the internal control assessment project for 2007 based on the assessment project carried out in 2006 across the Bank. The assessment project was led by the audit committee, with the cooperation of risk management committee and conducted by way of a combination of self-assessment and external assessment, so as to completely and systematically assess the comprehensiveness, compliance, effectiveness and feasibility of the internal control mechanism. The assessment includes five components: internal control environment, risk identification and assessment, internal control measures, information communication and feedback, and supervision, assessment and rectification. According to the outcome of the assessment project of 2007, no major issues have been identified, and appropriate measures have been taken to address areas identified for improvement.

Committees under the Board

There are five committees established under the Board: the strategy development committee, audit committee, risk management committee, nomination and compensation committee and related party transactions committee. Among these committees, the audit committee, nomination and compensation committee and related party transactions committee are chaired by the independent non-executive directors, and more than half of the committee members are independent non-executive directors.

Strategy Development Committee

The strategy development committee consists of 12 directors. Mr. Guo Shuqing, the chairman of Board, currently serves as chairman of the strategy development committee. Members include Mr. Wang Yonggang, Mr. Wang Yong, Ms. Wang Shumin, Lord Peter Levene, Mr. Liu Xianghui, Mr. Zhang Xiangdong, Mr. Zhang Jianguo, Ms. Jenny Shipley, Ms. Elaine La Roche, Mr. Luo Zhefu and Mr. Gregory L. Curl.

The primary responsibilities of the strategy development committee include:

- drafting strategic development plans, supervising and assessing implementation thereof;
- reviewing annual operational plans and financial budgets of the Bank;
- reviewing strategic capital allocation plans and asset and liability management targets;
- evaluating the coordinated development of various businesses;
- reviewing material restructuring and re-organisation plans; and
- reviewing significant investment and financing projects.

In 2007, the strategy development committee convened four meetings in total, putting emphasis on the amendments to the Bank's strategic outline, actively researching the Bank's overseas business development strategy and pushing forward the development of business transformation and strategic business.

Members of strategy development committee	Number of meetings attended/ Number of meetings during term of office	Attendance rate (%)
Mr. Guo Shuqing	4/4	100
Mr. Wang Yonggang	4/4	100
Mr. Wang Yong	2/2	100
Ms. Wang Shumin	4/4	100
Lord Peter Levene	4/4	100
Mr. Liu Xianghui	4/4	100
Mr. Zhang Xiangdong	4/4	100
Mr. Zhang Jianguo	4/4	100
Ms. Jenny Shipley	1/1	100
Ms. Elaine La Roche	4/4	100
Mr. Luo Zhefu	4/4	100
Mr. Gregory L. Curl	4/4	100
Resigned members/Members before the adjustment of the committee members		
Mr. Zhu Zhenmin	1/1	100
Mr. Jing Xuecheng	1/1	100
Mr. Yashiro Masamoto	1/1	100

In 2008, the strategy development committee will strengthen the research on material strategic issues, further accelerate the strategic transformation and actively explore comprehensive operations.

Audit Committee

The audit committee consists of seven directors. Mr. Tse Hau Yin, Aloysius, an independent non-executive director, currently serves as chairman of the audit committee. Members include Ms. Wang Shumin, Mr. Song Fengming, Ms. Li Xiaoling, Ms. Elaine La Roche, Mr. Gregory L. Curl and Mr. Wong Kai-Man.

The primary responsibilities of the audit committee include:

- monitoring the financial statements, reviewing the disclosure of accounting information and significant events;
- monitoring and assessing the internal controls;
- monitoring the compliance level of the core businesses, management systems and principal business activities;
- monitoring and assessing the internal audit; and
- monitoring and assessing the external audit, etc.

The terms of reference of the audit committe have included the duties set out in C. 3 .3(a) to (n) of the Code on Corporate Governance Practices.

In 2007, the audit committee convened five meetings of the committee, and a joint meeting with the risk management committee. It reviewed the financial statements in annual report 2006, interim report 2007, and the report for the third quarter of 2007. The audit committee actively pushed forward the internal control assessment in 2007, reviewed the internal audit working plan, monitored, assessed and commented the internal audit, tracked the rectification of audit and seriously monitored and evaluated the external auditors. The audit committee listened to the report for work arrangement of external auditors, reviewed the work plan for annual report audit and urged the external auditors to issue audit report on time. Upon the overall assessment of the audit work conducted by KPMG and KPMG Huazhen for 2007, the audit committee recommended re-appointment of KPMG and KPMG Huazhen as auditors of the Bank for 2008.

Based on the *Circular on Properly Handling the 2007 Annual Reports of Listed Companies and the Related Work* by CSRC, the audit committee formulated its annual report working rules, reviewed the financial report of the Bank, and communicated and discussed with the management and external auditors as to the major accounting policies and accounting estimates at a meeting held in March 2008. The audit committee reviewed the financial report of the Bank again after the external auditors provided their initial audit opinions, and communicated with the management and external auditors, and discussed matters such as the accounting standards and methods adopted in the financial statements. The audit committee approved the financial report 2007 of the Bank, and submitted the proposal to the Board for consideration.

Members of audit committee	**Number of meetings attended/ Number of meetings during term of office**	**Attendance rate (%)**
Mr. Tse Hau Yin, Aloysius	5/5	100
Ms. Wang Shumin	5/5	100
Mr. Song Fengming	5/5	100
Ms. Li Xiaoling	4/4	100
Ms. Elaine La Roche	5/5	100
Mr. Gregory L. Curl	5/5	100
Mr. Wong Kai-Man	1/1	100
Resigned members/Members before the adjustment of committee members		
Mr. Wang Yonggang	1/1	100
Mr. Yashiro Masamoto	1/1	100

In 2008, the audit committee will further monitor the regular financial reports, continue to assess the internal control system, monitor and assess the independence of internal and external audit, improve the effectiveness of communication and cooperation between internal and external auditors, and cooperate with external regulations, etc.

Risk Management Committee

The risk management committee consists of nine directors. Mr. Zhang Xiangdong, a non-executive director, currently serves as chairman of the risk management committee. Members include Mr. Wang Yong, Lord Peter Levene, Mr. Liu Xianghui, Mr. Zhang Jianguo, Mr. Song Fengming, Mr. Luo Zhefu, Mr. Zhao Lin, and Mr. Tse Hau Yin, Aloysius.

The primary responsibilities of the risk management committee include:

- reviewing the risk management and internal control policies in accordance with the overall strategy of the Bank, monitoring and assessing their implementation and effectiveness;
- providing guidance on building the risk management and internal control systems;
- monitoring and assessing the organisational structure, reporting lines, working procedures and effectiveness for risk management department, and proposing changes for improvements;
- reviewing the risk and internal control report, conducting periodic assessments of the risk management and internal control system, and providing their opinion in relation to further improvements to the risk management and internal control; and
- evaluating the performance of the Bank's senior management personnel responsible for risk management.

In 2007, the risk management committee convened five meetings of the committee, and a joint meeting with the audit committee. The risk management committee actively pushed forward the implementation of the new Basel Capital Accord, reviewed and approved the overall plan for the implementation of the new Capital Accord, actively formulated and improved risk management policies, closely monitored the measurement of risks, actively carried out the reform of risk management system, facilitated the construction of compliance risk management system, emphasized the risk management in information technology, strengthened the risk monitoring on overseas branches, strengthened the precaution and control of cases, and periodically checked and evaluated the overall risks.

Members of risk management committee	Number of meetings attended/ Number of meetings during term of office	Attendance rate (%)
Mr. Zhang Xiangdong	5/5	100
Mr. Wang Yong	3/3	100
Lord Peter Levene	5/5	100
Mr. Liu Xianghui	5/5	100
Mr. Zhang Jianguo	5/5	100
Mr. Song Fengming	5/5	100
Mr. Luo Zhefu	5/5	100
Mr. Zhao Lin	5/5	100
Mr. Tse Hau Yin, Aloysius	5/5	100
Resigned members/Members before adjustment of committee members		
Mr. Jing Xuecheng	2/2	100
Mr. Yashiro Masamoto	2/2	100

In 2008, the risk management committee will continuously push forward the overall plan for the implementation of new Capital Accord, focus on the risk management instrument and its innovation, review the risk preference policy and strengthen the team building of risk management.

Nomination and Compensation Committee

The nomination and compensation committee consists of seven directors. Ms. Elaine La Roche, an independent non-executive director, currently serves as chairman of the nomination and compensation committee. Members include Mr. Liu Xianghui, Mr. Song Fengming, Ms. Li Xiaoling, Ms. Jenny Shipley, Mr. Gregory L. Curl and Mr. Tse Hau Yin, Aloysius.

The primary responsibilities of the nomination and compensation committee include:

- formulating procedures and criteria for the selection and appointment of directors and senior management;
- proposing candidates for directors, presidents, chief audit officer, secretary to the Board and board committee members to the Board;
- evaluating candidates for senior management nominated by the president;
- formulating development plans for senior management and back-up personnel for key positions;
- formulating performance evaluation measures for directors and senior management, and compensation plans for directors, supervisors and senior management;
- reviewing the compensation system submitted by the president;
- proposing the compensation for supervisors in accordance with the performance assessment of the supervisors by the board of supervisors; and

- monitoring the implementation of the Bank's performance assessment and compensation system.

The terms of reference of the nomination and compensation committee have included the specific duties set out in Rules B.1.3(a) to (f) of the Code on Corporate Governance Practices.

The nomination and compensation committee convened four meetings in total in 2007. Regarding nomination, the nomination and compensation committee deliberated proposals for nominating independent directors and adjusting the members of the board committees. The committee also submitted proposals on candidates for the secretary to the Board. Regarding compensation, the nomination and compensation committee decided the settlement scheme of the compensations to directors, supervisors and senior management for 2006, formulated detailed implementation rules for the distribution of compensation for directors, supervisors and senior management for 2007, conducted the compensation settlement of directors, supervisors and senior management for 2007, organised and implemented the signing of target undertakings with executive directors and senior management, researched and determined the working methods and procedures for arranging liability insurance for directors, supervisors and senior management, and organised the formulation of the measures for enterprise annuities. Regarding the fundamental work, the nomination and compensation committee organised the amendment to its detailed working rules and the director's service contract.

Members of nomination and compensation committee	Number of meetings attended/Number of meetings during term of office	Attendance rate (%)
Ms. Elaine La Roche	4/4	100
Mr. Liu Xianghui	4/4	100
Mr. Song Fengming	4/4	100
Ms. Li Xiaoling	3/3	100
Ms. Jenny Shipley	1/1	100
Mr. Gregory L. Curl	4/4	100
Mr. Tse Hau Yin, Aloysius	4/4	100
Resigned members/Members before adjustment of committee members		
Mr. Yashiro Masamoto	1/1	100

In 2008, the nomination and compensation committee will continue to conduct the annual appraisal of directors, supervisors and senior management of the Bank, as well as the settlement of their compensations for 2007. The committee will formulate detailed implementation rules for the distribution of compensation for directors, supervisors and senior management, renew the liability insurance of 2008 for directors, supervisors and senior management, focus on the human resources management, the progress of compensation system reform and the enforcement of long-term incentive plan of the Bank and consider the training and career development for management (including senior executives) and employees.

Related Party Transactions Committee

The related party transactions committee consists of five directors. The independent non-executive director Mr. Song Fengming currently serves as chairman of the related party transactions committee. Members include: Mr. Luo Zhefu, Mr. Zhao Lin, Mr. Wong Kai-Man and Mr. Tse Hau Yin, Aloysius.

The primary responsibilities of the related party transactions committee include:

- formulating and proposing standards for material related party transactions and the system for management of related party transactions, as well as the internal approval and filing system of the Bank, and submitting the above standards for approval by the Board;
- identifying the related parties of the Bank;
- receiving filings on general related party transactions; and
- reviewing material related party transactions.

The related party transactions committee convened four meetings in total in 2007. The committee studied and revised the implementation measures on management of related party transactions, actively accelerated and assisted the implementation of internal audit work on related party transactions, strictly monitored the material related party transactions and protected the minority shareholders' interests.

Members of related party transactions committee	**Number of meetings attended/ Number of meetings during term of office**	**Attendance rate (%)**
Mr. Song Fengming	4/4	100
Mr. Luo Zhefu	1/1	100
Mr. Zhao Lin	4/4	100
Mr. Wong Kai-Man	1/1	100
Mr. Tse Hau Yin, Aloysius	4/4	100

In 2008, the work of the related party transactions committee will mainly focus on researching and improving the effectiveness of related party transaction management, developing the upgraded system of related party transactions and strengthening the controlling function of this system.

Opinion Issued by Independent Directors on External Guarantees Provided by the Bank

Pursuant to the relevant provisions and requirements under the circular of Zheng Jian Fa [2003] No.56 issued by CSRC, the independent directors of the Bank, including Lord Peter Levene, Mr. Song Fengming, Ms. Jenny Shipley, Ms. Elaine La Roche, Mr. Wong Kai-Man and Mr. Tse Hau Yin, Aloysius, made the following statements on external guarantees provided by the Bank based on the principles of fairness, justice and objectiveness:

The external guarantee business provided by the Bank has been approved by the CBRC, and is part of normal businesses of the Bank. With regard to the risks arising from guarantee business, the Bank stipulated specific management measures, operational process and approval procedures, and carried out the business accordingly. The guarantee business of the Bank is mainly in the form of letter of guarantees. As at 31 December 2007, the balance of letter of guarantees provided by the Bank was RMB370,282 million.

Board of Supervisors

Responsibilities of the Board of Supervisors

The board of supervisors, being the supervisory authority of the Bank, is accountable to the shareholders' general meeting and performs the following duties in accordance with relevant laws:

- supervising the performance of the Board, senior management and their members;
- requiring the directors and senior management personnel to correct their acts when their acts infringe the interests of the Bank;
- inspecting and supervising the financial activities of the Bank;
- verifying the financial information, including the financial report, business report and profit distribution proposal that are proposed to the shareholders' general meeting by the Board; and
- exercising other powers authorised by the shareholders' general meeting and the Articles of Association of the Bank.

Composition of the Board of Supervisors

The board of supervisors consists of eight supervisors, including three shareholder representative supervisors, namely Mr. Xie Duyang, Ms. Liu Jin, and Mr. Jin Panshi, three employee representative supervisors, namely Ms. Cheng Meifen, Mr. Sun Zhixin and Ms. Ning Liming, and two external supervisors, namely Mr. Guo Feng and Mr. Dai Deming.

Please refer to "Profiles of Directors, Supervisors and Senior Management" for details of the profiles of the supervisors. The information is available on the Bank's website at www.ccb.com.

Chairman of the Board of Supervisors

Mr. Xie Duyang is the chairman of the board of supervisors of the Bank and is responsible for organising the performance of duties of the board of supervisors.

Appointment of Supervisors

The term of office of the supervisors is three years, and they may be re-elected upon expiration of their term of office. The shareholder representative supervisors and the external supervisors of the Bank are elected by the shareholders' general meeting, and the employee representative supervisors are elected by the employee representative organisation.

At the 2006 annual general meeting, Mr. Xie Duyang, Ms. Liu Jin and Mr. Jin Panshi were re-appointed as the shareholder representative supervisors, Mr. Guo Feng was re-appointed as an external supervisor, and Mr. Dai Deming was appointed as an external supervisor.

Ms. Cheng Meifen, Mr. Sun Zhixin and Ms. Ning Liming were re-appointed as employee representative supervisors of the Bank at the second meeting of the first staff congress.

Operation of the Board of Supervisors

The board of supervisors convenes regular meetings, generally not less than four times per year, and extraordinary meetings are convened, if and when required. Supervisors are notified in written form at least 10 days prior to the convening of the board of supervisors' meeting. Matters concerning such meeting are specified in the written notice. During the meeting, the supervisors are free to express their opinions, and decisions on important matters are only made after detailed discussions.

Detailed minutes are prepared for the meetings of the board of supervisors. At the end of each meeting, minutes will be provided to all attending supervisors for review and comments. After finalising the minutes, the office of the board of supervisors shall be responsible for distributing the final version of the minutes to all supervisors.

The board of supervisors may engage external legal advisors or certified public accountants as it deems necessary to discharge its duties, and the Bank will bear all related expenses. The Bank takes necessary measures and methods to ensure the right of information of the supervisors, and provides relevant information and material to them in accordance with related regulations.

Members of the board of supervisors may attend Board meetings as non-voting attendees, and the board of supervisors may, as it considers appropriate, assign supervisors to attend as non-voting attendees such meetings of the Bank as annual work conference, symposia of general managers of branches, analytic meetings on operating conditions, and president executive meetings. The board of supervisors of the Bank conducts supervisory work through methods such as performance and due diligence evaluation, visits and symposia, inspection and review of information, off-site monitoring and analysis, on-site specific inspection, and research in specific areas.

We effected supervisors' liability insurance policy for all the supervisors in 2007.

Meetings of the Board of Supervisors

The board of supervisors convened five meetings during the year 2007. For details, please refer to the "Report of the Board of Supervisors".

Members of the board of supervisors	Number of meetings attended/ Number of meetings during term of office	Attendance rate (%)
Shareholder representative supervisors		
Mr. Xie Duyang	5/5	100
Ms. Liu Jin	5/5	100
Mr. Jin Panshi	5/5	100
Employee representative supervisors		
Ms. Cheng Meifen	5/5	100
Mr. Sun Zhixin	5/5	100
Ms. Ning Liming	5/5	100
External supervisors		
Mr. Guo Feng	5/5	100
Mr. Dai Deming	3/3	100
Resigned supervisors		
Ms. Chen Yueming	2/2	100
Mr. Cui Jianmin	2/2	100

Committees under the Board of Supervisors

Two committees, namely the performance and due diligence supervision committee and the finance and internal control supervision committee, are established under the board of supervisors.

Performance and Due Diligence Supervision Committee

The performance and due diligence supervision committee consists of six supervisors: Mr. Xie Duyang, Ms. Liu Jin, Mr. Jin Panshi, Ms. Cheng Meifen, Mr. Sun Zhixin and Mr. Guo Feng. Mr. Xie Duyang, the chairman of the board of supervisors, serves as chairman of the performance and due diligence supervision committee.

The primary responsibilities of the performance and due diligence supervision committee include:

- formulating the rules, work plans and proposals and implementation plan for supervision and examination in connection with the supervision of the performance and degree of diligence of the board of directors, senior management and their members; and implementing and organising the implementation of such rules, plans and proposals after the board of supervisors' approval;
- giving supervisory opinions on the performance of duties by the board of directors and senior management as well as their members and proposing the opinions to the board of supervisors for consideration; and

- formulating performance evaluation measures for the supervisors and organising the implementation of such measures, and proposing these measures to the board of supervisors for consideration.

In 2007, the performance and due diligence supervision committee convened four meetings, formulated the annual work plan for performance and due diligence supervision, and organised its implementation upon approval of the board of supervisors; further standardised and optimised the work rules for performance and due diligence supervision, revised the detailed working rules; helped to complete the reappointment of the board of supervisors and the Special Committee; considered and proposed supervisory opinions on the performance and due diligence of the Board, senior management and their members for 2006; and conducted assessment of the performance of the supervisors for 2007.

In 2008, the performance and due diligence supervision committee will continue to actively supervise the performance and due diligence of the members of the Board and senior management, and improve the methods of supervision and the quality of its supervisory work.

Finance and Internal Control Supervision Committee

The finance and internal control supervision committee consists of five supervisors, including Mr. Dai Deming, Ms. Liu Jin, Mr. Jin Panshi, Ms. Cheng Meifen and Ms. Ning Liming. External supervisor Mr. Dai Deming serves as chairman of the finance and internal control supervision committee.

The primary responsibilities of the finance and internal control supervision committee include:

- formulating the rules, work plans and proposals in connection with the supervision of finance and internal control; and implementing or organising the implementation of such upon the approval of the board of supervisors;

- examining the annual financial reports and business reports together with the profit distribution proposals prepared by the Board, and providing suggestions on such reports to the board of supervisors; and

- assisting the board of supervisors in organising the implementation of supervision and inspections on the finance and internal control of the Bank, as required by circumstances.

In 2007, the finance and internal control supervision committee revised its detailed working rules; communicated with external auditors; reviewed the financial budget, profit distribution plan and periodic financial report of the Bank.

In 2008, the finance and internal control supervision committee will continue to strengthen its supervision on the Bank's finance and internal control, and make more efforts in research and investigation in the key areas and major matters that call for special attention.

Auditors' Remuneration

At the 2006 annual general meeting of the Bank held on 13 June 2007, the shareholders approved the *Resolution for Appointment of the Auditors for China Construction Bank Corporation* and agreed to appoint KPMG Huazhen as the domestic auditors and KPMG as the international auditors of the Bank for the year of 2007; and the directors were authorised to negotiate and determine the fees of such auditors in accordance with market practice.

Corporate Governance Report

Auditors' fees for the audit of the financial statements of the Group, including those of the Bank's overseas branches and subsidiaries, A-share listing audit and the relevant services, and other services paid to the certified public accountants by the Group for the year ended 31 December 2007 are set out as follows:

Appointed certified public accountants (In millions of RMB)	**2007** KPMG[1]	**2007** Other certified public accountants	2006 KPMG	2006 Other certified public accountants
Fees for the audit of the financial statements	**121**	**1**	131	3
Fees for the audit of the A-shares listing and relevant service fees	**29.5**	**—**	—	—
Other service fees	**2**	**1**	4	1

1. *Includes KPMG, KPMG Huazhen and other KPMG member firms.*

2. *Travel expenses have been included in the service fees.*

Further Information

Effective Communication with Shareholders

The Bank values communication with shareholders, and exchanges opinions with shareholders through many channels such as shareholders' general meetings, results announcement conferences, road shows, receptions of visitors and telephone enquiries. In 2007, the Bank organised and arranged results announcement conferences and analysts' briefings during the period of annual and interim results publication. Relevant announcements of results are published on designated newspapers and websites for shareholders' review.

Procedures for Voting by Poll

The methods and procedures for voting by poll, which comply with the listing rules of listing venues and the Articles of Association of the Bank, are set out in every document for shareholders' meeting sent to shareholders of the Bank during the year of 2007.

Shareholder Enquiries

Any enquiries related to your shareholding, including transfer of shares, change of address, loss reporting of share certificates and dividend notes, should be sent in writing to our share registrar at:

A-share: China Securities Depository and Clearing Corporation Limited, Shanghai Branch
36th Floor
China Insurance Building
166 Lujiazui east road, Pudong district
Shanghai, China
Telephone: (8621) 5870 8888
Facsimile: (8621) 5889 9400

H-share: Computershare Hong Kong Investor Services Limited
Rooms 1712–16, 17th Floor
Hopewell Centre
183 Queen's Road East
Hong Kong
Telephone: (852) 2862 8628
Facsimile: (852) 2865 0990/(852) 2529 6087

Investor Relations

Enquiries to the Board may be directed to:
Office of the board of directors
China Construction Bank Corporation
No. 25, Finance Street, Xicheng District, Beijing, China
Telephone: (8610) 6621 5533
Facsimile: (8610) 6621 8888
Email: ir@ccb.com

Office of the board of directors — Hong Kong Office
China Construction Bank Corporation
5th Floor, Tower One, Lippo Centre,
89 Queensway, Hong Kong
Telephone: (852) 2532 9637
Facsimile: (852) 2523 8185

This annual report is available on the websites at www.ccb.com, and the Hong Kong Stock Exchange at www.hkex.com.hk.

If you have any queries on obtaining copies of this annual report or accessing those documents on our website, please call our hotline at (852) 2532 9637 or (8610) 6621 5533.

Profiles of Directors, Supervisors and Senior Management

Particulars of Directors, Supervisors and Senior Management

Directors of the Bank

Name	Position	Gender	Age	Term of office as member of the second board of directors	Total amount of compensation before tax received from the Bank during the term of office within the reporting period (RMB'000)	Other compensation or allowances from corporate shareholders or other connected entities
Guo Shuqing	Chairman of the board of directors, executive director	Male	51	June 2007 to 2009 annual general meeting	1,783	None
Zhang Jianguo	Vice chairman of the board of directors, executive director, president	Male	53	June 2007 to 2009 annual general meeting	1,774	None
Zhao Lin	Executive director, vice president	Male	53	June 2007 to 2009 annual general meeting	1,573	None
Luo Zhefu	Executive director, vice president	Male	55	June 2007 to 2009 annual general meeting	1,580	None
Wang Yonggang	Non-executive director	Male	51	June 2007 to 2009 annual general meeting	345	Yes
Wang Yong	Non-executive director	Male	46	June 2007 to 2009 annual general meeting	210	Yes
Wang Shumin	Non-executive director	Female	52	June 2007 to 2009 annual general meeting	360	Yes
Liu Xianghui	Non-executive director	Male	53	June 2007 to 2009 annual general meeting	390	Yes
Zhang Xiangdong	Non-executive director	Male	50	June 2007 to 2009 annual general meeting	380	Yes
Li Xiaoling	Non-executive director	Female	50	June 2007 to 2009 annual general meeting	210	Yes
Gregory L. Curl	Non-executive director	Male	59	June 2007 to 2009 annual general meeting	390	Yes
Lord Peter Levene	Independent non-executive director	Male	66	June 2007 to 2009 annual general meeting	360	None
Song Fengming	Independent non-executive director	Male	61	June 2007 to 2009 annual general meeting	440	None
Jenny Shipley	Independent non-executive director	Female	56	November 2007 to 2009 annual general meeting	60	None
Elaine La Roche	Independent non-executive director	Female	58	June 2007 to 2009 annual general meeting	402	None
Wong Kai-Man	Independent non-executive director	Male	57	November 2007 to 2009 annual general meeting	60	None
Tse Hau Yin, Aloysius	Independent non-executive director	Male	60	June 2007 to 2009 annual general meeting	440	None

1. *Non-executive directors holding positions in the corporate shareholders do not receive compensation directly from the Bank. The compensations for their capacities as non-executive directors are paid to the relevant corporate shareholders (Huijin and Bank of America) by the Bank.*

Supervisors of the Bank

Name	Position	Gender	Age	Term of office as member of the second board of supervisors	Total amount of compensation before tax received from the Bank during the term of office within the reporting period (RMB'000)	Other compensation or allowances from corporate shareholders or other connected entities
Xie Duyang	Chairman of the board of supervisors	Male	59	June 2007 to 2009 annual general meeting	1,688	None
Liu Jin	Shareholder representative supervisor	Female	43	June 2007 to 2009 annual general meeting	1,043	None
Jin Panshi	Shareholder representative supervisor	Male	43	June 2007 to 2009 annual general meeting	1,033	None
Cheng Meifen	Employee representative supervisor	Female	52	June 2007 to 2009 annual general meeting	26[1]	None
Sun Zhixin	Employee representative supervisor	Male	57	June 2007 to 2009 annual general meeting	26[1]	None
Ning Liming	Employee representative supervisor	Female	58	June 2007 to 2009 annual general meeting	26[1]	None
Guo Feng	External supervisor	Male	45	June 2007 to 2009 annual general meeting	250	None
Dai Deming	External supervisor	Male	45	June 2007 to 2009 annual general meeting	157	None

1. *Compensation before tax for the capacity as employee representative supervisor of the Bank.*

Profiles of Directors, Supervisors and Senior Management

Senior Management of the Bank

Name	Position	Gender	Age	Term of office	Total amount of compensation before tax received from the Bank during the term of office within the reporting period (RMB'000)	Other compensation or allowances from the shareholders unit or other connected units
Zhang Jianguo	President	Male	53	July 2006–	1,774	None
Zhao Lin	Vice president	Male	53	September 2004–	1,573	None
Luo Zhefu	Vice president	Male	55	September 2004–	1,580	None
Xin Shusen	Vice president	Female	58	July 2005–	1,551	None
Chen Zuofu	Vice president	Male	53	July 2005–	1,563	None
Fan Yifei	Vice president	Male	43	July 2005–	1,561	None
Pang Xiusheng	Chief financial officer	Male	49	April 2006–	1,347	None
Zhu Xiaohuang	Chief risk officer	Male	51	April 2006–	1,339	None
Yu Yongshun	Chief audit officer	Male	57	July 2005–	1,297	None
Chen Caihong	Secretary to the Board	Male	51	August 2007–	308	None
Gu Jingpu	Controller of wholesale banking	Male	51	May 2006–	1,305	None
Du Yajun	Controller of retail banking	Male	51	May 2006–	1,309	None
Mao Yumin	Controller of investment and wealth management banking	Male	53	September 2007–	260	None

1. *During the reporting period, the secretary to the Board of the Bank, Mr. Chen Caihong, indirectly held 19,417 H-shares of the Bank via employee stock ownership plans before he assumed duties as the secretary to the Board. Apart from this, the directors, supervisors and other senior management members of the Bank do not hold any shares of the Bank.*

Determining Procedures and Basis of Compensation for Directors, Supervisors and Senior Management

The Bank provides compensation including salary, bonus, pension plan, provident housing fund scheme and other benefits to executive directors, shareholder representative supervisors and senior executives who are also employees of the Bank. Independent non-executive directors, employee representative supervisors and external supervisors of the Bank receive allowances according to their duties. The compensations for non-executive directors who hold positions in the corporate shareholders are paid to the corporate shareholders by the Bank. At the beginning of each year, the nomination and compensation committee of the board of directors formulates detailed implementation rules for the compensation distribution of directors, supervisors and senior executives, and give proposals on the emoluments plan for the year based on the results of assessment on the directors, supervisors and senior management at the end of each year. The emoluments plan for the year of senior management is submitted to the board of directors for approval while that of directors and supervisors is assessed and discussed by the board of directors before submission to the shareholders' general meeting for approval.

Please refer to "Particulars of Directors, Supervisors and Senior Management" for details concerning the compensations for directors, supervisors and senior management of the Bank in 2007.

Changes in Directors, Supervisors and Senior Management in 2007

Changes in Directors

For changes in directors of the Bank in 2007, please refer to "Corporate Governance Report" in this report.

Changes in Supervisors

In June 2007, the Bank convened the 2006 annual general meeting at which Mr. Xie Duyang, Ms. Liu Jin and Mr. Jin Panshi were re-appointed as supervisors, Mr. Guo Feng was re-appointed as external supervisor and Mr. Dai Deming was appointed as external supervisor. In June 2007, Ms. Cheng Meifen, Mr. Sun Zhixin and Ms. Ning Liming were re-appointed as employee representative supervisors at the second meeting of the first board of employee representatives of the Bank. Ms. Chen Yueming, the shareholder representative supervisor, and Mr. Cui Jianmin, the external supervisor, resigned from the board of supervisors upon expiration of their term of office.

Changes in Senior Management

In June 2007, Mr. Zhang Long resigned from his post of secretary to the board of directors and controller of investment and wealth management banking.

In September 2007, Mr. Mao Yumin was appointed as controller of investment and wealth management banking.

In August 2007, Mr. Chen Caihong was appointed as secretary to the board of directors at the third meeting of the second board of directors of the Bank.

Changes in Company Secretary

In October 2007, Ms. Chan Mei Sheung was appointed at the fifth meeting of the second board of directors of the Bank to succeed Mr. Ha Yiu Fai as the company secretary.

Profiles of Directors, Supervisors and Senior Management

Biographical Details of Directors, Supervisors and Senior Management

Directors of the Bank

Guo Shuqing
Chairman of the board of directors, executive director
Mr. Guo joined the Bank in March 2005 and has served as chairman since then. Prior to that position, Mr. Guo was deputy governor of the PBC, director of the SAFE and chairman of Huijin from December 2003 to March 2005. He was deputy governor of the PBC and director of the SAFE from March 2001 to December 2003, deputy governor of Guizhou Province from July 1998 to March 2001 and secretary general of the State Commission for Economic Restructuring from March 1996 to July 1998. Mr. Guo served as director of the Macro-control System Department of the State Commission for Economic Restructuring from October 1995 to March 1996, director of the General Planning and Experiment Department of the State Commission for Economic Restructuring from May 1993 to March 1996, and deputy director of the Economic Research Centre of the State Planning Commission from July 1988 to May 1993. Mr. Guo is a research fellow and a member of the 10th China People's Political Consultative Congress National Committee. Mr. Guo graduated from Nankai University in 1982 with a bachelor's degree in philosophy, and graduated from the Chinese Academy of Social Sciences with a doctorate degree in law in 1988. Mr. Guo was also a visiting fellow at the University of Oxford from May 1986 to August 1987.

Zhang Jianguo
Vice chairman of the board of directors, executive director, president
Mr. Zhang has served as president in the Bank since July 2006, and has served as director since October 2006. Mr. Zhang was vice chairman of the board of directors and President of Bank of Communications Co., Ltd. ("BOCOM") from May 2004 to July 2006. From September 2001 to May 2004, Mr. Zhang served as vice president of BOCOM. From September 1984 to September 2001, Mr. Zhang served several positions in Industrial and Commercial Bank of China, including deputy general manager and general manager of the international banking department, deputy governor of the Tianjin Branch, deputy governor and governor of the Tianjin Economic and Technology Development Area Branch, and deputy manager of the international banking department of the Tianjin branch. From September 1982 to September 1984, Mr. Zhang worked at the Tianjin Branch of the PBC. Mr. Zhang graduated from Tianjin College of Finance and Economics with a bachelor's degree in Finance in 1982 and a master's degree in Economics in 1995.

Zhao Lin
Executive director, vice president
Mr. Zhao has served as a director and vice president since September 2004. Mr. Zhao was vice president of China Construction Bank from September 2002 to September 2004, chief controller of China Construction Bank in charge of discipline and compliance matters from February 1995 to September 2002, general manager of the Office of General Affairs of China Construction Bank from December 1992 to February 1995, deputy general manager of the Office of General Affairs of China Construction Bank from February 1992 to December 1992, and deputy general manager of China Construction Bank's Hubei Branch from February 1991 to February 1992. Mr. Zhao is a senior economist and graduated from Zhongnan University of Finance and Economics in 1986 with a degree in business management and economics.

Luo Zhefu
Executive director, vice president
Mr. Luo has served as a director since June 2006 and vice president of the Bank since September 2004. Prior to that position, Mr. Luo was vice president of China Construction Bank from November 2000 to September 2004, general manager of Beijing Branch of the Agricultural Bank of China from October 1999 to November 2000, general manager of Hong Kong Branch of the Agricultural Bank of China from September 1998 to October 1999, general manager of Shenzhen Branch of the Agricultural Bank of China from May 1997 to August 1998, general manager of the Treasury and Planning Department of the Agricultural Bank of China from January 1997 to May 1997, deputy general manager of the Treasury and Planning Department of the Agricultural Bank of China from February 1995 to January 1997, deputy general manager of the education department of the Agricultural Bank of China from February 1993 to February 1995, and assistant general manager of the research office of the Agricultural Bank of China from February 1992 to February 1993. Mr. Luo is a senior economist and graduated from Jilin Finance and Trade College with a bachelor's degree in commerce and economics in 1982. He received his master's degree in commerce and economics from the Chinese Academy of Social Sciences in 1986.

Wang Yonggang
Non-executive director
Mr. Wang has served as a director since September 2004. Mr. Wang was a dedicated supervisor of director-general level and director of the Office of General Affairs under the board of supervisors of China Construction Bank from August 2003 to September 2004, dedicated supervisor at deputy director-general level and deputy director of the Office of General Affairs under the board of supervisors of the People's Insurance Company of China and China Reinsurance Company from July 2000 to August 2003, and deputy general manager of the compliance department of the Industrial and Commercial Bank of China from June 1997 to July 2000. Mr. Wang is a certified accountant, a senior accountant, and was appointed by the MOF as an expert consultant on financial management of finance and insurance enterprises in August 1997. He graduated from Heilongjiang Finance Technical College with a degree in infrastructure finance in 1982, and received his master's degree in currency and banking from Northeast University of Finance and Economics in 1997. Mr. Wang is currently an employee of the Bank's substantial shareholder, Huijin, and has served as supervisor of China Reinsurance (Group) Company since October 2007.

Wang Yong
Non-executive director
Mr. Wang has served as a director since June 2007. Prior to that position, Mr. Wang was an inspector of the Balance of Payments Bureau of the SAFE from 2004. Mr. Wang was director-general of the Balance of Payments Bureau of the SAFE from April 2002 to August 2004, deputy director-general of the Capital Account Management Bureau of the SAFE from July 1998 to April 2002 and deputy director-general of the Foreign Investment Administration Bureau from January 1997 to July 1998. Mr. Wang is a senior economist. He graduated from Jilin University with a bachelor's degree in economics in 1984 and a master's degree in world economics in 1987. Mr. Wang has not held any directorship in other listed companies in the past three years. Mr. Wang is currently an employee of the Bank's substantial shareholder, Huijin.

Profiles of Directors, Supervisors and Senior Management

Wang Shumin
Non-executive director
Ms. Wang has served as a director since September 2004. Prior to that position, Ms. Wang was an inspector of the Administration and Inspection Bureau of the SAFE from June 2001 to September 2004, deputy director-general of the Administration and Inspection Bureau of the SAFE from March 1998 to June 2001, deputy director-general of the Balance of Payments Bureau of the SAFE from August 1996 to March 1998, and deputy director-general of the Policy and Law Bureau of the SAFE from July 1994 to August 1996. Ms. Wang is a senior economist and has the qualifications to practice law in China. She currently serves as an arbitrator of China International Economic and Trade Arbitration Commission. She graduated from Zhongnan University of Economics and Law with a bachelor's degree in law in 1982. Ms. Wang is currently an employee of the Bank's substantial shareholder, Huijin.

Liu Xianghui
Non-executive director
Mr. Liu has served as a director since November 2004. Prior to that position, Mr. Liu worked consecutively at the State Economic Commission, the State Planning Commission and the Office of Central Leading Group on the Financial and Economic Affairs. He was an inspector of the Economic and Trade Group under the Office of Central Leading Group on the Financial and Economic Affairs from November 2001 to November 2004, and an assistant inspector of the same group from July 1998 to November 2001. Mr. Liu also studied at the Central School of Planning and Statistics in Poland from September 1989 to February 1990, and worked at the United States Environmental Protection Agency in 1993. Mr. Liu is an economist and graduated from Liaoning University with a bachelor's degree in Chinese in 1978. Mr. Liu is currently an employee of the Bank's substantial shareholder, Huijin.

Zhang Xiangdong
Non-executive director
Mr. Zhang has served as a director since November 2004. Prior to that position, Mr. Zhang was an inspector of the General Bureau of the SAFE from September 2004 to November 2004, deputy director-general of the same bureau from August 2003 to September 2004, deputy general manager of the PBC's Haikou Central Sub-branch and concurrently deputy director-general of the SAFE's Hainan Branch from August 2001 to August 2003. Mr. Zhang also served as a member of Stock Offering Approval Committee of CSRC from August 1999 to November 2001. Mr. Zhang is a senior economist and is qualified to practice law in China. He currently serves as an arbitrator of China International Economic and Trade Arbitration Commission. He graduated from Renmin University with a bachelor's degree in law in 1986. He completed his graduate studies in international economic law at Renmin University in 1988, and was awarded a master's degree in law in 1990. Mr. Zhang is currently an employee of the Bank's substantial shareholder, Huijin.

Li Xiaoling
Non-executive director

Ms. Li has served as a director since June 2007 and has been a deputy inspector of Budgeting Bureau of the Ministry of Finance of PRC since January 2006. Prior to that, Ms. Li was an assistant inspector from May 2001 to January 2006 and held a range of positions such as deputy director and director from July 1987 to May 2001 in the Budgeting Bureau of the MOF. Ms. Li is an economist and graduated from Beijing Normal University in January 2003 with a master's degree in political economics. Ms. Li has not held any directorship in other listed companies in the past three years. Ms. Li is currently an employee of the Bank's substantial shareholder, Huijin.

Gregory L. Curl
Non-executive director

Mr. Curl has served as a director since August 2005. Mr. Curl is the vice chairman of corporate development of Bank of America and has served in several capacities at Bank of America, including as vice chairman of corporate development and global corporate planning and as strategy executive since 1996. Prior to that, he served in various capacities in Boatmen's Bancshares, including vice chairman and chief operating officer since 1978. Mr. Curl currently is a director of the Jefferson Scholars Foundation, University of Virginia, the Enstar Group, Inc. and Grupo Financiero Santander Serfin. Mr. Curl received a bachelor's degree in political science from Southwest Missouri State University and a master's degree in government from the University of Virginia.

Lord Peter Levene
Independent non-executive director

Lord Peter Levene has served as a director since June 2006. He is currently the chairman of Lloyd's. Lord Peter Levene is also concurrently the chairman of General Dynamics UK Limited, International Financial Services London, director of TOTAL SA, a listed entity, and of Haymarket Group Ltd. Before that, he held various directorships in other listed companies including a director of J Sainsbury plc from 2001 to 2004, and member of the supervisory board of Deutsche Boerse from 2004 to 2005. Lord Peter Levene was awarded a bachelor's degree in economics and politics from the University of Manchester.

Profiles of Directors, Supervisors and Senior Management

Song Fengming
Independent non-executive director
Mr. Song has served as a director since September 2004. Mr. Song is an experienced academic in banking and finance in China. Mr. Song is a professor and supervisor for doctorate students at Tsinghua University and co-chairman of China Centre for Financial Research, and has been the dean of the department of finance and international trade of Tsinghua School of Economics and Management from 1995 to 2005. He was an associate professor and director of the Division of Finance and International Trade of the same school from 1988 to 1992, and an assistant professor and dean of the management department of Jiangsu University of Science and Technology from 1982 to 1988. Mr. Song received his bachelor's degree in computational mathematics from Peking University in 1970, his master's degree in management from Shanghai Jiaotong University in 1982, and his Ph.D. degree in systems engineering from Tsinghua University in 1988. He pursued his post-doctorate research at the University of California, Riverside, from 1992 to 1995.

Jenny Shipley
Independent non-executive director
Ms. Shipley has served as a director since November 2007 and is currently chairman of Mainzeal Construction and Development and Senior Money International. She is also director of Momentum Consulting Group and director of the listed company Richina Pacific Limited. Ms. Shipley holds positions in consultancy in Jenny Shipley New Zealand Ltd and Confucius Says. Ms. Shipley held key appointments in the New Zealand government. She was prime minister of New Zealand from 1997 to 1999 and was consecutively minister of Women's Affairs, minister of Social Welfare, minister of Health, minister responsible for Radio New Zealand, minister of Transport, minister of Accident Compensation, minister of State-owned Enterprises and minister of State Services Commission from 1990 to 1997.

Elaine La Roche
Independent non-executive director
Ms. La Roche has served as a director since June 2005. Ms. La Roche is the chief executive officer of Salisbury Pharmacy Group. She worked at Morgan Stanley from May 1978 to June 2000. She was a managing director of Morgan Stanley from 1987 and served in various capacities, including as chief of staff to the chair and president of Morgan Stanley. She was seconded from Morgan Stanley to serve as the chief executive officer of China International Capital Corporation Limited from May 1998 to June 2000. Ms. La Roche was a financial executive of Cantor Fitzgerald, a diversified financial services company, from 2005 to 2006. Ms. La Roche currently serves as the chair of the board of Linktone, a NASDAQ listed company. Ms. La Roche graduated from Georgetown University School of Foreign Service with a bachelor's degree in international affairs and from the American University with a master's degree in business administration in finance.

Wong Kai-Man
Independent non-executive director

Mr. Wong has served as a director since November 2007 and is currently a director of Li & Fung (1906) Foundation Ltd, a charity and an honorary associate professor of the School of Business of the University of Hong Kong. He also holds the position of independent non-executive director in the following listed companies: Shangri-la Asia Limited, SCMP Group Limited and SUNeVision Holdings Ltd. In addition, he serves in a number of government committees and non-governmental organisations: Hong Kong Science and Technology Parks Corporation, Hong Kong Design Centre Limited, Barristers Disciplinary Tribunal, City University of Hong Kong, Hong Kong University Graduates Association Education Foundation, World Vision Hong Kong, Haven of Hope Christian Service and Haven of Hope Hospital. Mr. Wong was a partner of PricewaterhouseCoopers Hong Kong and retired from that post on 30 June 2005 with 32 years of experience in accounting. Mr. Wong was a member of the GEM Listing Committee of the Hong Kong Stock Exchange from 1999 to 2003. Mr. Wong received his bachelor's degree in Physics from the University of Hong Kong and his master's degree in Business Administration from the Chinese University of Hong Kong. Mr. Wong is a fellow of the Hong Kong Institute of Certified Public Accountants and a fellow of the Association of Chartered Certified Accountants of the United Kingdom.

Tse Hau Yin, Aloysius
Independent non-executive director

Mr. Tse has served as a director since November 2004. Mr. Tse joined KPMG in 1976, became a partner in 1984, and retired from KPMG in March 2003. Mr. Tse served as non-executive chairman of KPMG China and was a member of the China Affairs Committee of KPMG from 1997 to 2000. Mr. Tse is a former president of the Hong Kong Institute of Certified Public Accountant ("HKICPA"). He is a fellow of the HKICPA and the Institute of Chartered Accountants in England and Wales. Mr. Tse currently is an independent non-executive director of China Telecom Corporation Limited, Wing Hang Bank Limited, CNOOC Limited, Sinofert Holdings Limited and Linmark Group Limited. He is also Chairman of International Advisory Council of the Wuhan Municipal Government. Mr. Tse graduated from the University of Hong Kong.

Profiles of Directors, Supervisors and Senior Management

Supervisors of the Bank

Xie Duyang
Chairman of the board of supervisors
Mr. Xie has served as chairman of the board of supervisors since September 2004. Mr. Xie was chairman of the board of supervisors of China Construction Bank from July 2003 to September 2004, chairman of the board of supervisors of People's Insurance Company of China and China Reinsurance Company from July 2000 to July 2003, vice president of Industrial and Commercial Bank of China from October 1992 to July 2000, an officer of director-general level at the Ministry of Organisation from June 1989 to October 1992, an officer of director-general level at the National Economic General Affairs Bureau of the State Planning Commission from April 1989 to June 1989, and an officer of deputy director-general level at the same bureau from July 1986 to April 1989. Mr. Xie is a research fellow and graduated from Wuhan University with a doctorate degree in political economics in 2002.

Liu Jin
Supervisor
Ms. Liu has served as a supervisor since September 2004. Ms. Liu was dedicated supervisor of deputy director-general level at the board of supervisors of China Construction Bank from July 2003 to September 2004, dedicated supervisor of deputy director-general level at the board of supervisors of the People's Insurance Company of China and China Reinsurance Company from November 2001 to July 2003, and chief manager of the board of supervisors of the People's Insurance Company of China and that of China Reinsurance Company from July 2000 to November 2001. Ms. Liu is a senior economist and graduated from Hunan Finance and Economics College with a bachelor's degree in finance in 1984.

Jin Panshi
Supervisor
Mr. Jin has served as a supervisor since September 2004 and has been general manager of the audit department of the Bank since December 2007. Mr. Jin was deputy general manager of the audit department of China Construction Bank from June 2001 to September 2004. Mr. Jin is a senior engineer and a Certified Information Systems Auditor and graduated from Jilin University of Technology with a bachelor's degree in computer application in 1986, and a master's degree in computer application from the same university in 1989.

Cheng Meifen
Employee representative supervisor
Ms. Cheng has served as a supervisor since December 2004. Ms. Cheng has been general manager of the legal department of China Construction Bank from March 2004, and deputy general manager of the same department from August 1999 to March 2004. Ms. Cheng is an economist and graduated with a master's degree in law from the law department of Peking University in 1998.

Sun Zhixin
Employee representative supervisor
Mr. Sun has served as a supervisor since October 2006. Mr. Sun has been general manager of the human resources department of the Bank since September 2005, administrative deputy general manager of the senior training centre of China Construction Bank from August 2003 to September 2005, vice chairman of the personal banking management committee of China Construction Bank from March 2003 to August 2003, general manager of the human resources department of China Construction Bank from July 1999 to March 2003, general manager of Guangxi Branch of China Construction Bank from December 1997 to July 1999, deputy general manager of Guangdong Branch of China Construction Bank from January 1996 to December 1997, general manager of the supervisory department of China Construction Bank from September 1993 to January 1996, deputy general manager of the education department of China Construction Bank from May 1986 to September 1993, deputy general manager of the human resources and education department of China Construction Bank from January 1986 to May 1986. Mr. Sun is a senior economist and graduated from Shanxi University of Finance and Economics with a bachelor's degree in finance in 1977.

Ning Liming
Employee representative supervisor
Ms. Ning has served as a supervisor since October 2006 and has been vice chairman of the personal banking committee and vice chairman of the Pan Yangtze River Delta Cooperation Committee of the Bank since August 2007. Ms. Ning has been general manager of Shanghai Branch of China Construction Bank since November 1999. She was deputy general manager of Shanghai Branch of China Construction Bank from December 1992 to November 1999, and chief manager of China Construction Bank Shanghai Branch, No.5 Sub-branch from May 1986 to December 1992. Ms. Ning is a senior economist. She graduated from Liaoning Finance and Economics College with a bachelor's degree in infrastructure finance and credit in 1982 and from Shanghai University of Finance and Economics with a master's degree in money and banking in 1996. In 2005, Ms. Ning received an EMBA degree from Arizona State University.

Profiles of Directors, Supervisors and Senior Management

Guo Feng
External supervisor
Mr. Guo has served as an external supervisor since March 2005. Mr. Guo has been the director of the law school of the Central University of Finance and Economics since January 2007. Mr. Guo has been a professor at the law school of the Central University of Finance and Economics and director of the Research Institute of Financial and Economic Law of the same university since December 2004. He was an associate professor at the law school of the Renmin University of China from June 1993 to December 2004, and deputy director of the Institute of Financial Law of the same university from February 1993 to December 2004. Mr. Guo was a visiting scholar at the law school of the City Polytechnic of Hong Kong from January 1993 to June 1993. He received his master's degree in civil and commercial law from the Renmin University of China in June 1986 and his Ph.D. degree in civil and commercial law from the same university in 1995.

Dai Deming
External supervisor
Mr. Dai has served as an external supervisor since June 2007. Mr. Dai has been dean of the accounting department of School of Business at Renmin University of China since October 2001, and professor of the accounting department at Renmin University of China since June 1996. He was an associate professor of accounting department of Renmin University of China from June 1993 to May 1996. Mr. Dai pursued his post-doctorate research at Hitotsubashi University from October 1997 to September 1999. Mr. Dai is currently an independent director of China South Locomotive and Rolling Stock Corporation Limited, Beijing Northking Technology Co., Ltd and Northern Copper Industry Holdings Company Limited. Mr. Dai received his bachelor's degree in industry accounting from Hunan College of Finance and Economics in July 1983, master's degree in accounting from Zhong Nan University of Economics in July 1986 and doctorate degree in accounting from Renmin University of China in July 1991.

Senior Management of the Bank

Zhang Jianguo
Vice chairman of the board of directors, executive director, president
See "Directors of the Bank".

Zhao Lin
Executive director, vice president
See "Directors of the Bank".

Luo Zhefu
Executive director, vice president
See "Directors of the Bank".

Xin Shusen
Vice president
Ms. Xin has served as a vice president since July 2005. Ms. Xin was the Bank's chief compliance officer from September 2004 to July 2005, chief controller of China Construction Bank from September 2003 to September 2004, deputy chief controller of China Construction Bank from February 2003 to September 2003, general manager of personal banking department of China Construction Bank from June 2000 to February 2003, general manager of retail banking department of China Construction Bank from June 1998 to June 2000, general manager of funding and savings department of China Construction Bank from April 1994 to June 1998, and deputy general manager of human resources department of China Construction Bank from August 1990 to April 1994. She was also general manager of the corporate culture department from September 1993 to April 1994. Ms. Xin is a senior economist and recipient of a special grant by PRC government. Ms. Xin graduated from Changchun Metallurgy Construction Institute with a degree in industrial and civil construction in 1983. She received her master's degree in national economics from Northeast University of Finance and Economics in 1998.

Profiles of Directors, Supervisors and Senior Management

Chen Zuofu
Vice president
Mr. Chen has served as a vice president since July 2005. Mr. Chen was assistant president of the Bank from September 2004 to July 2005, assistant president of China Construction Bank from July 1997 to September 2004. Mr. Chen was a visiting scholar to Stanford University from June 1999 to May 2000. Mr. Chen graduated from Southwest University of Politics and Law with a bachelor's degree in law in 1983. He received his master's degree in management and engineering from Central South University of Technology in 1996.

Fan Yifei
Vice president
Mr. Fan has served as a vice president since July 2005. Mr. Fan was assistant president of the Bank from September 2004 to July 2005, assistant president of China Construction Bank from February 2000 to September 2004, and served concurrently as assistant president of China Yangtze Power Co., Ltd. from March 2003 to March 2004. He was general manager of the planning and finance department of China Construction Bank from January 1998 to February 2000, general manager of the finance and accounting department of China Construction Bank from July 1996 to January 1998, and deputy general manager of treasury and planning department of China Construction Bank from September 1994 to July 1996. Mr. Fan also serves as chairman of the board of directors of CCB Asia, director of China Petroleum & Chemical Corporation and director of CITIC International Financial Holdings Limited. Mr. Fan is a senior accountant and received his Ph. D. in finance from Renmin University of China in 1993, and his M.I.A. degree in international economics from Columbia University in 2002.

Pang Xiusheng
Chief financial officer
Mr. Pang has served as chief financial officer since April 2006. Mr. Pang was executive vice chairman of the Bank's asset and liability management committee from March to April 2006; general manager of the Bank's restructuring office from April 2005 to March 2006; general manager of Zhejiang Branch of China Construction Bank from June 2003 to April 2005; head of Zhejiang Branch of China Construction Bank from April 2003 to June 2003; general manager of planning and finance department of China Construction Bank from May 2000 to April 2003; deputy general manager of planning and finance department of China Construction Bank from October 1997 to May 2000; and deputy general manager of treasury and planning department of China Construction Bank from September 1995 to October 1997. Mr. Pang is a senior economist and recipient of a special grant by PRC government. He received his master's degree in technological economics from Harbin Industrial University in 1995.

Zhu Xiaohuang
Chief risk officer
Mr. Zhu has served as chief risk officer since April 2006. He was executive vice chairman of the Bank's risk management and internal control committee from March 2006 to April 2006. Mr. Zhu was general manager of the Bank's corporate banking department from October 2004 to March 2006; general manager of Guangdong Branch of China Construction Bank from May 2001 to October 2004; general manager of banking department of China Construction Bank from March 1999 to May 2001; deputy general manager of Liaoning Branch of China Construction Bank from March 1997 to March 1999; deputy general manager of credit management department of China Construction Bank from April 1996 to March 1997; deputy head of head office's No. 1 credit department of China Construction Bank from April 1995 to April 1996; and deputy general manager of administrative office of China Construction Bank from September 1993 to April 1995. Mr. Zhu is a senior economist and recipient of a special grant from PRC government. He obtained his bachelor's degree in infrastructure finance and credit from Hubei Finance and Economics College in 1982 and received an associate degree in economic law from Peking University in 1985. He also received a doctorate degree in world economics from Zhongshan University in 2006.

Yu Yongshun
Chief audit officer
Mr. Yu has served as chief audit officer since July 2005. Mr. Yu was general manager of the Bank's audit department from September 2004 to August 2006, general manager of the audit department of China Construction Bank from April 1999 to September 2004, general manager of No. 2 banking department of China Construction Bank from April 1998 to April 1999, general manager of Xinjiang Branch of China Construction Bank from March 1996 to April 1998, general manager of real estate credit department of China Construction Bank from September 1993 to March 1996, and deputy general manager of treasury and planning department of China Construction Bank from October 1990 to September 1993. Mr. Yu is a senior economist and recipient of a special grant from PRC government. He graduated from Liaoning Finance and Economics College with a degree in infrastructure finance and credit in 1977, and graduated from Chinese Academy of Social Sciences with a master's degree in money and banking in 1998.

Chen Caihong
Secretary to the Board
Mr. Chen has served as secretary to the Board since August 2007. Mr. Chen was head of preparation team for Seoul Branch of China Construction Bank from April 2003 to December 2003, general manager of Seoul Branch of China Construction Bank from December 2003 to July 2007, deputy general manager of Fujian Branch of China Construction Bank from January 2001 to April 2003, general manager of Administrative Office of China Construction Bank from May 2000 to January 2001, deputy general manager of Administrative Office of China Construction Bank from March 1997 to May 2000. Mr. Chen is a senior economist. He graduated from Hubei Finance and Economics College with a bachelor's degree in infrastructure economics in 1982 and received his master's degree in finance from the Institute of Finance under the MOF in 1986.

Profiles of Directors, Supervisors and Senior Management

Gu Jingpu
Controller of wholesale banking
Mr. Gu has served as controller of the Bank's wholesale banking since May 2006. Mr. Gu was executive vice chairman of the Bank's corporate and institutional banking committee from March to May 2006; vice chairman of risk and internal control management committee, general manager of office of risk and internal control management committee and general manager of risk management department of China Construction Bank from March 2003 to March 2006; vice chairman of risk and internal control management committee and general manager of office of risk and internal control management committee of China Construction Bank from February 2001 to March 2003; vice chairman of risk and internal control management committee of China Construction Bank from August 2000 to February 2001; general manager of Guangdong Branch of China Construction Bank from September 1998 to August 2000; head of internal audit department of China Construction Bank from January 1995 to September 1998; and deputy general manager of internal audit department of China Construction Bank from May 1994 to January 1995. Mr. Gu is a senior economist and a PRC certified public accountant. He received a doctoral degree in management from Zhongshan University in 2006.

Du Yajun
Controller of retail banking
Mr. Du has served as controller of the Bank's retail banking since May 2006. Mr. Du was executive vice chairman of the Bank's personal banking committee from March to May 2006; general manager of Hebei Branch of China Construction Bank from March 1999 to March 2006; general manager of Shanxi Branch of China Construction Bank from December 1996 to March 1999 and deputy general manager of Hebei Branch of China Construction Bank from May 1992 to December 1996. Mr. Du is a senior economist and recipient of a special grant by PRC government. He graduated from Liaoning Finance and Economics College with a bachelor's degree in infrastructure finance and credit in 1982. He also received a master's degree in world economics from Hebei University in 1997.

Mao Yumin
Controller of investment and wealth management banking
Mr. Mao has served as controller of investment and wealth management banking since September 2007. He was chief executive officer of Shanghai Ai Jian Corporation from June 2006 to July 2007, executive director of Mingly (China) Holdings Ltd. from May 2006 to June 2006, director of Cathay International Holdings Limited and senior vice president of Hong Kong Cathay International Limited from March 2003 to May 2006, general manager of Hong Kong Branch of China Construction Bank from January 1997 to March 2003, general manager of international business department of China Construction Bank from May 1994 to January 1997 and deputy general manager of international business department of China Construction Bank from August 1992 to May 1994. Mr. Mao is a senior economist and graduated from Jiangxi College of Finance and Economics with a bachelor's degree in infrastructure finance in 1983.

Company Secretary and Qualified Accountant of the Bank

Chan Mei Sheung
Company secretary

Ms. Chan has served as the Bank's company secretary since October 2007. She has been head of legal & compliance division of CCB International and its subsidiaries since then. Prior to that, Ms. Chan was group legal counsel and head of Legal Department in China Everbright Limited. From July 2006 to August 2007, she served as company secretary of China Everbright Limited. She has been a member of the Mainland Legal Affairs Committee of the Law Society of Hong Kong since 2006. She was group legal counsel and company secretary of Sing Tao News Corporation Limited from 2003 to 2005 and senior consultant of Boughton Peterson Yang Anderson since 2003. She was the partner in charge of Corporate Finance and China Services Department of Hastings & Co. from 1999 to 2003, solicitor in charge of China Practice of Hastings & Co. from 1996 to 1999, commercial and intellectual property solicitor of Hastings & Co., from 1993 to 1996, commercial and intellectual property solicitor of Sit, Fung, Kwong and Shum from 1990 to 1992 and trainee solicitor of Wilkinson and Grist from 1988 to 1990. Ms. Chan is a qualified solicitor in Hong Kong, England and Wales, and is a qualified solicitor and barrister in the Australian Capital Territory. She graduated from the University of Hong Kong with an honorary bachelor's degree in Law in 1987.

Yuen Yiu Leung
Qualified Accountant

Mr. Yuen has served as the Bank's qualified accountant since August 2005. Mr. Yuen has been head of finance of Hong Kong Branch of the Bank since September 2004, and has also been head of finance of CCB International and its subsidiaries since January 2006. Prior to that, Mr. Yuen held the same position in the Hong Kong branch of China Construction Bank from October 1995 to September 2004 and he served in several capacities at the internal control, finance and accounting functions of Standard Chartered Bank. Mr. Yuen is a fellow of the Hong Kong Institute of Certified Public Accountants, the Association of Chartered Certified Accountants, UK and the Chartered Institute of Management Accountants, UK and an associate of the Institute of Chartered Accountants in England & Wales. Mr. Yuen graduated from Hong Kong Polytechnic University with a professional diploma in management accountancy in 1988 and received a master's degree in business administration from University of Wales in cooperation with Manchester Business School in 1998.

Introduction to Shareholders' General Meeting

Powers of Shareholders' General Meeting

The shareholders' general meeting is the authoritative body of the Bank and mainly exercises the following powers:

- determining the operating guidelines and investment plans of the Bank;
- electing and changing directors and supervisors (except for employee representative supervisors), and determining the remuneration of directors and supervisors;
- reviewing and approving the Bank's annual financial budgets, final accounts, profit distribution plans and loss coverage plans;
- adopting resolutions related to the increase or reduction of the registered capital, and merger, division, dissolution and liquidation of the Bank;
- adopting resolutions related to the issuance and listing of corporate bonds or other securities;
- adopting resolutions related to material acquisitions and repurchase of the Bank's shares;
- adopting resolutions to engage, remove or cease to retain certified public accountants;
- amending the Articles of Association and other fundamental corporate governance documents of the Bank.

Details of Shareholders' General Meetings Convened

In 2007, the Bank held two shareholders' general meetings, i.e. the 2006 annual general meeting on 13 June 2007 and the first extraordinary general meeting of 2007 on 23 August 2007, which mainly resolved on the appointments of directors, the appointments of supervisors, settlement plans for the distribution of the 2006 remunerations for directors and supervisors, 2006 final accounts, 2006 profit distribution plans, authorisation plans for 2007 interim dividends, issuance and listing of A-shares, amendments to Articles of Association of the Bank, rules of procedures for shareholders' general meetings, rules of procedures for board meetings and rules of procedures for meetings of board of supervisors, as well as engagement of 2007 auditors. The shareholders' general meetings were held in compliance with relevant laws and regulations.

Report of the Board of Directors

The Board of the Bank is pleased to present its report together with the financial statements of the Group for the year ended 31 December 2007.

Principal Activities

The Group is engaged in a range of banking services and related financial services.

Profits and Dividends

The profit of the Group for the year ended 31 December 2007 and the state of the Group's financial affairs as at that date are set out in the "Financial Statements" in this annual report.

In accordance with the resolutions passed at the shareholders' general meeting 2006 held on 13 June 2007 and the first extraordinary shareholders' general meeting 2007 held on 23 August 2007, the Bank paid an interim dividend for 2007 of RMB0.067 per share, and a special dividend of RMB0.072716 per share, with a total amount of approximately RMB31,393 million, to holders of H-shares whose names appear on the register of members on 4 October 2007.

The Board recommends a final cash dividend of RMB0.065 per share for the six months ended 31 December 2007, totalling approximately RMB15,190 million, subject to the approval of shareholders at the forthcoming 2007 annual general meeting. If approved, the dividend will be paid to shareholders whose names appear on the register of members of the Bank on Monday, 23 June 2008.

Reserves

Please refer to the consolidated statement of changes in equity for details of the movements in the reserves of the Group for the year ended 31 December 2007. Other details of the reserves are set out in Notes 33 "Equity" to the "Financial Statements".

Summary of Financial Information

Please refer to the "Five-Year Financial Summary" for the summary of the operating results, assets and liabilities of the Group for the five years ended 31 December 2007.

Donations

Donations made by the Group during the year ended 31 December 2007 for charitable and other purposes were RMB197 million.

Property and Equipment

Please refer to Note 23 "Property and Equipment" to the "Financial Statements" for details of movements in the property and equipment of the Group for the year ended 31 December 2007.

Retirement Benefits

Please refer to Note 31 "Retirement Benefits" to the "Financial Statements" for details of the retirement benefits provided to employees of the Group.

Major Customers

For the year ended 31 December 2007, the aggregate amount of interest income and other operating income generated from the five largest customers of the Group represented an amount not exceeding 30% of the total interest income and other operating income of the Group.

Ultimate Parent Company and its Subsidiaries

Please refer to Notes 44 "Ultimate Parent" and 21 "Investment in Subsidiaries" to the "Financial Statements" for details of the Bank's ultimate parent and its subsidiaries respectively as at 31 December 2007.

Report of the Board of Directors

Share Capital and Public Float

As of 31 December 2007, the Bank issued 233,689,084,000 shares in total (including 224,689,084,000 H-shares and 9,000,000,000 A-shares) and had 1,516,445 registered shareholders. Based on publicly available information at the latest practicable date prior to the publication of this report, the Bank has been in compliance with the relevant requirements regarding public floats under relevant laws and regulations as well as the listing rules of listing venues.

Purchase, Sale and Redemption of Shares

In September 2007, the Bank made an initial public offering of 9 billion A-shares at the offering price of RMB6.45 per share. Upon the completion of the A-share IPO, the total number of the shares of the Bank is 233,689,084,000 (including 224,689,084,000 H-shares and 9,000,000,000 A-shares).

Pre-emptive Rights

The Articles of Association of the Bank and the relevant PRC law do not have such provisions under which the Bank's shareholders have pre-emptive rights. The Articles of Association provide that if the Bank wishes to increase its capital, it may issue new shares to non-specified investors, may issue shares to existing shareholders or issue shares by way of distribution to existing shareholders, may transfer capital from its capital accumulation fund to increase its share capital, or through other means permitted by law or regulation.

Use of Proceeds of the IPO

The Bank uses the proceeds of the IPO to supplement its capital base in accordance with the disclosure in the A-share prospectus.

Top Ten Shareholders and their Shareholdings

As at 31 December 2007, the top ten shareholders of the Bank and their respective shareholdings are stated in "Changes in Share Capital and Particulars of Shareholders" in this report.

Directors, Supervisors and Senior Management

Please refer to the "Profiles of Directors, Supervisors and Senior Management" for details of directors, supervisors and senior executives of the Bank.

Confirmation of Independence by the Independent Non-executive Directors

The Bank has received from each of its independent non-executive directors the confirmation of his/her independence. The Bank reckons that the existing independent non-executive directors are in compliance with the independence guidelines set out in Rule 3.13 of the Listing Rules of Hong Kong Stock Exchange, and are independent accordingly.

Material Interests and Short Positions

As at 31 December 2007, the interests and short positions of substantial shareholders and other persons of the Bank in the shares and underlying shares of the Bank as recorded in the register required to be kept under section 336 of the Securities and Futures Ordinance ("SFO") were as follows:

	Number of H-shares held			% of issued	% of total
Name	Held Directly	Held Indirectly	Total holding	H-shares	issued shares
Huijin[1]	138,150,047,904	20,692,250,000	158,842,297,904	70.69	67.97
Jianyin[1]	20,692,250,000	—	20,692,250,000	9.21	8.85
Bank of America[2]	19,132,974,346	—	19,132,974,346	8.52	8.19
Temasek	—	13,576,203,750	13,576,203,750	6.04	5.81
Fullerton Financial[3]	13,207,316,750	—	13,207,316,750	5.88	5.65

1. *Since Jianyin is a wholly-owned subsidiary of Huijin, in accordance with the SFO, the interests directly held by Jianyin are deemed to be indirect interests of Huijin.*

2. *Bank of America holds options to acquire the Bank's H-shares representing a total of 19.90% of its issued and tradable H-shares (excluding any shares already held by Bank of America at that date), which is in the form of physically settled unlisted derivatives.*

3. *Since Fullerton Financial is a wholly-owned subsidiary of Temasek, in accordance with the SFO, the interests directly held by Fullerton Financial are deemed to be indirect interests of Temasek.*

Directors' and Supervisors' Interests and Short Positions in Shares, Underlying Shares and Debentures

As at 31 December 2007, none of the directors and supervisors of the Bank had any interests or short positions in the shares, underlying shares and debentures of the Bank or its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Bank and Stock Exchange of Hong Kong pursuant to Appendix 10 of the Listing Rules: Model Code for Securities Transactions by Directors of Listed Issuers.

As at 31 December 2007, except for the Employee Stock Incentive Plan, the Bank has not granted its directors or supervisors, or their respective spouses or children below the age of 18, any other rights to subscribe for the shares or debentures of the Bank or any of its associated corporations and none of them has ever exercised any right to subscribe for such shares or debentures.

Directors' Financial, Business and Family Relationships

There are no relationships among each of the directors of the Bank, including financial, business, family or other material relationships.

Directors' and Supervisors' Interests in Contracts and Service Contracts

For the year ended 31 December 2007, no director or supervisor of the Bank had any interest, whether directly or indirectly, in any contract of significance in relation to the Group's business entered into by the Bank, any of its holding companies or subsidiaries or subsidiaries of the Bank's holding companies, apart from service contracts.

None of the directors and supervisors of the Bank has entered into a service contract with the Bank that cannot be terminated by the Bank within one year without payment of compensation (other than statutory compensation).

Directors' Interests in Competing Businesses

None of the directors of the Bank directly or indirectly has any interest that constitutes or may constitute a competing business of the Bank.

Connected Transactions

Continuing Connected Transactions as Defined by Listing Rules of Hong Kong Stock Exchange

Continuing connected transactions between the Bank and Jianyin

Pursuant to the restructuring, the assets and liabilities of the former China Construction Bank were divided between the Bank and Jianyin. Following the separation, we entered into various agreements on a continuing basis with Jianyin to regulate the continuing business relationships between the Bank and Jianyin. These continuing connected transactions with Jianyin are divided into the following categories:

- Asset management services provided by the Bank to Jianyin.
- Comprehensive services provided by Jianyin to the Bank.
- Leasing of motor vehicles and equipment by Jianyin to the Bank.
- Consultancy services provided by Jianyin to the Bank.
- Leasing of properties by Jianyin to the Bank.
- Property management services provided by Jianyin to the Bank.

For each category of transaction we have entered into with Jianyin, the respective transaction amounts have not resulted in the percentage ratios set out in Chapter 14A of the Listing Rules (other than the profit ratio, which does not apply) exceeding 0.1%. Accordingly, these connected transactions are exempt continuing connected transactions under the Listing Rules of Hong Kong Stock Exchange, and thus are exempt from the reporting, announcement and independent shareholders' approval requirements under the Listing Rules of Hong Kong Stock Exchange.

Continuing connected transactions between the Bank and State Grid

State Grid, one of the Bank's promoters, and its subsidiaries, provide electricity supplies to the Bank's business operations in certain areas of Mainland China, and the Bank pays electricity fees to them at rates prescribed by PRC government.

The acquiring of consumer goods or consumer services by the Bank as a consumer, from State Grid and its subsidiaries in the ordinary and usual course of their business of electricity supplies on normal commercial terms is exempt continuing connected transactions under the Listing Rules of Hong Kong Stock Exchange, and thus is exempt from all the reporting, announcement and independent shareholders' approval requirements under the Listing Rules of Hong Kong Stock Exchange.

Commercial banking services and products provided by the Bank in the ordinary and usual course of business

We provide commercial banking services and products to our customers in the ordinary and usual course of our business. Such services and products include taking deposits and the provision of long-term loans, short-term loans, consumer loans and mortgages by the Bank.

Customers who place deposits with the Bank include the Bank's connected persons and their associates. Therefore, such deposit activities shall be recognised as continuing connected transactions under Chapter 14A of the Listing Rules of Hong Kong Stock Exchange.

The provision of commercial banking services and products by the Bank to its connected persons in the ordinary and usual course of its business and on normal commercial terms that are comparable or no more favourable than those offered to independent third parties is exempt continuing connected transactions under the Listing Rules of Hong Kong Stock Exchange, and thus is exempt from the reporting, announcement and independent shareholders' approval requirements under the Listing Rules of Hong Kong Stock Exchange.

Loans and credit facilities granted by the Bank to connected persons

The Bank extends loans and credit facilities (including provision of guarantees, security for third party loans, comfort letters and discounted bills) to its customers in the ordinary and usual course of its business on normal commercial terms with reference to prevailing market rates. Customers who utilise the loans and credit facilities of the Bank include its connected persons and their associates defined in Chapter 14A of the Listing Rules of Hong Kong Stock Exchange. Therefore, these loans and credit facilities are continuing connected transactions under Chapter 14A of the Listing Rules of Hong Kong Stock Exchange.

The loans and credit facilities extended by the Bank to its connected persons in the ordinary and usual course of its business and on normal commercial terms that are comparable or no more favourable than those offered to independent third parties are exempt continuing connected transactions under the Listing Rules of Hong Kong Stock Exchange, and thus are exempt from all reporting, announcement and independent shareholders' approval requirements under the Listing Rules of Hong Kong Stock Exchange.

Service contracts between the Bank and its directors and supervisors

We entered into service contracts and indemnification agreements with each of our directors and supervisors. The indemnities cover losses incurred in connection with provision of the services by the relevant director or supervisor, except for any losses arising from his or her gross negligence, wilful misconduct or dishonesty. These contracts are exempt connected transactions under the Listing Rules of Hong Kong Stock Exchange, and thus are exempt from the reporting, announcement and independent shareholders' approval requirements under the Listing Rules of Hong Kong Stock Exchange.

Review and Confirmation of Continuing Connected Transactions by the Independent Non-executive Directors of the Bank

Pursuant to the provisions of the Listing Rules of the Hong Kong Stock Exchange, the independent non-executive directors of the Bank have reviewed all the continuing connected transactions conducted during the reporting period and have confirmed:

1. Such transactions are within the ordinary and usual course of business of the Bank;

2. Such transactions are entered into on normal commercial terms; and

3. Such transactions are entered into in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Bank as a whole.

Confirmation of Continuing Connected Transactions by the Auditors

Pursuant to the provisions of the Listing Rules of Hong Kong Stock Exchange, the auditors of the Bank have reviewed the aforesaid continuing connected transactions and have confirmed that such continuing connected transactions:

1. have received the approval of the Bank's board of directors;
2. are in accordance with the pricing policies of the Bank; and
3. have been entered into in accordance with the terms of relevant agreements governing the transactions.

Please refer to the financial statements and the notes thereof for details of the related party transactions as defined by domestic laws and regulations.

Corporate Governance

We are committed to maintaining the highest standards of corporate governance practice. Information on the corporate governance practice adopted by the Bank and our compliance with the Code is set out in the "Corporate Governance Report".

Remuneration Policy for the Directors, Supervisors and Senior Management

We have established interim measures for remuneration and annual bonus for our directors, supervisors and senior management, and seek to improve the performance evaluation system and incentive and disciplinary mechanism for our directors, supervisors and senior management.

The Bank's remuneration policy for directors, supervisors and senior management takes into consideration the interests of individuals and the Bank as well as shareholders' value. Individuals are remunerated based on both team performance and individual contribution, both the position and performance. The principle of incentives and disciplines is also reflected in the remuneration policy. The remuneration package comprises salary, annual bonus and long-term incentives and subsidies. The Bank participates in the relevant PRC mandatory retirement schemes for its directors, supervisors and senior management and other employees.

Compliance with Hong Kong Banking (Disclosure) Rules

In preparing the financial statements for 2007, the Bank has complied with the *Banking (Disclosure) Rules*, which is chapter 155M of the Banking Ordinance of Hong Kong.

Appointment of Auditors, their Annual Remunerations, and Duration of Auditing Services Provided to the Bank

Our domestic auditors were KPMG Huazhen and our international auditors were KPMG for the year 2007. KPMG Huazhen has been providing auditing services to the Bank for four consecutive years since 2004, and KPMG has been providing auditing services to the Bank for five consecutive years since 2003. At the forthcoming 2007 annual general meeting, the Board will propose to reappoint KPMG Huazhen as our domestic auditors and KPMG as our international auditors for the year 2008.

By order of the board of directors

Guo Shuqing
Chairman
11 April 2008

Report of the Board of Supervisors

In 2007, pursuant to the relevant provisions of the Company Law and the Articles of Association of the Bank, the board of supervisors performed its duties earnestly and conducted supervision actively in order to safeguard the interests of the shareholders and the Bank.

Meetings of the Board of Supervisors

During the reporting period, the board of supervisors convened five meetings, the details of which are as follows:

The 14th meeting of the first board of supervisors was convened on 3 April 2007. *Round-up of the Work of the Board of Supervisors in 2006* and *Working Plan of the Board of Supervisors in 2007* were reviewed and approved.

The 15th meeting of the first board of supervisors was convened on 13 April 2007. *Financial Budget for 2007, Annual Report 2006, Proposal on Distribution of Profit for 2006, Report of the Board of Supervisors for 2006* and *Resolution of the Election of New Board of Supervisors* were reviewed and approved.

The first meeting of the second board of supervisors was convened on 13 June 2007. *Resolution of Nomination of Mr. Xie Duyang to be the Chairman of the Board of Supervisors, Resolution of Nomination of Members of the Performance and Due Diligence Supervision Committee under the Board of Supervisors, Resolution of Nomination of Members of the Financial and Internal Control Supervision Committee under the Board of Supervisors* and *Resolution of Amendment to the Rules of Procedures of the Board of Supervisors* were reviewed and approved.

The second meeting of the second board of supervisors was convened on 24 August 2007. *Resolution of Amendment to the Detailed Rules for the Performance and Due Diligence Supervision Committee under the Board of Supervisors and Resolution of Amendment to the Detailed Rules for the Financial and Internal Control Supervision Committee under the Board of Supervisors* were reviewed and approved. The meeting reviewed the *Interim Report 2007* and *Interim Financial Report 2007* of the Bank, and verified the distribution plan for 2007 interim profit and accumulated undistributed profit. The board of supervisors also debriefed risk management of personal loans and management of non-performing loans.

The third meeting of the second board of supervisors was convened on 25 October 2007. *Report for the Third Quarter of 2007* was reviewed and approved.

The performance and due diligence supervision committee under the board of supervisors convened four meetings during the reporting period. Ten resolutions were reviewed and approved. The financial and internal control supervision committee under the board of supervisors convened five meetings and 12 resolutions were reviewed and approved.

Supervision and Inspections

In light of the actual conditions of the Bank, the board of supervisors kept focusing on key aspects of supervisory work and carrying out targeted inspections by various ways such as attending meetings as a non-voting attendee, carrying out special investigations and inspections, off-site supervision and analysis, reviewing materials, conducting visits and interviews and performance assessment.

The board of supervisors earnestly performed its supervision over the performance of duties of the board of directors, the senior management and their members. In particular, it focused on supervising the implementation of resolutions of the general meetings of shareholders by the board of directors, the implementation of resolutions of the board of directors by the senior management, and the performance of duties at the Bank by the directors and senior executives. In addition to daily supervision such as attending meetings as a non-voting attendee and reviewing materials, the board of supervisors also conducted performance assessment polls within a certain scope. It interviewed with all the directors and senior management, organised three forums for some general managers at certain branches and heads of departments in the head office, reviewed the annual performance reports of the board of directors and its specialised committees, senior management, directors and the senior executives. Based on its supervising results, the board of supervisors gave its comments on the performance of duties by the board of directors, senior management and its members, and reported the key issues to the board of directors and senior management respectively, and gave feedback to the directors and the senior executives.

The board of supervisors earnestly performed its supervision over the financial matters. According to the relevant requirements, it carefully reviewed the proposals regarding the financial budget, final accounts and profit distribution plans. It particularly focused on material matters such as risk classification of credit assets, and allowances for impairment losses that have an effect on the truth, accuracy and completeness of the financial statements. It attached great importance to supervision over information disclosure, and reviewed if the preparation of periodic reports was in compliance with requirements. The board of supervisors had communicated with external auditors several times in respect of the preparation of periodic reports and other related matters, debriefed such departments as the finance and the accounting. The board of supervisors in turn gave its comments and requirements from its supervision perspective.

The board of supervisors continued to reinforce its supervision over risk management and internal control. It focused on supervising the performance of duties by the board of directors and senior management in respect of internal control, and paid attention to the supervision and assessment of the board of directors on the internal control system. The board of supervisors took the initiative to comprehend the conditions of risk monitoring, management of nonperforming loans, prevention and control of wrongdoings and risk management of personal loans. It was very concerned about the impact of the US sub-prime mortgage crisis on the Bank, and reminded the board of directors and senior management to pay more attention to the issue, and urged them to enhance the related rules and improve the market risk management mechanism.

In line with the requirements of supervision, the board of supervisors carried out special research and inspections in key areas including corporate governance, foreign exchange risk management, personal loans development, credit card business development, and enhancement of the information technology applications, and provided many constructive opinions and advice from its supervision perspective.

Report of the Board of Supervisors

The board of supervisors provided timely reminders and suggestions to the board of directors and senior management in respect of material issues and other matters that call for great attention which were spotted during supervision. During the reporting period, the board of supervisors provided reminders and suggestions regarding further improvement of risk management, periodic reports and information disclosure, etc. The board of directors and the senior management attached great importance to the reminders and suggestions provided by the board of supervisors. They actively implemented measures to effectively improve the relevant functions.

Members of the board of supervisors were diligent in carrying out their duties. They attended general meetings of shareholders, meetings of the board of supervisors and its specialised committees. They also attended the meeting of the board of directors and its specialised committees as non-voting attendees. According to the supervision requirements, they attended the relevant meetings convened by the senior management as non-voting attendees. They were seriously involved in the review of resolutions and discussion of relevant topics and responsibly gave their opinions. They actively participated in researches and inspections to comprehend the operation and management of the Bank and thus provide its comments and recommendations in respect of supervision.

Independent Opinions on Relevant Matters of the Bank

- *Operations in Compliance with Laws:* During the reporting period, the Bank has been operating in compliance with relevant laws and regulations. It continued to reinforce and improve its internal control and decision-making procedures to comply with the requirements of laws, regulations and the Articles of Association of the Bank. The directors and senior executives were diligent in carrying out their duties, and were not found to have contravened any laws, regulations or the Articles of Association of the Bank, neither did they commit any acts detrimental to the interests of the Bank.

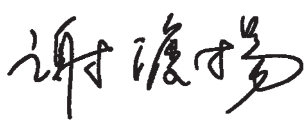
- *Financial Reporting:* The 2007 financial statements of the Bank gave a true and fair view of the financial position and operating results of the Bank.

- *Use of Proceeds:* During the reporting period, the Bank completed its A-share IPO. The use of the proceeds was consistent with that stated in the A-share prospectus of the Bank.

- *Acquisition and Sale of Assets:* During the reporting period, the board of supervisors was not aware of any insider transactions or any acts in acquisition or sale of assets detrimental to the interests of the shareholders or leading to a drain on the Bank's assets.

- *Connected Transactions:* The board of supervisors was not aware of any insider transactions that were detrimental to the interests of the Bank during the reporting period.

By order of the board of supervisors



Xie Duyang
Chairman of the board of supervisors
11 April 2008

Major Issues

Issuance of A-shares of the Bank

In September 2007, the Bank issued 9 billion A-shares in its domestic IPO at RMB6.45 per share. The Bank's A-shares were listed on Shanghai Stock Exchange on 25 September 2007. Upon completion of the domestic IPO, the total number of the Bank's shares became 233,689,084,000 (224,689,084,000 H-shares and 9,000,000,000 A-shares).

Fulfilment of Items Undertaken by the Bank or Shareholders with over 5% of the Shares

The Bank's shareholders did not give new undertakings in the reporting period, and the undertakings that continue to be valid during the reporting period were the same as those disclosed in the A-share prospectus. As at 31 December 2007, all undertakings given by the shareholders were fulfilled.

Material Contracts and Their Respective Fulfilment Status

There were no material contracts during the reporting period.

Acquisition and Disposal of Assets and Merger of Enterprises

There were neither material acquisition and disposal of assets nor material merger of enterprises during the reporting period.

Material Related Party Transactions

There were no material related party transactions during the reporting period.

Implementation and Progress of Employee Stock Incentive Plan

To enhance the alignment of the interests of the shareholders and the Bank with that of employees, strengthen the employees' team spirit, degree of commitment and sense of belonging, and attract, motivate and retain talents to create sustainable value, the Bank implemented the first employee stock ownership plan on 6 July 2007 pursuant to the employee stock incentive plan made by the Board. Please refer to A-share prospectus for details of the incentive plan.

Upon enquiries, Mr. Chen Caihong, the secretary to the Board of the Bank, held indirectly 19,417 H-shares of the Bank via employee stock ownership plan before he assumed duties of the position. Apart from this, the directors, supervisors and the senior management do not hold any shares of the Bank. The Bank is developing a share appreciation rights plan for senior and executive management.

Impact of the Enactment of New Enterprise Income Tax Law on the Group's Net Profit

The *PRC Enterprise Income Tax Law* has been implemented since 1 January 2008. The impact of the new tax law on the Bank is that the reduction in enterprise income tax rate will directly reduce the Bank's income tax expenses for 2008 and the subsequent years, but an adjustment in deferred tax items will result in a one-off increase of RMB1,512 million in the Bank's income tax for 2007. The new tax law lifted the standards for pre-tax deduction of expenses, and

Major Issues

cancelled the regulation on tax-deductible salaries in particular, which will substantially raise the pre-tax deduction limit of salaries of domestic enterprises. But as the Bank has adopted a method based on work efficiency for pre-tax deduction of salaries since 2005, that change in the law does not have a significant impact on the Bank. In addition, the follow-up administrative regulations relevant to the new tax law are to be released on a gradual basis. Thus, the relevant extent of impact remains uncertain.

Substantial Litigations and Arbitrations

There were no major litigations and arbitrations for the Bank during the reporting period.

Penalties

During the reporting period, the Bank, the board of directors and directors had no record of inspections, administrative penalty and criticisms by CSRC or decry in public by the stock exchanges of listing venues, or penalties by the relevant regulatory bodies that posed significant impact on the Bank's operations.

Other Shares Held or Controlled

Investments in Securities

Number	Type of stock	Stock code	Stock abbreviation	Initial investment amount (RMB)	Number of shares held	Carrying amount at the end of the reporting period (RMB)	% of total stock investment as at the end of the reporting period (%)	Gain/Loss during the reporting period (RMB)
1	Listed stock	1893(HK)	Sinoma	140,442,128	33,333,000	296,176,843	13.30	155,734,715
2	Listed stock	395(HK)	China Zirconium	99,096,956	93,000,000	123,646,486	5.55	24,549,530
3	Listed stock	BBNI(IJ)	Bank Negara Indonesia PT	75,234,804	47,200,000	71,931,811	3.23	(3,302,993)
4	Listed stock	189(HK)	Dongyue Group	64,716,380	32,000,000	69,510,186	3.12	4,793,806
5	Listed stock	2380(HK)	China Power	46,767,843	12,215,000	41,516,071	1.86	(5,251,772)
6	Listed stock	386(HK)	Sinopec Corp.	27,250,727	3,500,000	38,537,705	1.73	11,286,978
7	Listed stock	390(HK)	China Railway	16,235,272	3,000,000	30,167,271	1.35	13,931,999
8	Listed stock	2333(HK)	Greatwall Motor	24,866,371	2,485,500	26,110,698	1.17	1,244,327
9	Listed stock	3968(HK)	CM Bank	21,909,191	800,000	23,969,030	1.08	2,059,839
10	Listed stock	1184(HK)	S.A.S. Dragon	18,726,741	16,950,000	19,044,143	0.86	317,402
Other stock investment held as at the end of the year				1,271,621,508		1,485,900,272	66.75	214,278,764
Gain/Loss from disposal of stock investment for the reporting period								240,006,752
Total				1,806,867,921		2,226,510,516	100.00	659,649,347

1. *The order in this table is arranged according to the percentage of the carrying amount as at the end of the reporting period in the total amount of stock investment of the Group as at the end of the reporting period to illustrate the top ten stocks held by the Group as at the end of the reporting period.*
2. *The investments in securities stated in this table refer to stocks, warrants, convertible bonds and other investments, in which the investments in stocks were classified as trading investments of the Group.*
3. *Other stock investments refer to the stock investments other than the top ten stocks.*

Interests in Shares of Other Listed Companies

Stock code	Stock abbreviation	Initial investment amount (RMB)	% of the shareholding	Carrying amount at the end of the reporting period (RMB)	Gain/Loss during the reporting period (RMB)	Changes in equity during the reporting period (RMB)	Accounting item	Sources of shares
601600	CHALCO	883,586,630	5.51	25,168,555,403	–	18,213,726,580	Available-for-sale equity investments	Investment held through debt equity swap
600068	G.C.L	232,566,694	8.01	1,515,942,289	–	973,797,023	Available-for-sale equity investments	Investment held through debt equity swap
600984	SCMC	44,050,000	17.20	318,587,329	–	205,902,997	Available-for-sale equity investments	Investment held through debt equity swap
600462	Y. S. B. P	41,248,000	12.32	358,280,857	–	237,774,643	Available-for-sale equity investments	Investment held through debt equity swap
000001	SDB A	31,300,157	0.37	303,661,823	15,272,322	192,817,008	Available-for-sale equity investments	Establishment of investment, exercise of share options
183(HK)	CIFH	122,568,196	2.93	772,161,730	–	(218,458,849)	Available-for-sale equity investments	Acquisition
	Total	1,355,319,677		28,437,189,431	15,272,322	19,605,559,402		

1. *The table shows the shares of other listed companies held by the Group, which were classified as available-for-sale equity investments.*
2. *Gain/Loss during the reporting period refers to the effect of the investment on the consolidated net profit of the current reporting period of the Group.*

Major Issues

Interests in Non-Listed Financial Institutions

Name	Initial investment amount (RMB)	Number of shares held	% of shareholdings	Carrying amount at the end of the reporting period (RMB)	Gain/Loss during the reporting period (RMB)	Changes in equity during the reporting period (RMB)	Accounting item	Source of shares
CCB Asia[1]	–	7,800,000	100.00	–	605,865,271	–	Investment in subsidiaries	Acquisition
CCB International Securities Ltd.[1]	–	150,000,000	100.00	–	(9,848,872)	–	Investment in subsidiaries	Establishment of investment
CCB International Financial Ltd.[1]	–	128,000,000	100.00	–	9,706,762	–	Investment in subsidiaries	Establishment of investment
CCB International Asset Management Ltd.[1]	–	48,000,000	100.00	–	135,614,684	–	Investment in subsidiaries	Establishment of investment
CCB Financial Leasing[1]	–	3,379,500,000	75.10	–	5,531,538	–	Investment in subsidiaries	Establishment of investment
CCB Principal Asset Management Co., Ltd.[1]	–	130,000,000	65.00	–	214,589,055	–	Investment in subsidiaries	Establishment of investment
Sino-German Bausparkasse[1]	–	112,650,000	75.10	–	(671,735)	–	Investment in subsidiaries	Establishment of investment
QBE Hongkong and Shanghai Insurance Limited	98,758,409	19,939,016	25.50	97,914,489	19,990,867	–	Interests in associates	Acquisition
China UnionPay Co., Ltd.	95,625,000	90,000,000	5.45	95,625,000	2,970,000	–	Available-for-sale equity investments	Establishment of investment
Guangdong Development Bank Ltd.	48,558,031	12,784,616	0.11	48,558,031	–	–	Available-for-sale equity investments	Establishment of investment
Evergrowing Bank Co., Ltd.	7,000,000	35,000,000	3.50	7,000,000	2,800,000	–	Available-for-sale equity investments	Establishment of investment
Yueyang City Commercial Bank Co., Ltd.	3,500,000	3,536,400	1.59	980,000	–	–	Available-for-sale equity investments	Establishment of investment

1. *These are consolidated entities, and therefore their initial investment amounts and carrying amounts at the end of the reporting period are not shown in the consolidated balance sheet.*
2. *Financial enterprises include securities companies, commercial banks, insurance companies, futures companies, trust companies, etc.*
3. *Allowances for impairment losses were deducted from the carrying amount at the end of the reporting period.*
4. *Gain/Loss during the reporting period refers to the effect of the investment on the consolidated net profit of the Group for the reporting period.*

Purchase and Disposal of Shares of Other Listed Companies

Stock name	Initial number of shares	Number of shares purchased/disposed during the reporting period	Number of shares as at the end of the reporting period	Amount of funds used (RMB)	Investment gain (RMB)
Total	26,954,947	822,154,000/559,469,447	289,639,500	1,359,653,762	364,009,540

1. *The purchase and disposal of the shares of other listed companies are shown in aggregate.*

Independent Auditor's Report

Independent auditor's report to the shareholders of China Construction Bank Corporation

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

We have audited the consolidated financial statements of China Construction Bank Corporation (the "Bank") and its subsidiaries (collectively the "Group") set out on pages 146 to 285, which comprise the consolidated and Bank balance sheets as at 31 December 2007, and the consolidated income statement, the consolidated and Bank statements of changes in equity, the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Bank are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards promulgated by the International Accounting Standards Board and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. This report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

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

KPMG
Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

11 April 2008

F Financial Statements

Consolidated Income Statement

For the year ended 31 December 2007 (Expressed in millions of Renminbi unless otherwise stated)

	Note	2007	2006
Interest income		**284,823**	215,189
Interest expense		**(92,048)**	(74,821)
Net interest income	3	**192,775**	140,368
Fee and commission income		**32,731**	14,627
Fee and commission expense		**(1,418)**	(1,056)
Net fee and commission income	4	**31,313**	13,571
Net trading gain	5	**1,197**	619
Dividend income	6	**343**	424
Net income arising from investment securities	7	**1,298**	1,012
Other operating loss, net	8	**(6,209)**	(4,401)
Operating income		**220,717**	151,593
Operating expenses	9	**(92,327)**	(66,662)
		128,390	84,931
Provisions for impairment losses on			
— loans and advances to customers	10(a)	**(20,106)**	(18,997)
— others	10(b)	**(7,489)**	(217)
Impairment losses		**(27,595)**	(19,214)
Share of profit in associates		**21**	—
Profit before tax		**100,816**	65,717
Income tax	14(a)	**(31,674)**	(19,398)
Net profit		**69,142**	46,319
Attributable to:			
Shareholders of the Bank		**69,053**	46,322
Minority interests		**89**	(3)
Net profit		**69,142**	46,319
Cash dividends payable to shareholders of the Bank			
Interim cash dividend declared during the year		**15,054**	—
Special cash dividend declared during the year		**16,339**	—
Final cash dividend proposed after the balance sheet date		**15,190**	20,671
	34(b)	**46,583**	20,671
Basic and diluted earnings per share (in RMB)	15	**0.30**	0.21

The notes on pages 153 to 285 form part of these financial statements.

Consolidated Balance Sheet

As at 31 December 2007 (Expressed in millions of Renminbi)

	Note	2007	2006
Assets			
Cash and balances with central banks	16	**967,374**	539,673
Amounts due from banks and non-bank financial institutions	17	**102,393**	82,185
Trading investments	18	**29,819**	5,616
Positive fair value of derivatives	40(d)	**14,632**	14,514
Loans and advances to customers	19	**3,183,229**	2,795,976
Investment securities	20	**2,171,991**	1,903,776
Interests in associates	22	**1,099**	103
Property and equipment	23	**58,287**	53,037
Goodwill	24	**1,624**	1,743
Deferred tax assets	25	**35**	2,701
Other assets	26	**67,694**	49,187
Total assets		**6,598,177**	5,448,511
Liabilities			
Amounts due to central banks	27	**50,973**	1,256
Amounts due to banks and non-bank financial institutions	28	**606,061**	243,968
Negative fair value of derivatives	40(d)	**7,952**	2,715
Deposits from customers	29	**5,340,316**	4,721,256
Certificates of deposit issued		**9,284**	6,957
Current tax liabilities		**28,022**	17,897
Deferred tax liabilities	25	**771**	25
Other liabilities and provisions	30	**92,589**	84,316
Subordinated bonds issued	32	**39,928**	39,917
Total liabilities		**6,175,896**	5,118,307
Equity			
Share capital	33(a)	**233,689**	224,689
Reserves	33	**187,288**	105,420
Total equity attributable to shareholders of the Bank		**420,977**	330,109
Minority interests		**1,304**	95
Total equity		**422,281**	330,204
Total equity and liabilities		**6,598,177**	5,448,511

Approved and authorised for issue by the board of directors on 11 April 2008.

Zhang Jianguo	**Tse Hau Yin, Aloysius**	**Gregory L. Curl**
Vice chairman, executive director and president	*Independent non-executive director*	*Non-executive director*

The notes on pages 153 to 285 form part of these financial statements.

Balance Sheet of the Bank

As at 31 December 2007 (Expressed in millions of Renminbi)

	Note	2007	2006
Assets			
Cash and balances with central banks	16	**967,106**	539,556
Amounts due from banks and non-bank financial institutions	17	**96,281**	76,026
Trading investments	18	**23,528**	3,454
Positive fair value of derivatives	40(d)	**14,296**	14,286
Loans and advances to customers	19	**3,151,289**	2,767,232
Investment securities	20	**2,169,057**	1,900,533
Investments in subsidiaries	21	**4,006**	626
Property and equipment	23	**58,094**	52,884
Deferred tax assets	25	**33**	2,682
Amounts due from subsidiaries		**31,530**	12,047
Other assets	26	**66,619**	48,577
Total assets		**6,581,839**	5,417,903
Liabilities			
Amounts due to central banks	27	**50,973**	1,256
Amounts due to banks and non-bank financial institutions	28	**605,076**	243,793
Amounts due to subsidiaries		**23,083**	1,208
Negative fair value of derivatives	40(d)	**7,609**	2,522
Deposits from customers	29	**5,307,797**	4,692,843
Certificates of deposit issued		**8,347**	5,957
Current tax liabilities		**27,878**	17,816
Deferred tax liabilities	25	**602**	25
Other liabilities and provisions	30	**91,029**	82,855
Subordinated bonds issued	32	**39,928**	39,917
Total liabilities		**6,162,322**	5,088,192
Equity			
Share capital	33(a)	**233,689**	224,689
Reserves	33	**185,828**	105,022
Total equity		**419,517**	329,711
Total equity and liabilities		**6,581,839**	5,417,903

Approved and authorised for issue by the board of directors on 11 April 2008.

Zhang Jianguo	**Tse Hau Yin, Aloysius**	**Gregory L. Curl**
Vice chairman, executive director and president	*Independent non-executive director*	*Non-executive director*

The notes on pages 153 to 285 form part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2007 (Expressed in millions of Renminbi)

	Note	Share capital	Capital reserve	Statutory surplus reserve fund	Statutory public welfare fund	Investment revaluation reserve	General reserve	Exchange reserve	Retained earnings	Minority interests	Total equity
As at 1 January 2007		**224,689**	**42,091**	**11,133**	**–**	**(1,226)**	**10,343**	**(13)**	**43,092**	**95**	**330,204**
Net profit for the year		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**69,053**	**89**	**69,142**
Net change in fair value of available-for-sale investments	33(d)	**–**	**–**	**–**	**–**	**15,899**	**–**	**–**	**–**	**–**	**15,899**
Net loss realised on disposal of available-for-sale investments	33(d)	**–**	**–**	**–**	**–**	**53**	**–**	**–**	**–**	**–**	**53**
Amortization of changes in fair value of investments reclassified from available-for-sale to held-to-maturity	33(d)	**–**	**–**	**–**	**–**	**454**	**–**	**–**	**–**	**–**	**454**
Impairment losses of available-for-sale investments	33(d)	**–**	**–**	**–**	**–**	**1,373**	**–**	**–**	**–**	**–**	**1,373**
Effect of change in tax rate		**–**	**–**	**–**	**–**	**(145)**	**–**	**–**	**–**	**–**	**(145)**
Shares issued	33(a), 33(b)	**9,000**	**48,119**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**57,119**
Minority interests of a new subsidiary	35(b)	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**1,120**	**1,120**
Appropriations to statutory surplus reserve fund and general reserve	34(a)	**–**	**–**	**6,712**	**–**	**–**	**21,205**	**–**	**(27,917)**	**–**	**–**
Exchange differences	33(f)	**–**	**–**	**–**	**–**	**–**	**–**	**(905)**	**–**	**–**	**(905)**
Others		**–**	**31**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**31**
Dividends declared during the year	34(b)	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(52,064)**	**–**	**(52,064)**
As at 31 December 2007		**233,689**	**90,241**	**17,845**	**–**	**16,408**	**31,548**	**(918)**	**32,164**	**1,304**	**422,281**
As at 1 January 2006		224,689	42,091	4,334	2,167	(823)	10,332	6	4,783	98	287,677
Net profit for the year		–	–	–	–	–	–	–	46,322	(3)	46,319
Net change in fair value of available-for-sale investments	33(d)	–	–	–	–	(632)	–	–	–	–	(632)
Net loss realised on disposal of available-for-sale investments	33(d)	–	–	–	–	229	–	–	–	–	229
Transfers in/(out)	33(c)	–	–	2,167	(2,167)	–	–	–	–	–	–
Appropriations to statutory surplus reserve fund and general reserve	34(a)	–	–	4,632	–	–	11	–	(4,643)	–	–
Exchange differences	33(f)	–	–	–	–	–	–	(19)	–	–	(19)
Dividends declared during the year	34(c)	–	–	–	–	–	–	–	(3,370)	–	(3,370)
As at 31 December 2006		224,689	42,091	11,133	–	(1,226)	10,343	(13)	43,092	95	330,204

The notes on pages 153 to 285 form part of these financial statements.

Statement of Changes in Equity of the Bank

For the year ended 31 December 2007 (Expressed in millions of Renminbi)

	Note	Share capital	Capital reserve	Statutory surplus reserve fund	Statutory public welfare fund	Investment revaluation reserve	General reserve	Exchange reserve	Retained earnings	Total equity
As at 1 January 2007		224,689	42,091	11,133	–	(1,248)	10,341	(3)	42,708	329,711
Net profit for the year		–	–	–	–	–	–	–	67,117	67,117
Net change in fair value of available-for-sale investments	33(d)	–	–	–	–	15,901	–	–	–	15,901
Net loss realised on disposal of available-for-sale investments	33(d)	–	–	–	–	53	–	–	–	53
Amortization of changes in fair value of investments reclassified from available-for-sale to held-to-maturity	33(d)	–	–	–	–	454	–	–	–	454
Impairment losses of available-for-sale investments	33(d)	–	–	–	–	1,373	–	–	–	1,373
Effect of change in tax rate		–	–	–	–	(145)	–	–	–	(145)
Shares issued	33(a), 33(b)	9,000	48,119	–	–	–	–	–	–	57,119
Appropriations to statutory surplus reserve fund and general reserve	34(a)	–	–	6,712	–	–	20,859	–	(27,571)	–
Exchange differences	33(f)	–	–	–	–	–	–	(33)	–	(33)
Others		–	31	–	–	–	–	–	–	31
Dividends declared during the year	34(b)	–	–	–	–	–	–	–	(52,064)	(52,064)
As at 31 December 2007		233,689	90,241	17,845	–	16,388	31,200	(36)	30,190	419,517
As at 1 January 2006		224,689	42,091	4,334	2,167	(842)	10,332	6	4,607	287,384
Net profit for the year		–	–	–	–	–	–	–	46,112	46,112
Net change in fair value of available-for-sale investments	33(d)	–	–	–	–	(635)	–	–	–	(635)
Net loss realised on disposal of available-for-sale investments	33(d)	–	–	–	–	229	–	–	–	229
Transfers in/(out)	33(c)	–	–	2,167	(2,167)	–	–	–	–	–
Appropriations to statutory surplus reserve fund and general reserve	34(a)	–	–	4,632	–	–	9	–	(4,641)	–
Exchange differences	33(f)	–	–	–	–	–	–	(9)	–	(9)
Dividends declared during the year	34(c)	–	–	–	–	–	–	–	(3,370)	(3,370)
As at 31 December 2006		224,689	42,091	11,133	–	(1,248)	10,341	(3)	42,708	329,711

The notes on pages 153 to 285 form part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2007 (Expressed in millions of Renminbi)

	Note	2007	2006
Operating activities			
Profit before tax		**100,816**	65,717
Adjustments for:			
— dividend income	6	**(343)**	(424)
— revaluation gain on investments and derivatives		**(659)**	(349)
— net gain on disposal of investments, property and equipment and other assets		**(1,472)**	(1,202)
— unwinding of discount		**(1,939)**	(896)
— share of profit in associates		**(21)**	—
— unrealised foreign exchange loss		**8,309**	6,897
— depreciation charges and amortisation	9	**7,847**	6,994
— provisions for impairment losses	10	**27,595**	19,214
— interest expense on subordinated bonds issued	3	**1,942**	1,883
		142,075	97,834
Changes in operating assets and liabilities:			
Increase in balances with central banks		**(456,319)**	(62,519)
Decrease/(increase) in amounts due from banks and non-bank financial institutions		**19,290**	(3,026)
Increase in loans and advances to customers		**(418,159)**	(396,899)
Increase in other operating assets		**(32,133)**	(3,463)
Increase in amounts due to central banks		**49,717**	1,235
Increase in amounts due to banks and non-bank financial institutions		**367,172**	80,930
Increase in deposits from customers		**635,103**	694,470
Increase in certificates of deposit issued		**2,913**	741
Income tax paid		**(24,219)**	(9,257)
Increase in other operating liabilities		**8,874**	12,713
Net cash from operating activities		**294,314**	412,759

Consolidated Cash Flow Statement

For the year ended 31 December 2007 (Expressed in millions of Renminbi)

	Note	2007	2006
Investing activities			
Proceeds from disposal and redemption of investment securities		**857,744**	663,118
Dividend received		**343**	430
Investment in a new subsidiary	35(b)	**1,120**	(3,905)
Proceeds from disposal of property and equipment and other assets		**588**	796
Payments on acquisition of investment securities		**(1,128,576)**	(1,166,100)
Payments on acquisition of a new associate		**(1,001)**	—
Payments on acquisition of property and equipment and other assets		**(12,925)**	(10,018)
Net cash used in investing activities		**(282,707)**	(515,679)
Financing activities			
Proceeds from shares issuance	33(b)	**57,119**	—
Dividend paid		**(52,064)**	(6,638)
Interest paid on subordinated bonds issued		**(1,915)**	(1,872)
Net cash from/(used in) financing activities		**3,140**	(8,510)
Effect of exchange rate changes on cash held		**(1,728)**	(1,838)
Net increase/(decrease) in cash and cash equivalents		**13,019**	(113,268)
Cash and cash equivalents as at 1 January		**167,489**	280,757
Cash and cash equivalents as at 31 December	35(a)	**180,508**	167,489
Cash flows from operating activities include:			
Interest received		**270,276**	210,070
Interest paid, excluding interest expense on subordinated bonds issued		**(85,525)**	(81,110)

The notes on pages 153 to 285 form part of these financial statements.

1 SIGNIFICANT ACCOUNTING POLICIES

With the approval of the State Council, China Construction Bank ("CCB") underwent a restructuring (the "Restructuring") on 30 December 2003. China Construction Bank Corporation (the "Bank") is a joint stock company with limited liability incorporated in the People's Republic of China (the "PRC") on 17 September 2004 as part of the Restructuring. The registered office of the Bank is located at No. 25, Finance Street, Xicheng District, Beijing, the PRC.

The principal activities of the Bank and its subsidiaries (collectively the "Group") are the provision of corporate and personal banking services, conducting treasury business, the provision of asset management and trustee services and other financial services.

The consolidated financial statements for the year ended 31 December 2007 comprise the Bank and its subsidiaries and the Group's interest in associates.

For the purpose of the financial statements, Mainland China refers to the PRC, excluding the Hong Kong Special Administrative Region of the PRC ("Hong Kong"), the Macau Special Administrative Region of the PRC ("Macau") and Taiwan.

(a) Statement of compliance

The financial statements have been prepared in accordance with all applicable International Financial Reporting Standards ("IFRS") and its interpretations promulgated by the International Accounting Standards Board (the "IASB"), and the disclosure requirements of the Hong Kong Companies Ordinance. The financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The IASB has issued certain new and revised IFRSs that are first effective for the current accounting period of the Group. Note 2 provides information on the impact resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in the financial statements.

The Group has not adopted new standards and interpretations not yet effective for the current accounting period (see Note 46).

The accounting policies set out below have been applied consistently by the Group in the preparation of these financial statements.

(b) Basis of preparation of the financial statements

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

The financial statements are prepared using the historical cost basis, except for the following assets and liabilities which are stated at their fair value: financial assets and financial liabilities at fair value through profit or loss and available-for-sale financial assets, except those for which a reliable measure of fair value is not available; and certain non-financial assets which are stated at deemed cost.

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Basis of preparation of the financial statements (continued)

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

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

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

(c) Subsidiaries and minority interests

Subsidiaries are those enterprises controlled by the Bank. Control exists when the Bank has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its operating activities. In assessing control, potential voting rights that presently are exercisable are taken into account. The results and affairs of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

The Group does not consolidate Special Purpose Entities ("SPEs") that it does not control. As it can sometimes be difficult to determine whether the Group exercises control over SPEs, it makes judgments about risks and rewards as well as the ability to make operational decisions for the SPEs. In many instances, elements are present that, considered in isolation, indicate control or lack of control over a SPE, but when considered together make it difficult to reach a clear conclusion. When assessing whether the Group has to consolidate a SPE, the Group evaluates a range of factors, including whether (a) the Group will obtain the majority of the benefits of the activities of a SPE, (b) the Group retains the majority of the residual or ownership risks related to the assets in order to obtain the benefits from its activities, (c) the Group has the decision-making powers to obtain the majority of the benefits, or (d) the activities of the SPE are being conducted on behalf of the Group and according to the Group's specific business needs so that the Group obtains the benefits from the SPE's operations. The Group consolidates a SPE if an assessment of the relevant factors indicates that the Group has a control over the SPE.

Intragroup balances and transactions and any unrealised profits or losses arising from intragroup transactions are eliminated in full in preparing the consolidated financial statements.

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Subsidiaries and minority interests (continued)

Minority interests represent the portion of the net assets of subsidiaries attributable to equity interests that are not owned by the Bank, whether directly or indirectly through subsidiaries, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interest that meets the definition of a financial liability. Minority interests are presented in the consolidated balance sheet and consolidated statement of changes in equity within equity, separately from equity attributable to the shareholders of the Bank. Minority interests in the results of the Group are presented on the face of the consolidated income statement as an allocation of the net profit or loss for the year between minority interests and the shareholders of the Bank.

Where losses applicable to the minority exceed the minority's interest in the equity of a subsidiary, the excess, and any further losses applicable to the minority, are charged against the Group's interest except to the extent that the minority has a binding obligation (such as the articles of association or agreement stipulate) to, and is able to, make additional investment to cover the losses. If the subsidiary subsequently reports profits, the Group's interest is allocated all such profits until the minority's share of losses previously absorbed by the Group has been recovered.

In the Bank's balance sheet, its investments in subsidiaries are stated at cost less impairment losses, if any.

(d) Associates

An associate is an entity in which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policy decisions.

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

When the Group's share of losses exceeds its interest in the associate, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate. If the associate subsequently reports profits, the investor resumes recognising its share of those profits only after its share of the profits equals the share of losses not recognised. The Group's interest in the associate is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the associate.

Unrealised profits and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates.

In the Bank's balance sheet, its investments in associates are stated at cost less impairment losses, if any.

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Goodwill

(i) Cost

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

Expenditure on internally generated goodwill and brands is recognised as an expense in the period in which it is incurred.

Goodwill is stated at cost less any accumulated allowances for impairment losses. Goodwill is allocated to cash-generating units ("CGUs") and is tested annually for impairment. In respect of associates, the carrying amount of goodwill is included in the carrying amount of the interest in the associates.

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

(ii) Impairment

Internal and external sources of information are reviewed at each balance sheet date to identify indications that goodwill may be impaired. If any such indication exists, the recoverable amount of the goodwill is estimated annually to determine whether or not there is any impairment and the amount of impairment.

The recoverable amount of goodwill is the value-in-use. In assessing value-in-use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the CGUs with allocated goodwill.

At the time of impairment testing a CGU to which goodwill has been allocated, there may be an indication of an impairment of an asset within the unit containing the goodwill. In such circumstances, the Group tests the asset for impairment first, and recognises any impairment loss for that asset before testing for impairment the CGU containing the goodwill. Similarly, there may be an indication of an impairment of a CGU within a group of units containing the goodwill. In such circumstances, the entity tests the CGU for impairment first, and recognises any impairment loss for that unit, before testing for impairment the group of units to which the goodwill is allocated.

An impairment loss is recognised in the income statement whenever the carrying amount of the CGU with allocated goodwill exceeds its recoverable amount. Impairment losses recognised in respect of CGU are allocated first to reduce the carrying amount of any goodwill allocated to the CGU (or group of units), and then to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value-in-use, if determinable.

An impairment loss in respect of goodwill is not reversed.

(iii) Disposal

On disposal of a cash-generating unit, any attributable amount of the purchased goodwill net of impairment allowance, if any, is included in the calculation of the gain or loss on disposal.

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Financial instruments

(i) Initial recognition

All financial assets and financial liabilities are recognised in the balance sheet, when and only when, the Group becomes a party to the contractual provisions of the instrument.

The Group classifies financial instruments into different categories at inception, depending on the purpose for which the assets were acquired or the liabilities were incurred. The categories are: financial assets and financial liabilities at fair value through profit or loss, held-to-maturity investments, loans and receivables, available-for-sale financial assets and other financial liabilities.

Financial assets and financial liabilities are measured initially at fair value plus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability. Transaction costs for financial assets and financial liabilities at fair value through profit or loss are expensed immediately.

A regular way purchase or sale of financial assets and financial liabilities is recognised using trade date accounting. From this date, any gains and losses arising from changes in fair value of the financial assets or financial liabilities are recorded.

(ii) Categorisation

Financial assets and financial liabilities at fair value through profit or loss

Financial assets and financial liabilities at fair value through profit or loss include those financial assets and financial liabilities held for trading, and those designated by the Group upon recognition as at fair value through profit or loss.

A financial asset or financial liability is classified as held for trading if it is:

— acquired or incurred principally for the purpose of selling or repurchasing it in the near term;

— part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; or

— a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).

Financial assets and financial liabilities are designated at fair value through profit or loss upon initial recognition when:

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

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Financial instruments (continued)

(ii) Categorisation (continued)

Financial assets and financial liabilities at fair value through profit or loss (continued)

— the designation eliminates or significantly reduces an accounting mismatch in the gain and loss recognition arising from the difference in measurement basis of the financial assets or financial liabilities; or

— a contract contains one or more embedded derivatives, i.e. an entire hybrid (combined) contract, unless:

  — the embedded derivative(s) does not significantly modify the cash flows that otherwise would be required by the contract; or

  — it is clear with little or no analysis when a similar hybrid (combined) instrument is first considered that separation of the embedded derivative(s) is prohibited.

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Group has the positive intention and ability to hold to maturity, other than (a) those that the Group, upon initial recognition, designates as at fair value through profit or loss or as available-for-sale; or (b) those that meet the definition of loans and receivables.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than (a) those that the Group intends to sell immediately or in the near term, which will be classified as held for trading; (b) those that the Group, upon initial recognition, designates as at fair value through profit or loss or as available-for-sale; or (c) those where the Group may not recover substantially all of its initial investment, other than because of credit deterioration, which will be classified as available-for-sale. Loans and receivables mainly comprise loans and advances to customers, amounts due from banks and non-bank financial institutions and investment securities classified as receivables.

Available-for-sale financial assets

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

Other financial liabilities

Other financial liabilities are financial liabilities other than those designated as at fair value through profit or loss.

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Financial instruments (continued)

(iii) Subsequent measurement

Subsequent to initial recognition, held-to-maturity investments, loans and receivables and other financial liabilities are measured at amortised cost less impairment allowance, if any, while other financial assets and financial liabilities are measured at fair value, without any deduction for transaction costs that may occur on sale or other disposal.

Investments in available-for-sale equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, and a derivative asset or a derivative liability that is linked to and must be settled by delivery of such unquoted equity instruments are carried at cost less impairment allowance, if any.

Gains and losses from changes in the fair value of financial instruments at fair value through profit or loss are included in the income statement when they arise. Except for impairment losses and foreign exchange gains and losses on monetary items which are recognised in the income statement, unrealised gains and losses arising from a change in the fair value of available-for-sale financial assets are recognised directly in equity in the investment revaluation reserve, and recognised in the income statement when the financial asset is derecognised.

When the available-for-sale financial assets are sold, gains or losses on disposal include the difference between the net sale proceeds and the carrying value, and the accumulated fair value adjustments are released from equity. For financial assets and liabilities carried at amortised cost, the gain or loss from the derecognition, impairment or amortization process are recognised in the income statement.

(iv) Fair value measurement principles

The fair value of financial instruments is based on their quoted market prices in an active market at the valuation date without any deduction for transaction costs. Financial assets are priced at current bid prices, while financial liabilities are priced at current asking prices. A quoted market price is from an active market where price information is readily and regularly available from an exchange, dealer, industry group or pricing service agency, and that price information represents actual and regularly occurring market transactions on an arm’s length basis.

If a quoted market price is not available, the fair value of the financial instruments is estimated using valuation techniques. Valuation techniques applied include recent arm’s length market transactions between knowledgeable and willing parties, reference to the fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. Periodically the Group calibrates the valuation techniques and tests them for validity. Where discounted cash flow techniques are used, estimated future cash flows are based on management’s best estimates and the discount rate used is a market rate at the balance sheet date applicable for an instrument with similar terms and conditions. Where other pricing models are used, inputs are based on market data at the balance sheet date.

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Financial instruments (continued)

(iv) Fair value measurement principles (continued)

In estimating the fair value of a financial asset and financial liability, the Group considers all factors including, but not limited to, risk-free interest rate, credit risk, foreign currency exchange price and market volatility, that are likely to affect the fair value of the financial asset and financial liability.

The Group obtains market data in the same market where the financial instrument was originated or purchased.

(v) Derecognition

Financial assets

The Group derecognises a financial asset (or a part of a financial asset, or a part of a group of similar financial assets), if the part being considered for derecognition meets one of the following conditions:

— the contractual rights to the cash flows from the financial asset expire; or

— the Group transfers substantially all the risks and rewards of ownership of the financial asset, or the Group neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset, but has not retained control.

Financial liabilities

The financial liability (or part of it) is derecognised only when the underlying present obligation (or part of it) specified in the contracts is discharged, cancelled or expired. An agreement between the Group and an existing lender to replace the original financial liability with a new financial liability with substantially different terms, or a substantial modification of the terms of an existing financial liability is accounted for as an extinguishment of the original financial liability and recognition of a new financial liability. The difference between the carrying amount of the financial liability derecognised and the consideration paid is recognised in the income statement for the period.

(vi) Impairment

Financial assets are assessed at each balance sheet date to determine whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset and that event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Objective evidence that a financial asset or group of assets is impaired includes the following loss events:

— significant financial difficulty of the borrower or issuer;

— a breach of contract, such as a default or delinquency in interest or principal payments;

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Financial instruments (continued)

(vi) Impairment (continued)

- the Group, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the Group would not otherwise consider;
- it becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- disappearance of an active market for financial assets because of financial difficulties;
- observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including: adverse changes in the payment status of borrowers in the group, an increase in the unemployment rate in the geographical area of the borrowers, a decrease in property prices for mortgages in the relevant area, or adverse changes in industry conditions that affect the borrowers in the group);
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the borrower or issuer;
- a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost; and
- other objective evidence indicating there is an impairment of financial asset.

The carrying amount of an asset is reduced through the use of an allowance for impairment losses and a corresponding provision for impairment losses is recognised in the income statement.

Losses expected as a result of future events, no matter how likely, are not recognised as impairment losses.

- Loans and receivables and held-to-maturity investment

  The Group uses two methods of assessing impairment losses: those assessed individually and those assessed on a collective basis.

  (vi-1) Individually assessed financial assets

  Loans and receivables and held-to-maturity investments, which are considered individually significant, are assessed individually for impairment.

  If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity investments carried at amortised cost has been incurred on an individual basis, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of the asset), and is recognised in the income statement.

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Financial instruments (continued)

(vi) Impairment (continued)

— Loans and receivables and held-to-maturity investments (continued)

(vi-1) Individually assessed financial assets (continued)

Loans and receivables and held-to-maturity investments which are assessed individually for impairment are assessed in the light of the objective evidence of loss events.

It may not be possible to identify a single, discrete event that caused the impairment but it may be possible to identify impairment through the combined effect of several events.

Cash flows relating to short-term loans and receivables and held-to-maturity investments are not discounted if the effect of discounting is immaterial.

The calculation of the present value of the estimated future cash flows of a collateralised loan or receivable reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

(vi-2) Collectively assessed financial assets

Loans and receivables and held-to-maturity investments which include the following are assessed for impairment losses on a collective basis:

— homogeneous groups of loans and advances not considered individually significant;

— individually assessed loans and receivables and held-to-maturity investments with no objective evidence of impairment on an individual basis.

For the purpose of collective assessment, assets are grouped on the basis of similar credit risk characteristics that are indicative of the debtors' or issuers' ability to pay all amounts due according to the contractual terms.

Loans and receivables and held-to-maturity investments assessed collectively for impairment are assessed in the light of objective evidence of impairment that there is observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets.

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Financial instruments (continued)

(vi) Impairment (continued)

— Loans and receivables and held-to-maturity investments (continued)

(vi-2) Collectively assessed financial assets (continued)

Homogeneous groups of loans and advances not considered individually significant

For homogeneous groups of loans and advances that are not considered individually significant, the Group adopts a flow rate methodology to assess impairment losses on a collective basis. This methodology utilises a statistical analysis of historical trends of probability of default and amount of consequential loss, as well as an adjustment of observable data that reflects the current economic conditions.

Individually assessed loans and receivables and held-to-maturity investments with no objective evidence of impairment on an individual basis

Loans and receivables and held-to-maturity investments which are individually significant and therefore have been individually assessed but for which no impairment can be identified, either due to the absence of any loss events or due to an inability to measure reliably the impact of loss events on future cash flows, are grouped together in portfolios of similar credit risk characteristics for the purpose of assessing a collective impairment loss. This assessment covers those loans and receivables and held-to-maturity investments that were impaired at the balance sheet date but which will not be individually identified as such until some time in the future.

The collective impairment loss is assessed after taking into account:

— historical loss experience in portfolios of similar risk characteristics;

— the emergence period between a loss occurring and that loss being identified; and

— the current economic and credit environments and whether in management's experience these indicate that the actual level of inherent losses is likely to be greater or less than that suggested by historical experience.

The emergence period between a loss occurring and its identification is determined by management based on the historical experience of the markets where the Group operates.

Impairment losses recognised on a collective basis represent an interim step pending the identification of impairment losses on individual assets (which are subject to individual assessment) in the pool of financial assets that are collectively assessed for impairment.

As soon as information is available that specifically identifies objective evidence of impairment on individual assets in a pool, those assets are removed from the pool of financial assets. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment for impairment.

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Financial instruments (continued)

(vi) Impairment (continued)

— Loans and receivables and held-to-maturity investments (continued)

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. The amount of the reversal is recognised in the income statement. The reversal shall not result in a carrying amount of the financial asset that exceeds the amortised cost at the date of the reversal had the impairment not been recognised.

When the borrower or the guarantor fails to repay the loan principal and interest, and repossessed assets are received by the Group for recovery of the impaired loans, the carrying value of the impaired loans is adjusted to the estimated fair value of the repossessed assets through impairment allowances. The adjusted carrying value of the impaired loans is transferred to repossessed assets.

When the Group determines that a loan has no reasonable prospect of recovery after the Group has completed all the necessary legal or other proceedings, the loan is written off against its allowance for impairment losses. If in a subsequent period the loan written off is recovered, the amount recovered will be recognised in the income statement through impairment losses.

Loans and receivables with renegotiated terms are loans that have been restructured due to deterioration in the borrower's financial position and where the Group has made concessions that it would not otherwise consider. Renegotiated loans and receivables are subject to ongoing monitoring to determine whether they remained as impaired or past due.

— Available-for-sale financial assets

When an available-for-sale financial asset is impaired, the cumulative loss that had been recognised directly in equity is removed from equity and recognised in the income statement even though the financial asset has not been derecognised.

The amount of the cumulative loss that is removed from equity and recognised in the income statement is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that financial asset previously recognised in the income statement.

If, in a subsequent period, the fair value of an available-for-sale debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the income statement, the impairment loss is reversed, with the amount of the reversal being recognised in the income statement. Impairment losses recognised in the income statement for an investment in an equity instrument classified as available-for-sale are not reversed through the income statement. Any subsequent increase in the fair value of such assets is recognised directly in equity.

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Financial instruments (continued)

(vi) Impairment (continued)

— Available-for-sale financial assets (continued)

For investments in equity instruments that do not have a quoted market price in an active market and the fair value cannot be reliably measured, the amount of any impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset, and is recognised in the income statement.

Impairment losses recognised in an interim period in respect of available-for-sale equity investments carried at cost are not reversed in a subsequent period. This is the case even if no loss or a smaller loss would have been recognised had the impairment been assessed only at the end of the year to which the interim period relates.

(vii) Offsetting

Financial assets and financial liabilities are offset and the net amount is reported in the balance sheet when the Group has a legally enforceable right to set off the recognised amounts and the transactions are intended to be settled on a net basis, or by realising the asset and settling the liability simultaneously.

(viii) Derivative financial instruments

The Group uses derivative financial instruments to hedge its exposure to foreign exchange and interest rate risks. In accordance with its treasury policy, the Group generally does not hold or issue derivatives financial instruments for trading purposes. However, derivatives that do not qualify for hedge accounting are accounted for as financial assets and financial liabilities at fair value through profit or loss.

Derivative financial instruments are recognised at fair value. The gain or loss on re-measurement to fair value is recognised immediately in the income statement. However, where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the item being hedged.

(ix) Embedded derivatives

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

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

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Financial instruments (continued)

(x) Securitisations

The Group securitizes various residential mortgage loans, which generally results in the sale of these assets to SPEs, which, in turn issue securities to investors. Interests in the securitised financial assets may be retained in the form of credit enhancement or subordinated tranches, or other residual interests ("retained interests"). Retained interests are carried at fair value on inception date on the Group's balance sheet. Gains or losses on securitisation depend in part on the carrying amount of the transferred financial assets, allocated between the financial assets derecognised and the retained interests based on their relative fair values at the date of the transfer. Gain or losses on securitisation are recorded in "Other operating gain/loss".

In applying its policies on securitised financial assets, the Group has considered both the degree of transfer of risks and rewards on assets transferred and the degree of control exercised by the Group over the financial assets:

— when the Group transfers substantially all the risks and rewards of ownership of the financial asset, the Group shall derecognise the financial assets;

— when the Group retains substantially all the risks and rewards of ownership of the financial assets, the Group shall continue to recognise the financial assets; and

— when the Group neither transfers nor retains substantially all the risk and rewards of ownership of the financial asset, the Group would determine whether it has retained control of the financial assets. If the Group has not retained control, it shall derecognise the financial asset and recognise separately as assets or liabilities any rights and obligation created or retained in the transfer. If the Group has retained control, it shall continue to recognise the financial asset to the extent of its continuing involvement in the financial assets.

(g) Resale and repurchase agreements

Assets purchased subject to agreements to resell them at future dates (resale agreements) are not recognised. The amounts paid are accounted for as balances with central banks, amounts due from banks and non-bank financial institutions or loans and advances to customers depending on the identity of the counterparty and are carried in the balance sheet at amortised cost.

Assets sold subject to a simultaneous agreement to repurchase them at a certain later date at a fixed price (repurchase agreements) continue to be recognised in the financial statements, and are measured in accordance with the accounting policy for such assets. The proceeds from the sale of the assets are reported as amounts due to central banks, banks or non-bank financial institutions and are carried in the balance sheet at amortised cost.

The difference between the sale and repurchase consideration, and that between the purchase and resale consideration, are amortised over the period of the respective transaction using the effective interest method and are included in interest income and interest expense respectively.

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Property and equipment

(i) Cost

Items of property and equipment other than construction in progress are stated at cost, or deemed cost, less accumulated depreciation and impairment losses. The cost of self-constructed assets includes the cost of materials, direct labour and an appropriate proportion of attributable indirect costs.

Construction in progress, an item of property and equipment, represents property and equipment under construction and is stated at cost less impairment losses. Capitalisation of these costs ceases and the construction in progress is transferred to an appropriate class of property and equipment when the asset is ready for its intended use.

Pursuant to the Restructuring, all property and equipment were revalued to fair value on 31 December 2003 by an independent professional valuer in the PRC, China Consultants of Accounting and Financial Management Co., Ltd ("CCAFM"). The revalued amount was adopted as the deemed cost of the property and equipment on 31 December 2003.

(ii) Subsequent costs

The Group recognises in the carrying amount of an item of property and equipment the cost of replacing part of such an item when that cost is incurred if it is probable that the future economic benefits embodied with the item will flow to the Group and the cost of the item can be measured reliably. All other costs are recognised in the income statement as an expense when incurred.

(iii) Depreciation

Depreciation is calculated to write off the cost or deemed cost, less estimated residual value if applicable, of items of property and equipment (excluding construction in progress) and is charged to the income statement on a straight-line basis over the estimated useful lives of each component of an item of property and equipment. The estimated useful lives are as follows:

	Estimated useful lives
Bank premises	30–35 years
Computer equipment	3–8 years
Others	4–11 years

Where an item of property and equipment comprises major components having different useful lives, the cost or deemed cost of the item is allocated on a reasonable basis between the components and each component is depreciated separately.

The useful life of an item of property and equipment, its residual value and the depreciation method, are reassessed at least annually at year end.

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Property and equipment (continued)

(iv) Impairment

The carrying amount of property and equipment is reviewed periodically in order to assess whether the recoverable amount has declined below the carrying amount. When such a decline has occurred, the carrying amount is reduced to the recoverable amount. The amount of the reduction is recognised in the income statement. The recoverable amount is the greater of the net selling price and value-in-use.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through the income statement. A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years.

(v) Disposal and retirement

Gains or losses arising from the disposal or retirement of property and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the income statement on the date of disposal or retirement.

(i) Finance and operating lease

(i) Classification

A finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset. Title may or may not eventually be transferred. An operating lease is a lease other than a finance lease.

(ii) Finance leases

Where the Group is a lessor under finance leases, an amount representing the net investment in the lease is included in the balance sheet as "Loans and advances to customers". Unrecognised finance income under finance leases are amortised using an effective interest rate method over the lease term. Finance income implicit in the lease payment is recognised as "Interest income" over the period of the leases in proportion to the funds invested. Hire purchase contracts having the characteristics of finance leases are accounted for in the same manner as finance leases. Impairment losses are accounted for in accordance with the accounting policy as set out in Note 1(f)(vi).

(iii) Operating lease

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to income statement in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased assets. Lease incentives received are recognised in income statement as an integral part of the aggregate net lease payments made. Contingent rentals are charged to the income statement in the accounting period in which they are incurred.

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Land use rights

Land use rights are stated at cost or deemed cost, being the fair value on 31 December 2003 determined by CCAFM, using the comparable market basis.

Land use rights are amortised on a straight-line basis over the respective periods of grant of 30–50 years.

(k) Repossessed assets

When the Group repossesses assets to compensate losses of loans and advances to customers and interest receivables, the repossessed assets are initially recognised at fair value, plus any taxes paid for the seizure of the assets, litigation fees and other expenses incurred for collecting the repossessed assets are included in the carrying value of repossessed assets. Repossessed assets are recognised at the carrying value, net of allowances for impairment losses.

(l) Cash equivalents

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

(m) Provisions and contingent liabilities

(i) Provisions

A provision is recognised in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. A provision is initially measured at the best estimate of the expenditure required to settle the related present obligation. Factors pertaining to a contingency such as the risks, uncertainties and time value of money are taken into account as a whole in reaching the best estimate. Where the effect of the time value of money is material, the best estimate is determined by discounting the related future cash outflows.

A potential obligation arising from a past transactions or events whose existence can only be confirmed by the occurrence or non-occurrence of future uncertain events; or a present obligation that arises from past transactions or events and it is not probable that an outflow of economic benefits is required to settle the obligation or the amount of the obligation cannot be measured reliably, is disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(ii) Financial guarantees issued

Financial guarantees are contracts that require the guarantor (the "issuer") to make specified payments to reimburse the beneficiary of the guarantee (the "holder") for a loss the holder incurs when a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(m) Provisions and contingent liabilities (continued)

(ii) Financial guarantees issued (continued)

Where the Group issues a financial guarantee to customers, the fair value of the guarantee (being the guarantee fees received) is initially recognised as deferred income in "Other liabilities and provisions".

The deferred income is amortised over the term of the guarantee and is recognised in the income statement as income from financial guarantees issued. In addition, provisions are recognised in the balance sheet in accordance with Note 1(m)(i) if and when (a) it becomes probable that the holder of the guarantee will call upon the Group under the guarantee, and (b) the amount of that claim on the Group is expected to exceed the carrying amount of the deferred income.

(n) Employee benefits

(i) Employment benefits

Salaries and bonuses, housing benefits and costs for social security benefits are accrued in the year in which the services are rendered by employees of the Group. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) Staff incentive plan

As approved by the Board of Directors, for the purposes of providing incentives and rewards to eligible employees for their past services, the Group awards a specified amount of staff compensation to the staff incentive plan independently managed by a designated staff committee for those eligible participating employees. The Group recognises its contribution to the plan when it has a present legal or constructive obligation to make such payment and a reliable estimate of the obligation can be made.

(iii) Early retirement expenses

The Group recognises the present value of all its liabilities to employees who agreed to retire early in return for certain future payments as an expense in the income statement when the relevant staff ceases to provide any services to the Group. Differences arising from changes in assumptions and estimates of the present value of the liabilities are recognised in the income statement when incurred.

(iv) Post employment benefits

Post employment benefits of the Group mainly include retirement benefits, and supplementary retirement benefits to the employees who retired on or before 31 December 2003.

Defined contribution retirement schemes

Obligations for contributions to defined contribution retirement schemes are recognised as an expense in the income statement as incurred for current employees.

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(n) Employee benefits (continued)

(iv) Post employment benefits (continued)

Supplementary retirement benefits

The Group's obligations in respect of supplementary retirement benefits are calculated by estimating the amount of future benefits that the Group is committed to pay to the employees after their retirement using actuarial techniques. Such benefits are discounted to determine their present values. The discount rate is the yield on PRC government bonds at the balance sheet date, the maturity dates of which approximate to the terms of the Group's obligations. In calculating the Group's obligations, to the extent that any cumulative unrecognised gains or losses exceed 10% of the present value of the obligation at the balance sheet date, that portion is recognised in the income statement. Otherwise, the gain or loss is not recognised.

(o) Income tax

Current income tax and movements in deferred tax balances are recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax assets also arise from unused tax losses and unused tax credits. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced by the extent that it is no longer probable that the related tax benefit will be realised.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities if the Group or the Bank has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Group or the Bank intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  - the same taxable entity; or

  - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(p) Fiduciary activities

The Group acts in a fiduciary capacity as a custodian, trustee or an agent for customers. Assets held by the Group and the related undertakings to return such assets to customers are excluded from the financial statements as the risks and rewards of the assets reside with the customers.

Entrusted lending is the business where the Group enters into entrusted loan agreements with customers, whereby the customers provide funding (the "entrusted funds") to the Group, and the Group grants loans to third parties (the "entrusted loans") at the instruction of the customers. As the Group does not assume the risks and rewards of the entrusted loans and the corresponding entrusted funds, entrusted loans and funds are recorded as off-balance sheet items at their principal amounts and no impairment assessments are made for these entrusted loans.

The Group's fiduciary business refers to the management of assets for customers in accordance with custody agreements signed by the Group and securities investment funds, insurance companies, annuity plans and other organisations. The Group fulfils its fiduciary duty and receives relevant fees in accordance with these agreements, and does not take up any risks and rewards related to the assets under custodian, which are recorded as off-balance-sheet items.

Wealth management is the business where the Group enters into agreements with customers, whereby the customers provide funding to the Group, and the Group invests the funds in the assets held by the Group or third parties. The Group fulfils its management duty and receives relevant fees in accordance with these agreements, and does not take up any risks and rewards related to the funds and investments under management. The funds and investments under management are recorded as off-balance-sheet items.

(q) Income recognition

Provided it is probable that economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in the income statement as follows:

(i) Interest income

Interest income arising from the use by others of entity assets is recognised in income statement based on the duration and the effective interest rate. Interest income includes the amortisation of any discount or premium or other differences between the initial carrying amount of an interest-bearing instrument and its amount at maturity calculated on an effective interest rate basis.

The effective interest method is a method of calculating the amortised cost of financial assets and liabilities and of allocating the interest income and interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial instrument. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Interest on the impaired financial assets is recognised using the rate of interest used to discount future cash flows ("unwinding of discount") for the purpose of measuring the related impairment loss.

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(q) Income recognition (continued)

(ii) Fee and commission income

Fee and commission income is recognised in the income statement when the corresponding service is provided.

Origination or commitment fees received by the Group which result in the creation or acquisition of a financial asset are deferred and recognised as an adjustment to the effective interest rate. If the commitment expires without the Group making a loan, the fee is recognised as revenue on expiry.

(iii) Finance income from finance lease and hire purchase contract

Finance income implicit in finance lease and hire purchase payments is recognised as interest income over the period of the leases so as to produce an approximately constant periodic rate of return on the outstanding net investment in the leases for each accounting period. Contingent rentals receivable are recognised as income in the accounting period in which they are earned.

(iv) Dividend income

Dividend income from unlisted equity investment is recognised in the income statement on the date when the Group's right to receive payment is established. Dividend income from a listed equity investment is recognised when the share price of the investment goes ex-dividend.

(r) Foreign currency translation

Foreign currency transactions are, on initial recognition, translated to Renminbi at the spot exchange rates or the rates that approximate the spot exchange rates ruling at the dates of the transaction.

A spot exchange rate is quoted by the People's Bank of China (the "PBC") or a cross rate determined based on quoted exchange rates. An exchange rate that approximates the spot exchange rate is determined by a systematic and rational method, normally the average exchange rate of the current period.

Monetary items denominated in foreign currencies are translated to Renminbi at the spot exchange at the balance sheet date. The resulting exchange differences are recognised in income statement. Non-monetary items denominated in foreign currencies that are measured at historical cost are translated to Renminbi using the foreign exchange rate at the transaction date. Non-monetary items denominated in foreign currencies that are measured at fair value are translated using the foreign exchange rate at the date the fair value is determined; the exchange differences are recognised in income statement, except for the differences arising from the translation of available-for-sale financial assets, which is recognised in investment revaluation reserve.

The assets and liabilities of operations outside Mainland China are translated into Renminbi at the spot exchange rates ruling at the balance sheet date. The equity items, excluding "Retained earning", are translated to Renminbi at the spot exchange rates on the transaction dates. The income and expenses of foreign operation are translated to Renminbi at the spot exchange rates or the rates that approximate the spot exchange rates on the transaction dates. Foreign exchange differences arising from translation are recognised as "exchange reserve" in equity.

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(s) Profit distribution

Cash dividends proposed after the balance sheet date are not recognised as a liability in the balance sheet and disclosed in the note to the financial statements separately. Dividend payable is recognised as a liability in the year in which they are approved.

(t) Related parties

For the purposes of these financial statements, a party is considered to be related to the Group if:

(i) the party has the ability, directly or indirectly through one or more intermediaries, to control the Group or exercise significant influence over the Group in making financial and operating policy decisions, or has joint control over the Group;

(ii) the Group and the party are subject to common control;

(iii) the party is an associate of the Group;

(iv) the party is a member of key management personnel of the Group or the Group's parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;

(v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or

(vi) the party is a post-employment benefit plan which is for the benefit of employees of the Group or of any entity that is a related party of the Group.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

(u) Segment reporting

The Group discloses its business and geographical segment information in the financial statements. A business segment is a distinguishable component of the Group that is engaged in providing an individual product or service or a group of related products or services and that is subject to risks and rewards that different from those of other segments. A geographical segment is a distinguishable component of the Group that is engaged in providing products or services within a particular economic environment and that is subject to risks and rewards that are different from those of other segments.

(Expressed in millions of Renminbi unless otherwise stated)

2 CHANGES IN ACCOUNTING POLICY

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

There have been no significant changes to the accounting policies applied in these financial statements for the years presented as a result of these developments. However, as a result of the adoption of IFRS 7, Financial Instruments: Disclosures and the Amendment to IAS 1, Presentation of Financial Statements: Capital Disclosures, there have been some additional disclosures provided as follows:

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

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

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

3 NET INTEREST INCOME

	2007	2006
Interest income arising from:		
Balances with central banks	**12,036**	7,276
Amounts due from banks and non-bank financial institutions	**4,897**	4,318
Loans and advances to customers (note (i))		
— corporate loans	**150,183**	118,577
— personal loans	**42,594**	29,420
— discounted bills	**5,503**	5,459
Investments not at fair value through profit or loss (note (ii))	**69,160**	50,012
Financial assets not at fair value through profit or loss	**284,373**	215,062
Investments at fair value through profit or loss (note (iii))	**450**	127
Total interest income	**284,823**	215,189
Interest expense arising from:		
Amounts due to banks and non-bank financial institutions	**(10,572)**	(4,877)
Deposits from customers	**(79,017)**	(67,811)
Subordinated bonds issued	**(1,942)**	(1,883)
Others	**(517)**	(250)
Total interest expense	**(92,048)**	(74,821)
Net interest income	**192,775**	140,368

(Expressed in millions of Renminbi unless otherwise stated)

3 NET INTEREST INCOME (continued)

Notes:

(i) Interest income arising from loans and advances to customers of the Group includes interest income accrued on individually assessed impaired loans and advances to customers of RMB2,034 million for the year ended 31 December 2007 (2006: RMB941 million), which includes interest income on the unwinding of discount of allowances for loan impairment losses of RMB1,939 million for the year ended 31 December 2007 (2006: RMB896 million) (Note 19(c)).

(ii) Interest income from investments not at fair value through profit or loss is mainly derived from unlisted debt investments. The balance includes interest income accrued on impaired debt securities of RMB77 million for the year ended 31 December 2007 (2006: Nil).

(iii) Investments at fair value through profit or loss are held for trading purpose.

(iv) Interest expense on financial liabilities maturing after five years mainly consists of interest expense on subordinated bonds issued.

4 NET FEE AND COMMISSION INCOME

	2007	2006
Fee and commission income:		
Fees for agency services	**16,439**	4,269
Bank card fees	**5,254**	3,836
Commission on trust and fiduciary activities	**3,267**	1,276
Settlement and clearing fees	**3,261**	2,768
Consultancy and advisory fees	**2,792**	1,466
Guarantee fees	**578**	427
Credit commitment fees	**485**	209
Others	**655**	376
Total fee and commission income	**32,731**	14,627
Fee and commission expenses:		
Bank card transaction fees	**(697)**	(573)
Inter-bank transaction fees	**(306)**	(245)
Others	**(415)**	(238)
Total fee and commission expenses	**(1,418)**	(1,056)
Net fee and commission income	**31,313**	13,571

5 NET TRADING GAIN

	2007	2006
Debt securities	**134**	41
Derivatives	**329**	349
Equity investments	**660**	—
Others	**74**	229
	1,197	619

(Expressed in millions of Renminbi unless otherwise stated)

6 DIVIDEND INCOME

	2007	2006
Dividend income from listed trading equity investments	46	—
Dividend income from available-for-sale equity investments		
— listed	116	—
— unlisted	181	424
	343	424

7 NET INCOME ARISING FROM INVESTMENT SECURITIES

	2007	2006
Net income on sale of available-for sale securities	1,377	1,354
Net revaluation loss transferred from equity on disposal	(79)	(342)
	1,298	1,012

8 OTHER OPERATING LOSS, NET

	2007	2006
Net foreign exchange loss (note)	(7,820)	(6,068)
Net gain on disposal of property and equipment	174	213
Net gain on disposal of repossessed assets	180	179
Others	1,257	1,275
	(6,209)	(4,401)

Note: Net foreign exchange loss includes the changes in fair value and net exchange gains arising from foreign exchange options and cross currency swaps entered into for economically hedging long positions in foreign currency assets.

(Expressed in millions of Renminbi unless otherwise stated)

9 OPERATING EXPENSES

	2007	2006
Staff costs		
— salaries, bonuses and allowances	**27,762**	20,665
— early retirement expenses (Note 31(c))	**8,998**	—
— staff welfare and social insurance expenses	**4,029**	3,753
— payments to defined contribution retirement schemes	**2,889**	2,449
— housing fund	**2,329**	1,905
— housing allowance	**1,790**	1,625
— supplementary retirement benefits (Note 31(b))	**699**	654
— staff termination costs	**68**	99
— others	**1,537**	1,135
	50,101	32,285
Premises and equipment expenses		
— depreciation charges	**6,735**	5,998
— rent and property management expenses	**3,078**	2,507
— maintenance	**1,518**	863
— utilities	**1,167**	1,033
— others	**719**	732
	13,217	11,133
Other general and administrative expenses (note (i))	**15,560**	13,271
Business tax and surcharges (note (ii))	**12,337**	8,977
Amortisation expense	**1,112**	996
	92,327	66,662

Notes:

(i) The amount includes auditors' remuneration of RMB122 million for audit services (2006: RMB134 million) and RMB3 million (2006: RMB5 million) for non-audit services for the year ended 31 December 2007.

(ii) Business tax of 5% is levied primarily on interest income from loans and advances to customers, and fee and commission income. The surcharges, which include education surcharges and city construction tax, are charged at 3% and between 1% and 7% of business tax paid respectively.

(Expressed in millions of Renminbi unless otherwise stated)

10 PROVISIONS FOR IMPAIRMENT LOSSES

(a) Impairment losses on loans and advances to customers

	2007	2006
Additions	**31,957**	23,396
Releases	**(11,851)**	(4,399)
	20,106	18,997

(b) Other impairment losses

	2007	2006
Available-for-sale financial assets	**2,113**	213
Held-to-maturity debt securities	**4,853**	59
Property and equipment	**34**	42
Others	**489**	(97)
	7,489	217

(Expressed in millions of Renminbi unless otherwise stated)

11 DIRECTORS' AND SUPERVISORS' EMOLUMENTS

The aggregate of the emoluments before individual income tax in respect of the directors and supervisors who held office during the year is as follows:

	2007							
	Fees (note (i)) RMB'000	Salaries RMB'000	Discretionary bonus paid RMB'000	Discretionary bonus payable (note (i)) RMB'000	Sub-total RMB'000	Contributions to defined contribution retirement schemes RMB'000	Other benefits in kind (note (vii)) RMB'000	Total RMB'000
Executive directors								
Guo Shuqing	–	600	278	470	1,348	21	414	1,783
Zhang Jianguo	–	576	273	499	1,348	21	405	1,774
Zhao Lin	–	492	245	446	1,183	21	369	1,573
Luo Zhefu	–	492	245	457	1,194	21	365	1,580
Non-executive directors								
Wang Yonggang (note (iii))	345	–	–	–	345	–	–	345
Wang Yong (note (ii) & (iii))	210	–	–	–	210	–	–	210
Wang Shumin (note (iii))	360	–	–	–	360	–	–	360
Liu Xianghui (note (iii))	390	–	–	–	390	–	–	390
Zhang Xiangdong (note (iii))	380	–	–	–	380	–	–	380
Li Xiaoling (note (ii) & (iii))	210	–	–	–	210	–	–	210
Gregory L. Curl (note (iv))	390	–	–	–	390	–	–	390
Independent non-executive directors								
Lord Peter Levene	360	–	–	–	360	–	–	360
Song Fengming	440	–	–	–	440	–	–	440
Jenny Shipley (note (ii))	60	–	–	–	60	–	–	60
Elaine La Roche	402	–	–	–	402	–	–	402
Wong Kai-Man (note (ii))	60	–	–	–	60	–	–	60
Tse Hau Yin, Aloysius	440	–	–	–	440	–	–	440
Supervisors								
Xie Duyang	–	564	256	463	1,283	21	384	1,688
Liu Jin	–	354	164	273	791	21	231	1,043
Jin Panshi	–	354	164	272	790	21	222	1,033
Cheng Meifen (note (vi))	26	–	–	–	26	–	–	26
Sun Zhixin (note (vi))	26	–	–	–	26	–	–	26
Ning Liming (note (vi))	26	–	–	–	26	–	–	26
Guo Feng	250	–	–	–	250	–	–	250
Dai Deming (note (ii))	157	–	–	–	157	–	–	157
	4,532	3,432	1,625	2,880	12,469	147	2,390	15,006
Former non-executive directors retired in 2007								
Zhu Zhenmin (note (ix))	180	–	–	–	180	–	–	180
Jing Xuecheng (note (ix))	180	–	–	–	180	–	–	180
Former independent non-executive director retired in 2007								
Yashiro Masamoto (note (ix))	220	–	–	–	220	–	–	220
Former supervisors retired in 2007								
Chen Yueming (note (v) & (ix))	125	–	–	–	125	–	–	125
Cui Jianmin (note (ix))	135	–	–	–	135	–	–	135
	5,372	3,432	1,625	2,880	13,309	147	2,390	15,846

(Expressed in millions of Renminbi unless otherwise stated)

11 DIRECTORS' AND SUPERVISORS' EMOLUMENTS (continued)

	2006							
	Fees (note (i)) RMB'000	Salaries RMB'000	Discretionary bonus paid RMB'000	Discretionary bonus payable (note (i)) RMB'000	Sub-total RMB'000	Contributions to defined contribution retirement schemes RMB'000	Other benefits in kind (note (vii)) RMB'000	Total RMB'000
Executive directors								
Guo Shuqing	–	520	240	423	1,183	19	214	1,416
Zhang Jianguo	–	208	200	76	484	–	21	505
Zhao Lin	–	426	211	424	1,061	19	209	1,289
Luo Zhefu	–	426	211	411	1,048	19	196	1,263
Non-executive directors								
Wang Yonggang (note (iii))	360	–	–	–	360	–	–	360
Wang Shumin (note (iii))	360	–	–	–	360	–	–	360
Liu Xianghui (note (iii))	373	–	–	–	373	–	–	373
Zhang Xiangdong (note (iii))	380	–	–	–	380	–	–	380
Gregory L. Curl (note (iv))	390	–	–	–	390	–	–	390
Zhu Zhenmin (note (iii))	360	–	–	–	360	–	–	360
Jing Xuecheng (note (iii))	360	–	–	–	360	–	–	360
Independent non-executive directors								
Lord Peter Levene	90	–	–	–	90	–	–	90
Song Fengming	440	–	–	–	440	–	–	440
Elaine La Roche	390	–	–	–	390	–	–	390
Tse Hau Yin, Aloysius	423	–	–	–	423	–	–	423
Yashiro Masamoto	440	–	–	–	440	–	–	440
Supervisors								
Xie Duyang	–	478	221	389	1,088	19	216	1,323
Liu Jin	–	307	127	262	696	19	123	838
Jin Panshi	–	307	127	261	695	19	150	864
Cheng Meifen (note (vi))	26	–	–	–	26	–	–	26
Sun Zhixin (note (vi))	9	–	–	–	9	–	–	9
Ning Liming (note (vi))	9	–	–	–	9	–	–	9
Guo Feng	250	–	–	–	250	–	–	250
Chen Yueming (note (v))	250	–	–	–	250	–	–	250
Cui Jianmin	270	–	–	–	270	–	–	270
	5,180	2,672	1,337	2,246	11,435	114	1,129	12,678
Former executive directors resigned in 2006								
Chang Zhenming	–	291	137	248	676	11	114	801
Liu Shulan	–	213	106	195	514	9	86	609
	5,180	3,176	1,580	2,689	12,625	134	1,329	14,088

(Expressed in millions of Renminbi unless otherwise stated)

11 DIRECTORS' AND SUPERVISORS' EMOLUMENTS (continued)

Notes:

(i) The amounts of fees and discretionary bonus payable at 31 December 2007 in respect of the services rendered by the directors and supervisors are subject to approval of the Bank's shareholders in the Annual General Meeting to be held on 12 June 2008. The amounts payable as at 31 December 2006 were approved in the Annual General Meeting held on 13 June 2007 and paid during the year ended 31 December 2007.

(ii) Mr Wang Yong and Ms Li Xiaoling were appointed as Non-executive directors of the Bank on 13 June 2007. Mr Wong Kai-Man and Ms Jenny Shipley assumed the post upon the approval of the China Banking Regulatory Commission (the "CBRC") on 12 November 2007. Mr Dai Deming was appointed as a supervisor of the Bank on 13 June 2007.

(iii) The amounts will be payable to Central SAFE Investments Limited ("Huijin") for the services of the respective directors after the approval of the Bank's shareholders as mentioned in note (i).

(iv) The amount will be payable to Bank of America Corporation ("BOA") for his services as director after the approval of the Bank's shareholders as mentioned in note (i).

(v) The amount was paid to State Grid Corporation of China for her services as supervisor after the approval of the Bank's shareholders as mentioned in note (i).

(vi) The amounts only included fees for their services as supervisors.

(vii) Other benefits in kind included the Bank's contributions to medical fund, housing provident fund and other social insurances, which are payable to labour and securities authorities based on the lower of certain percentages of the salaries or the prescribed upper limits as required by the relevant regulations issued by the government authorities. Other benefits in kind also included the Bank's contribution to its own corporate annuity plan, which was set up in accordance with the relevant government policies, and supplementary medical insurance scheme.

(viii) None of the directors and supervisors received any inducements, or compensation for loss of office, or waived any emoluments during the years ended 31 December 2007 and 2006.

(ix) The retirements of the above directors and supervisors became effective on 13 June 2007.

12 INDIVIDUALS WITH HIGHEST EMOLUMENTS

None of the five individuals with the highest emoluments are directors or supervisors whose emoluments are disclosed in Note 11. The aggregate of the emoluments before individual income tax in respect of the five highest paid individuals during the year is as follows:

	2007 RMB'000	2006 RMB'000
Salaries and other emoluments	**7,813**	8,734
Discretionary bonuses	**10,792**	3,830
Retirement scheme contributions	**443**	611
	19,048	13,175

The number of these individuals whose emoluments before individual income tax are within the following bands is set out below.

	2007	2006
RMB2,000,001–RMB2,500,000	**–**	3
RMB2,500,001–RMB3,000,000	**–**	1
RMB3,000,001–RMB3,500,000	**2**	1
RMB3,500,001–RMB4,000,000	**1**	–
RMB4,000,001–RMB4,500,000	**1**	–
RMB4,500,001–RMB5,000,000	**1**	–

None of these individuals received any inducements, or compensation for loss of office, or waived any emoluments during the years ended 31 December 2007 and 2006.

(Expressed in millions of Renminbi unless otherwise stated)

13 LOANS TO DIRECTORS, SUPERVISORS AND OFFICERS

There were no loans to the directors, supervisors and officers (and their affiliates) of the Bank as defined under section 161B of the Hong Kong Companies Ordinance during the years ended 31 December 2007 and 2006.

14 INCOME TAX

(a) Recognised in the consolidated income statement

	2007	2006
Current tax (note)		
— Mainland China	**33,916**	21,586
— Hong Kong	**335**	77
— Overseas	**22**	15
	34,273	21,678
Deferred tax recognised in current year	**(2,670)**	(2,068)
Adjustments for prior years	**71**	(212)
Total income tax	**31,674**	19,398

Note: The provision for PRC income tax for 2007 is calculated at 33% (2006: 33%) of estimated taxable income from Mainland operations for the year. The provision for Hong Kong Profits Tax for 2007 is calculated at 17.5% (2006: 17.5%) of the estimated assessable profits from Hong Kong operations for the year. Taxation for other overseas operations is charged at the appropriate current rates of taxation ruling in the relevant countries.

(Expressed in millions of Renminbi unless otherwise stated)

14 INCOME TAX (continued)

(b) Reconciliation between tax expense and accounting profit:

	2007	2006
Profit before taxation	100,816	65,717
Expected PRC income tax charged at statutory tax rate of 33% (note (i))	33,269	21,687
Non-deductible expenses (note (ii))		
— staff costs	612	427
— impairment losses	1,247	146
— others	926	339
	2,785	912
Non-taxable income		
— interest income from PRC government bonds	(3,677)	(2,790)
— others	(980)	(199)
	(4,657)	(2,989)
	31,397	19,610
Effect of change in tax rate on deferred tax (note (iii))	206	—
Adjustments for prior years	71	(212)
Actual tax expense	31,674	19,398

Notes:

(i) The expected income tax of the Group is calculated based on the statutory tax rate of 33% in accordance with the relevant PRC income tax rules and regulations.

(ii) Amounts primarily represent staff costs and impairment losses on assets, which included loans and advances to customers, property and equipment, and entertainment expenses which exceeded the deductible amounts.

In accordance with an approval notice issued in March 2006 by the Ministry of Finance of the PRC (the "MOF") and the State Administration of Taxation of the PRC, with effect from 1 January 2006, the Bank's tax deductible staff costs are calculated based on the previous year's tax deductible staff costs, adjusting for the performance of the Bank.

(iii) On 16 March 2007, the Fifth Plenary Session of the Tenth National People's Congress passed the new enterprise income tax law. Pursuant to the new income tax law, the income tax rate that is applicable to the Bank and its subsidiaries in the Mainland China will be reduced from 33% to 25% effective from 1 January 2008. Deferred tax assets and liabilities are adjusted for the change in income tax rate through income statement or equity (Note 25(b)).

(Expressed in millions of Renminbi unless otherwise stated)

15 EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to ordinary shareholders of the Bank of RMB69,053 million (2006: RMB46,322 million) and the weighted average of 227,105 million ordinary shares (2006: 224,689 million shares) after adjusting for the share issuance in 2007.

Weighted average number of ordinary shares (in million shares)

	2007	2006
Issued ordinary shares at 1 January	**224,689**	224,689
Weighted average of A-share issued during the year (note)	**2,416**	—
Weighted average number of ordinary shares at 31 December	**227,105**	224,689

Note: On 25 September 2007, the Bank issued 9,000 million A-shares. The time-weighting factor has been taken into account in arriving the weighted average number of ordinary shares as at 31 December. The time-weighting factor is the number of days that the shares are outstanding as a proportion of the total number of days in the period.

There was no difference between basic and diluted earnings per share as there were no potentially dilutive shares outstanding during the years ended 31 December 2007 and 2006.

16 CASH AND BALANCES WITH CENTRAL BANKS

	Group		Bank	
	2007	2006	**2007**	2006
Cash	**32,240**	30,191	**32,081**	30,104
Balances with central banks				
— statutory deposit reserves (note (i))	**724,941**	402,835	**724,832**	402,835
— surplus deposit reserves (note (ii))	**74,938**	103,767	**74,938**	103,737
— fiscal deposits	**11,605**	2,880	**11,605**	2,880
— balances under resale agreements	**123,650**	—	**123,650**	—
	935,134	509,482	**935,025**	509,452
Total	**967,374**	539,673	**967,106**	539,556

Notes:

(i) The Group places statutory deposit reserves with the PBC and the central banks of countries or regions outside Mainland China where it has operations. The statutory deposit reserves are not available for use in the Group's daily business.

As at 31 December 2007, the statutory deposit reserves placed with the PBC were calculated at 14.5% (2006: 9%) of eligible Renminbi deposits for domestic branches of the Bank and a subsidiary. The Bank was also required to deposit an amount equivalent to 5% (2006: 4%) of its foreign currency deposits from domestic branches as statutory deposit reserves.

The amounts of statutory deposit reserves placed with the central banks of those countries or regions outside Mainland China are determined by local jurisdiction.

(ii) The surplus deposit reserves are maintained with the PBC mainly for the purpose of clearing.

(Expressed in millions of Renminbi unless otherwise stated)

17 AMOUNTS DUE FROM BANKS AND NON-BANK FINANCIAL INSTITUTIONS

(a) Analysed by nature

	Group		Bank	
	2007	2006	**2007**	2006
Money market placements	**65,185**	31,557	**59,383**	25,679
Deposits	**24,141**	18,259	**23,831**	17,978
Balances under resale agreements	**13,606**	33,289	**13,606**	33,289
Gross balances	**102,932**	83,105	**96,820**	76,946
Less: Allowances for impairment losses (Note 17(c))	**(539)**	(920)	**(539)**	(920)
Net balances	**102,393**	82,185	**96,281**	76,026
Gross balances with banks and non-bank financial institutions				
— maturing within one month	**73,651**	64,344	**68,014**	58,831
— maturing between one month and one year	**29,005**	18,379	**28,530**	17,833
— maturing after one year	**276**	382	**276**	282
	102,932	83,105	**96,820**	76,946

(Expressed in millions of Renminbi unless otherwise stated)

17 AMOUNTS DUE FROM BANKS AND NON-BANK FINANCIAL INSTITUTIONS (continued)

(b) Analysed by legal form of counterparty

	Group		Bank	
	2007	2006	**2007**	2006
Balances with				
— PRC policy banks	**—**	2,007	**—**	2,007
— PRC state-owned banks and non-bank financial institutions	**10,629**	21,447	**10,621**	21,447
— PRC joint-stock banks and non-bank financial institutions	**24,445**	32,242	**24,245**	32,236
— Foreign-invested banks and non-bank financial institutions	**67,858**	27,409	**61,954**	21,256
Gross balances	**102,932**	83,105	**96,820**	76,946
Less: Allowances for impairment losses on balances with				
— PRC state-owned banks and non-bank financial institutions	**(267)**	(634)	**(267)**	(634)
— PRC joint-stock banks and non-bank financial institutions	**(264)**	(286)	**(264)**	(286)
— Foreign-invested banks and non-bank financial institutions	**(8)**	—	**(8)**	—
Total allowances for impairment losses	**(539)**	(920)	**(539)**	(920)
Net balances	**102,393**	82,185	**96,281**	76,026

(c) Movements of allowances for impairment losses

	Group		Bank	
	2007	2006	**2007**	2006
As at 1 January	**920**	1,464	**920**	1,464
(Write back)/charge for the year	**(16)**	9	**(16)**	9
Write-offs	**(365)**	(553)	**(365)**	(553)
As at 31 December	**539**	920	**539**	920

(Expressed in millions of Renminbi unless otherwise stated)

18 TRADING INVESTMENTS

	Group		Bank	
	2007	2006	**2007**	2006
Debt securities (Note 18(a))	**27,593**	5,616	**23,432**	3,454
Equity investments (Note 18(b))	**1,973**	—	**—**	—
Fund investments (Note 18(b))	**253**	—	**96**	—
	29,819	5,616	**23,528**	3,454

(a) Debt securities

	Group		Bank	
	2007	2006	**2007**	2006
Issued by:				
Governments				
— in Mainland China	**485**	486	**485**	486
— outside Mainland China	**267**	207	**156**	207
The PBC	**12,148**	—	**12,148**	—
Policy banks				
— in Mainland China	**5,539**	116	**5,533**	116
— outside Mainland China	**—**	139	**—**	100
Banks and non-bank financial institutions outside Mainland China	**3,061**	3,253	**1,172**	1,229
Public sector entities outside Mainland China	**12**	—	**—**	—
Others				
— in Mainland China (note)	**5,356**	986	**3,472**	986
— outside Mainland China	**725**	429	**466**	330
	27,593	5,616	**23,432**	3,454
Listed in Hong Kong	**245**	227	**165**	150
Listed outside Hong Kong	**1,655**	1,691	**1,382**	1,361
Unlisted	**25,693**	3,698	**21,885**	1,943
Total	**27,593**	5,616	**23,432**	3,454

Note: Investments shown under others in Mainland China as at 31 December 2007 represent debt securities issued by state-owned enterprises and joint-stock enterprises of RMB992 million (2006: RMB799 million) and RMB4,364 million (2006: RMB187 million) respectively.

(Expressed in millions of Renminbi unless otherwise stated)

18 TRADING INVESTMENTS (continued)

(b) Equity and fund investments

	Group		Bank	
	2007	2006	**2007**	2006
Issued by:				
Banks and non-bank financial institutions in Mainland China	**33**	—	**—**	—
Others				
— in Mainland China (note)	**1,731**	—	**96**	—
— outside Mainland China	**462**	—	**—**	—
	2,226	—	**96**	—
Listed in Hong Kong	**818**	—	**—**	—
Listed outside Hong Kong	**330**	—	**96**	—
Unlisted	**1,078**	—	**—**	—
Total	**2,226**	—	**96**	—

Note: Investments shown under others in Mainland China as at 31 December 2007 represent investments in equity and funds issued by joint stock enterprises.

19 LOANS AND ADVANCES TO CUSTOMERS

(a) Analysed by nature

	Group		Bank	
	2007	2006	**2007**	2006
Corporate loans	**2,428,527**	2,112,751	**2,413,457**	2,099,976
Personal loans	**739,588**	599,340	**723,770**	585,303
Discounted bills	**103,230**	160,738	**102,906**	159,425
Finance leases	**812**	780	**—**	—
Gross loans and advances to customers	**3,272,157**	2,873,609	**3,240,133**	2,844,704
Less: Allowances for impairment losses (Note 19(b))	**(88,928)**	(77,633)	**(88,844)**	(77,472)
Net loans and advances to customers	**3,183,229**	2,795,976	**3,151,289**	2,767,232

(Expressed in millions of Renminbi unless otherwise stated)

19 LOANS AND ADVANCES TO CUSTOMERS (continued)

(b) Loans and advances to customers and allowances

Group

	2007				
	Loans and advances for which allowances are collectively assessed (note (i))	Impaired loans and advances (note (ii)) for which allowances are collectively assessed	Impaired loans and advances (note (ii)) for which allowances are individually assessed	Total	Gross impaired loans and advances as a % of gross total loans and advances
Gross loans and advances to					
– financial institutions	3,047	–	–	3,047	–
– non-financial institutions	3,183,940	7,925	77,245	3,269,110	2.61%
	3,186,987	7,925	77,245	3,272,157	2.60%
Less: Allowances for impairment losses on loans and advances to					
– financial institutions	(15)	–	–	(15)	
– non-financial institutions	(35,770)	(4,928)	(48,215)	(88,913)	
	(35,785)	(4,928)	(48,215)	(88,928)	
Net loans and advances to					
– financial institutions	3,032	–	–	3,032	
– non-financial institutions	3,148,170	2,997	29,030	3,180,197	
	3,151,202	2,997	29,030	3,183,229	

(Expressed in millions of Renminbi unless otherwise stated)

19 LOANS AND ADVANCES TO CUSTOMERS (continued)

(b) Loans and advances to customers and allowances (continued)

Group (continued)

	2006				
	Loans and advances for which allowances are collectively assessed (note (i))	Impaired loans and advances (note (ii)) for which allowances are collectively assessed	Impaired loans and advances (note (ii)) for which allowances are individually assessed	Total	Gross impaired loans and advances as a % of gross total loans and advances
Gross loans and advances to					
– financial institutions	259	–	–	259	–
– non-financial institutions	2,778,951	35,976	58,423	2,873,350	3.29%
	2,779,210	35,976	58,423	2,873,609	3.29%
Less: Allowances for impairment losses on loans and advances to					
– financial institutions	(2)	–	–	(2)	
– non-financial institutions	(22,131)	(13,930)	(41,570)	(77,631)	
	(22,133)	(13,930)	(41,570)	(77,633)	
Net loans and advances to					
– financial institutions	257	–	–	257	
– non-financial institutions	2,756,820	22,046	16,853	2,795,719	
	2,757,077	22,046	16,853	2,795,976	

(Expressed in millions of Renminbi unless otherwise stated)

19 LOANS AND ADVANCES TO CUSTOMERS (continued)

(b) Loans and advances to customers and allowances (continued)

Bank

	2007				
	Loans and advances for which allowances are collectively assessed (note (i))	Impaired loans and advances (note (ii)) for which allowances are collectively assessed	Impaired loans and advances (note (ii)) for which allowances are individually assessed	Total	Gross impaired loans and advances as a % of gross total loans and advances
Gross loans and advances to					
– financial institutions	3,045	–	–	3,045	–
– non-financial institutions	3,151,959	7,925	77,204	3,237,088	2.63%
	3,155,004	7,925	77,204	3,240,133	2.63%
Less: Allowances for impairment losses on loans and advances to					
– financial institutions	(15)	–	–	(15)	
– non-financial institutions	(35,718)	(4,928)	(48,183)	(88,829)	
	(35,733)	(4,928)	(48,183)	(88,844)	
Net loans and advances to					
– financial institutions	3,030	–	–	3,030	
– non-financial institutions	3,116,241	2,997	29,021	3,148,259	
	3,119,271	2,997	29,021	3,151,289	

(Expressed in millions of Renminbi unless otherwise stated)

19 LOANS AND ADVANCES TO CUSTOMERS (continued)

(b) Loans and advances to customers and allowances (continued)

Bank (continued)

	2006				
	Loans and advances for which allowances are collectively assessed (note (i))	Impaired loans and advances (note (ii)) for which allowances are collectively assessed	Impaired loans and advances (note (ii)) for which allowances are individually assessed	Total	Gross impaired loans and advances as a % of gross total loans and advances
Gross loans and advances to					
– financial institutions	259	–	–	259	–
– non-financial institutions	2,750,207	35,976	58,262	2,844,445	3.31%
	2,750,466	35,976	58,262	2,844,704	3.31%
Less: Allowances for impairment losses on loans and advances to					
– financial institutions	(2)	–	–	(2)	
– non-financial institutions	(22,000)	(13,929)	(41,541)	(77,470)	
	(22,002)	(13,929)	(41,541)	(77,472)	
Net loans and advances to					
– financial institutions	257	–	–	257	
– non-financial institutions	2,728,207	22,047	16,721	2,766,975	
	2,728,464	22,047	16,721	2,767,232	

19 LOANS AND ADVANCES TO CUSTOMERS (continued)

(b) Loans and advances to customers and allowances (continued)

Notes:

(i) Loans and advances assessed on a collective basis for impairment bear relatively insignificant impairment losses as a proportion of the total portfolio. These loans and advances include those which are graded normal or special-mention.

(ii) Impaired loans and advances include loans for which objective evidence of impairment exists and which have been assessed as bearing significant impairment losses. These loans include loans for which objective evidence of impairment has been identified:
- individually (including corporate loans and advances which are graded substandard, doubtful or loss); or
- collectively; that is portfolios of homogeneous loans (including personal loans and advances which are graded substandard, doubtful or loss).

(iii) As at and prior to 31 December 2006, the impairment allowance for corporate loans and advances graded at substandard was collectively assessed. With effect from 1 January 2007, the Group commenced to individually assess the impairment allowance for corporate loans and advances graded at substandard. Consequently, a reclassification of the opening balance of the collective impairment allowance of the respective loans and advances has been made to the individual impairment allowances.

(iv) The definitions of the loan classifications stated in notes (i) and (ii) above are set out in Note 40(a).

(v) There were no impaired loans and advances to financial institutions as at 31 December 2007 and 2006.

(vi) As at 31 December 2007, the loans and advances of the Group for which the impairment allowances were individually assessed amounted to RMB77,245 million. The covered portion and uncovered portion of these loans and advances were RMB22,906 million and RMB54,339 million respectively. The fair value of collaterals held against these loans and advances amounted to RMB29,489 million. The individual impairment allowances made against these loans and advances were RMB48,215 million.

As at 31 December 2007, the loans and advances of the Bank for which the impairment allowances were individually assessed amounted to RMB77,204 million. The covered portion and uncovered portion of these loans and advances were RMB22,887 million and RMB54,317 million respectively. The fair value of collaterals held against these loans and advances amounted to RMB29,470 million. The individual impairment allowances made against these loans and advances were RMB48,183 million.

The above collaterals include properties, land, buildings, etc. The fair value of collaterals was estimated by the Group based on the latest available external valuations adjusted by taking into account the current realization experience as well as market situation.

(Expressed in millions of Renminbi unless otherwise stated)

19 LOANS AND ADVANCES TO CUSTOMERS (continued)

(c) Movements of allowances for impairment losses

Group

	2007			
	Allowances for loans and advances	Allowances for impaired loans and advances		
	which are collectively assessed	which are collectively assessed	which are individually assessed	Total
As at 1 January	22,133	13,930	41,570	77,633
Charge for the year				
— reclassification (Note19(b)(iii))	—	(6,750)	6,750	—
— new impairment allowances charged to income statement	13,652	—	18,305	31,957
— impairment allowances released to income statement	—	(1,601)	(10,250)	(11,851)
Unwinding of discount	—	—	(1,939)	(1,939)
Transfers out (note)	—	(31)	(490)	(521)
Write-offs	—	(620)	(5,825)	(6,445)
Recoveries	—	—	94	94
As at 31 December	35,785	4,928	48,215	88,928

	2006			
	Allowances for loans and advances	Allowances for impaired loans and advances		
	which are collectively assessed	which are collectively assessed	which are individually assessed	Total
As at 1 January	19,429	13,234	30,422	63,085
Charge for the year				
— new impairment allowances charged to income statement	2,582	897	19,917	23,396
— impairment allowances released to income statement	—	—	(4,399)	(4,399)
Unwinding of discount	—	—	(896)	(896)
Transfers out (note)	—	(27)	(479)	(506)
Write-offs	—	(174)	(3,155)	(3,329)
Acquisition of subsidiary	122	—	31	153
Recoveries	—	—	129	129
As at 31 December	22,133	13,930	41,570	77,633

(Expressed in millions of Renminbi unless otherwise stated)

19 LOANS AND ADVANCES TO CUSTOMERS (continued)

(c) Movements of allowances for impairment losses (continued)

Bank

	2007			
	Allowances for loans and advances which are collectively assessed	Allowances for impaired loans and advances which are collectively assessed	Allowances for impaired loans and advances which are individually assessed	Total
As at 1 January	**22,002**	**13,929**	**41,541**	**77,472**
Charge for the year				
— reclassification (Note19(b)(iii))	**—**	**(6,750)**	**6,750**	**—**
— new impairment allowances charged to income statement	**13,731**	**—**	**18,274**	**32,005**
— impairment allowance released to income statement	**—**	**(1,609)**	**(10,230)**	**(11,839)**
Unwinding of discount	**—**	**—**	**(1,939)**	**(1,939)**
Transfers out (note)	**—**	**(22)**	**(485)**	**(507)**
Write-offs	**—**	**(620)**	**(5,815)**	**(6,435)**
Recoveries	**—**	**—**	**87**	**87**
As at 31 December	**35,733**	**4,928**	**48,183**	**88,844**

	2006			
	Allowances for loans and advances which are collectively assessed	Allowances for impaired loans and advances which are collectively assessed	Allowances for impaired loans and advances which are individually assessed	Total
As at 1 January	19,419	13,233	30,420	63,072
Charge for the year				
— new impairment allowances charged to income statement	2,583	897	19,913	23,393
— impairment allowances released to income statement	—	—	(4,399)	(4,399)
Unwinding of discount	—	—	(896)	(896)
Transfers out (note)	—	(27)	(476)	(503)
Write-offs	—	(174)	(3,150)	(3,324)
Recoveries	—	—	129	129
As at 31 December	22,002	13,929	41,541	77,472

Note: Transfers out include the net transfer of allowances for impairment losses to/from repossessed assets and debt equity swap investments.

(Expressed in millions of Renminbi unless otherwise stated)

19 LOANS AND ADVANCES TO CUSTOMERS (continued)

(d) Analysed by legal form of borrowers

	Group		Bank	
	2007	2006	**2007**	2006
Corporate loans to				
— state-owned enterprises	**1,088,893**	961,253	**1,088,857**	961,238
— joint-stock enterprises	**416,011**	391,587	**416,011**	391,502
— private enterprises	**417,631**	325,810	**417,631**	315,080
— foreign invested enterprises	**263,387**	224,851	**263,385**	222,906
— collectively-controlled enterprises	**37,636**	45,888	**37,636**	45,888
— jointly-owned enterprises	**17,832**	18,308	**17,832**	18,308
— others	**187,137**	145,054	**172,105**	145,054
Subtotal	**2,428,527**	2,112,751	**2,413,457**	2,099,976
Personal loans	**739,588**	599,340	**723,770**	585,303
Discounted bills	**103,230**	160,738	**102,906**	159,425
Finance leases	**812**	780	**—**	—
Gross loans and advances to customers	**3,272,157**	2,873,609	**3,240,133**	2,844,704
Less: Allowances for impairment losses	**(88,928)**	(77,633)	**(88,844)**	(77,472)
Net loans and advances to customers	**3,183,229**	2,795,976	**3,151,289**	2,767,232

(Expressed in millions of Renminbi unless otherwise stated)

19 LOANS AND ADVANCES TO CUSTOMERS (continued)

(e) Analysed by economic sector

Group

	2007			2006		
Operations in Mainland China	**Gross loan balance**	**%**	**Balance secured by collaterals**	Gross loan balance	%	Balance secured by collaterals
Corporate loans including finance leases						
– manufacturing	**592,502**	**18.68**	**232,985**	510,427	18.21	198,746
– production and supply of electric power, gas and water	**377,285**	**11.90**	**89,264**	318,493	11.36	75,068
– transportation, storage and postal services	**370,732**	**11.69**	**179,538**	326,715	11.66	155,076
– real estate	**317,780**	**10.02**	**263,802**	302,290	10.79	243,707
– water, environment and public utility management	**106,693**	**3.36**	**48,991**	92,173	3.29	38,369
– construction	**101,467**	**3.20**	**35,026**	96,580	3.45	32,965
– leasing and commercial services	**92,968**	**2.93**	**35,327**	63,659	2.27	23,211
– wholesale and retail trade	**89,289**	**2.82**	**47,415**	73,526	2.62	35,445
– education	**78,153**	**2.46**	**23,670**	77,458	2.76	19,547
– mining	**69,666**	**2.20**	**12,453**	55,909	2.00	8,454
– telecommunications, computer services and software	**35,846**	**1.13**	**3,564**	38,962	1.39	2,515
– others	**112,376**	**3.55**	**59,277**	101,769	3.63	52,121
Corporate loans	**2,344,757**	**73.94**	**1,031,312**	2,057,961	73.43	885,224
Personal loans	**723,805**	**22.82**	**686,672**	585,085	20.88	542,619
Discounted bills	**102,826**	**3.24**	**1,467**	159,368	5.69	1,426
Total loans and advances to customers	**3,171,388**	**100.00**	**1,719,451**	2,802,414	100.00	1,429,269

(Expressed in millions of Renminbi unless otherwise stated)

19 LOANS AND ADVANCES TO CUSTOMERS (continued)

(e) Analysed by economic sector (continued)

Group (continued)

	2007			2006		
Operations outside Mainland China	**Gross loan balance**	**%**	**Balance secured by collaterals**	Gross loan balance	%	Balance secured by collaterals
Corporate loans including finance leases						
— transportation, storage and postal services	**19,393**	**19.25**	**8,326**	8,448	11.87	6,120
— real estate	**18,530**	**18.39**	**13,524**	15,292	21.48	11,942
— manufacturing	**16,722**	**16.59**	**4,645**	9,903	13.91	1,877
— production and supply of electric power, gas and water	**7,089**	**7.03**	**4,832**	3,081	4.33	2,438
— wholesale and retail trade	**5,841**	**5.80**	**4,338**	5,005	7.03	2,026
— telecommunications, computer services and software	**4,155**	**4.12**	**512**	4,393	6.17	1,682
— leasing and commercial services	**3,563**	**3.54**	**2,510**	3,686	5.18	3,348
— others	**9,289**	**9.22**	**5,046**	5,762	8.09	3,443
Corporate loans	**84,582**	**83.94**	**43,733**	55,570	78.06	32,876
Personal loans	**15,783**	**15.66**	**15,366**	14,255	20.02	13,832
Discounted bills	**404**	**0.40**	**21**	1,370	1.92	1,262
Total loans and advances to customers	**100,769**	**100.00**	**59,120**	71,195	100.00	47,970
Total gross loans and advances to customers	**3,272,157**			2,873,609		

(Expressed in millions of Renminbi unless otherwise stated)

19 LOANS AND ADVANCES TO CUSTOMERS (continued)

(e) Analysed by economic sector (continued)

Bank

	2007			2006		
Operations in Mainland China	**Gross loan balance**	**%**	**Balance secured by collaterals**	Gross loan balance	%	Balance secured by collaterals
Corporate loans						
– manufacturing	**592,502**	**18.68**	**232,985**	510,427	18.21	198,746
– production and supply of electric power, gas and water	**377,285**	**11.90**	**89,264**	318,493	11.36	75,068
– transportation, storage and postal services	**370,732**	**11.69**	**179,538**	326,715	11.66	155,076
– real estate	**317,780**	**10.02**	**263,802**	302,290	10.79	243,707
– water, environment and public utility management	**106,693**	**3.36**	**48,991**	92,173	3.29	38,369
– construction	**101,467**	**3.20**	**35,026**	96,580	3.45	32,965
– leasing and commercial services	**92,968**	**2.93**	**35,327**	63,659	2.27	23,211
– wholesale and retail trade	**89,289**	**2.82**	**47,415**	73,526	2.62	35,445
– education	**78,153**	**2.46**	**23,670**	77,458	2.76	19,547
– mining	**69,666**	**2.20**	**12,453**	55,909	2.00	8,454
– telecommunications, computer services and software	**35,846**	**1.13**	**3,564**	38,962	1.39	2,515
– others	**112,376**	**3.55**	**59,277**	101,769	3.63	52,121
Corporate loans	**2,344,757**	**73.94**	**1,031,312**	2,057,961	73.43	885,224
Personal loans	**723,746**	**22.82**	**686,623**	585,085	20.88	542,619
Discounted bills	**102,826**	**3.24**	**1,467**	159,368	5.69	1,426
Total loans and advances to customers	**3,171,329**	**100.00**	**1,719,402**	2,802,414	100.00	1,429,269

(Expressed in millions of Renminbi unless otherwise stated)

19 LOANS AND ADVANCES TO CUSTOMERS (continued)

(e) Analysed by economic sector (continued)

Bank (continued)

	2007			2006		
Operations outside Mainland China	**Gross loan balance**	**%**	**Balance secured by collaterals**	Gross loan balance	%	Balance secured by collaterals
Corporate loans						
— transportation, storage and postal services	**19,223**	**27.94**	**8,269**	7,778	18.39	5,743
— manufacturing	**14,170**	**20.59**	**4,078**	8,831	20.88	1,306
— real estate	**10,958**	**15.93**	**6,514**	6,761	15.99	4,048
— production and supply of electric power, gas and water	**7,002**	**10.18**	**4,832**	3,061	7.24	2,423
— wholesale and retail trade	**4,920**	**7.15**	**3,623**	4,042	9.56	1,257
— telecommunications, computer services and software	**4,063**	**5.91**	**466**	4,312	10.20	1,635
— leasing and commercial services	**2,751**	**4.00**	**2,510**	3,022	7.15	2,822
— others	**5,613**	**8.15**	**1,881**	4,208	9.94	1,940
Corporate loans	**68,700**	**99.85**	**32,173**	42,015	99.35	21,174
Personal loans	**24**	**0.03**	**24**	218	0.52	217
Discounted bills	**80**	**0.12**	**–**	57	0.13	–
Total loans and advances to customers	**68,804**	**100.00**	**32,197**	42,290	100.00	21,391
Total gross loans and advances to customers	**3,240,133**			2,844,704		

(Expressed in millions of Renminbi unless otherwise stated)

19 LOANS AND ADVANCES TO CUSTOMERS (continued)

(e) Analysed by economic sector (continued)

Details of impaired loans, impairment allowances, charges, and write-off information in respect of economic sectors which constitute 10% or more of total gross loans and advances to customers are as follows:

Group

	2007				
	Gross impaired loans	**Individually assessed impairment allowances**	**Collectively assessed impairment allowances**	**Impairment losses charged to income statement during the year**	**Impaired loans written off during the year**
Manufacturing	**25,016**	**(17,436)**	**(7,215)**	**5,281**	**3,004**
Real estate	**15,381**	**(8,941)**	**(3,693)**	**2,992**	**1,192**
Transportation, storage and postal services	**5,978**	**(3,467)**	**(4,333)**	**2,523**	**24**
Production and supply of electric power, gas and water	**5,957**	**(3,095)**	**(4,685)**	**2,741**	**23**

	2006				
	Gross impaired loans	Individually assessed impairment allowances	Collectively assessed impairment allowances	Impairment losses charged to income statement during the year	Impaired loans written off during the year
Manufacturing	28,829	(16,447)	(6,673)	6,946	992
Real estate	18,326	(7,059)	(4,297)	2,078	538
Transportation, storage and postal services	4,932	(2,076)	(3,378)	1,354	465
Production and supply of electric power, gas and water	4,348	(1,584)	(3,656)	335	5

(Expressed in millions of Renminbi unless otherwise stated)

19 LOANS AND ADVANCES TO CUSTOMERS (continued)

(e) Analysed by economic sector (continued)

Bank

	2007				
	Gross impaired loans	Individually assessed impairment allowances	Collectively assessed impairment allowances	Impairment losses charged to income statement during the year	Impaired loans written off during the year
Manufacturing	**24,991**	**(17,411)**	**(7,207)**	**5,283**	**3,004**
Real estate	**15,372**	**(8,937)**	**(3,670)**	**3,006**	**1,192**
Transportation, storage and postal services	**5,978**	**(3,467)**	**(4,332)**	**2,523**	**23**
Production and supply of electric power, gas and water	**5,957**	**(3,095)**	**(4,685)**	**2,741**	**23**

	2006				
	Gross impaired loans	Individually assessed impairment allowances	Collectively assessed impairment allowances	Impairment losses charged to income statement during the year	Impaired loans written off during the year
Manufacturing	28,795	(16,441)	(6,669)	6,946	990
Real estate	18,290	(7,058)	(4,245)	2,076	537
Transportation, storage and postal services	4,932	(2,076)	(3,374)	1,354	465
Production and supply of electric power, gas and water	4,348	(1,584)	(3,656)	335	5

(Expressed in millions of Renminbi unless otherwise stated)

19 LOANS AND ADVANCES TO CUSTOMERS (continued)

(f) Analysed by geographical sector

Loans and advances to customers and the balance secured by collaterals analysed by geographical sector concentrations at the balance sheet date are presented in the table below:

Group

	2007			2006		
	Gross loan balance	**%**	**Balance secured by collaterals**	Gross loan balance	%	Balance secured by collaterals
Yangtze River Delta	**816,085**	**24.95**	**473,215**	714,373	24.86	386,639
Bohai Rim	**602,943**	**18.43**	**269,153**	549,755	19.13	218,515
Western	**530,805**	**16.22**	**307,825**	469,428	16.34	268,608
Central	**519,388**	**15.87**	**274,282**	463,670	16.14	227,095
Pearl River Delta	**473,478**	**14.47**	**296,142**	399,229	13.89	240,548
Northeastern	**199,106**	**6.08**	**97,964**	177,771	6.19	86,622
Head office	**29,583**	**0.90**	**870**	28,188	0.98	1,242
Outside Mainland China	**100,769**	**3.08**	**59,120**	71,195	2.47	47,970
Gross loans and advances to Customers	**3,272,157**	**100.00**	**1,778,571**	2,873,609	100.00	1,477,239

Bank

	2007			2006		
	Gross loan balance	**%**	**Balance secured by collaterals**	Gross loan balance	%	Balance secured by collaterals
Yangtze River Delta	**816,085**	**25.20**	**473,215**	714,373	25.11	386,639
Bohai Rim	**602,884**	**18.61**	**269,104**	549,755	19.33	218,515
Western	**530,805**	**16.38**	**307,825**	469,428	16.50	268,608
Central	**519,388**	**16.03**	**274,282**	463,670	16.30	227,095
Pearl River Delta	**473,478**	**14.61**	**296,142**	399,229	14.03	240,548
Northeastern	**199,106**	**6.14**	**97,964**	177,771	6.25	86,622
Head office	**29,583**	**0.91**	**870**	28,188	0.99	1,242
Outside Mainland China	**68,804**	**2.12**	**32,197**	42,290	1.49	21,391
Gross loans and advances to Customers	**3,240,133**	**100.00**	**1,751,599**	2,844,704	100.00	1,450,660

(Expressed in millions of Renminbi unless otherwise stated)

19 LOANS AND ADVANCES TO CUSTOMERS (continued)

(f) Analysed by geographical sector (continued)

Details of impaired loans and impairment allowances in respect of geographic sectors which constitute 10% or more of total gross loans and advances to customers are as follows:

Group

	2007			2006		
	Gross impaired loans	Individually assessed impairment allowances	Collectively assessed impairment allowances	Gross impaired loans	Individually assessed impairment allowances	Collectively assessed impairment allowances
Bohai Rim	21,844	(13,692)	(8,138)	23,992	(11,087)	(7,915)
Central	14,637	(7,495)	(6,583)	15,803	(6,454)	(5,976)
Western	13,903	(8,774)	(6,820)	16,627	(7,706)	(6,520)
Pearl River Delta	11,977	(7,498)	(5,703)	14,086	(6,280)	(4,697)
Yangtze River Delta	11,835	(5,267)	(9,663)	13,057	(5,167)	(7,500)

Bank

	2007			2006		
	Gross impaired loans	Individually assessed impairment allowances	Collectively assessed impairment allowances	Gross impaired loans	Individually assessed impairment allowances	Collectively assessed impairment allowances
Bohai Rim	21,844	(13,692)	(8,137)	23,992	(11,087)	(7,915)
Central	14,637	(7,495)	(6,583)	15,803	(6,454)	(5,976)
Western	13,903	(8,774)	(6,820)	16,627	(7,706)	(6,520)
Pearl River Delta	11,977	(7,498)	(5,703)	14,086	(6,280)	(4,697)
Yangtze River Delta	11,835	(5,267)	(9,663)	13,057	(5,167)	(7,500)

The definitions of geographical segments are set out in Note 39(b).

(Expressed in millions of Renminbi unless otherwise stated)

20 INVESTMENT SECURITIES

	Group		Bank	
	2007	2006	**2007**	2006
Receivables (Note 20(a))	**551,336**	546,357	**551,336**	546,357
Held-to-maturity debt securities (Note 20(b))	**1,191,035**	1,038,713	**1,190,425**	1,038,275
Available-for-sale				
— debt securities (Note 20(c))	**395,051**	309,089	**393,207**	306,751
— equity investments (Note 20(d))	**34,569**	9,617	**34,089**	9,150
	429,620	318,706	**427,296**	315,901
Total	**2,171,991**	1,903,776	**2,169,057**	1,900,533

(a) Receivables

	Group and Bank	
	2007	2006
Due from issuers in Mainland China:		
Government		
— special government bond (note (i) & (iii))	**49,200**	49,200
— others	**530**	530
The PBC (note (ii) & (iii))	**189,871**	186,631
Policy banks	**48,953**	54,833
Cinda (note (iv))	**247,000**	247,000
Banks and non-bank financial institutions	**15,122**	8,173
Others (note (v))	**1,369**	590
	552,045	546,957
Less: Allowances for impairment losses	**(709)**	(600)
Total	**551,336**	546,357
The movement of allowances for impairment losses during the year is as follows:		
As at 1 January	**600**	600
Charge for the year	**109**	—
As at 31 December	**709**	600

20 INVESTMENT SECURITIES (continued)

(a) Receivables (continued)

Notes:

(i) This represents a non-negotiable bond with a nominal value of RMB49,200 million issued by the MOF in 1998 to strengthen the capital base of CCB. The bond matures in 2028 and bears a fixed interest rate of 2.25% per annum.

(ii) Due from the PBC includes:

— a non-transferable bill with a nominal value of RMB63,354 million issued specifically to CCB as part of the Restructuring. The majority of the proceeds paid by China Cinda Asset Management Corporation ("Cinda") on the disposal of impaired loans and advances were used to subscribe to the PBC bill. The bill matures in June 2009 and bears interest at a fixed rate of 1.89% per annum. The PBC has the right to early settle the bill; and

— a non-transferable bill with a nominal value of RMB593 million issued specially to the Bank in June 2006 for partial settlement of loans that had been transferred to asset management companies. The bill matures in June 2011 and bears interest at a fixed rate of 1.89% per annum.

(iii) The PBC approved the Bank's use of the special government bond and the bill with a nominal value of RMB63,354 million and RMB593 million respectively issued by the PBC as eligible assets equivalent to the surplus deposit reserve at PBC for clearing purpose.

(iv) Cinda issued a bond specifically to CCB in 1999 for the acquisition of CCB's impaired loans and advances at their original book value. The bond has a nominal value of RMB247,000 million and matures in September 2009. It bears interest at a fixed rate of 2.25% per annum. According to a notice issued by the MOF, starting from 1 January 2005, the MOF will provide financial support if Cinda is unable to repay the interest in full. The MOF will also provide support for the repayment of bond principal, if necessary.

(v) Others as at 31 December 2007 and 2006 represent debt securities issued by joint-stock enterprises in Mainland China.

(vi) All debt securities included as Receivables are unlisted.

(Expressed in millions of Renminbi unless otherwise stated)

20 INVESTMENT SECURITIES (continued)

(b) Held-to-maturity debt securities

	Group		Bank	
	2007	2006	**2007**	2006
Issued by:				
Governments				
— in Mainland China	**316,432**	247,281	**316,422**	247,271
— outside Mainland China	**24,176**	25,636	**24,176**	25,636
The PBC	**442,456**	391,853	**442,239**	391,794
Policy banks				
— in Mainland China	**250,575**	199,164	**250,575**	198,879
— outside Mainland China	**2,111**	7,244	**2,111**	7,244
Banks and non-bank financial institutions				
— in Mainland China	**18,915**	17,113	**18,532**	17,113
— outside Mainland China	**79,733**	94,930	**79,733**	94,900
Public sector entities outside Mainland China	**48,174**	52,230	**48,174**	52,230
Others				
— in Mainland China (note)	**10,205**	181	**10,205**	181
— outside Mainland China	**3,300**	3,288	**3,300**	3,234
	1,196,077	1,038,920	**1,195,467**	1,038,482
Less: Allowances for impairment losses	**(5,042)**	(207)	**(5,042)**	(207)
Total	**1,191,035**	1,038,713	**1,190,425**	1,038,275
The movement of allowances for impairment losses during the year is as follows:				
As at 1 January	**207**	232	**207**	232
Charge for the year	**4,853**	59	**4,853**	59
Write-offs	**(18)**	(84)	**(18)**	(84)
As at 31 December	**5,042**	207	**5,042**	207

(Expressed in millions of Renminbi unless otherwise stated)

20 INVESTMENT SECURITIES (continued)

(b) Held-to-maturity debt securities (continued)

	Group		Bank	
	2007	2006	**2007**	2006
Listed in Hong Kong	**4,165**	2,989	**4,165**	2,989
Listed outside Hong Kong	**73,712**	84,044	**73,712**	84,014
Unlisted	**1,113,158**	951,680	**1,112,548**	951,272
Total	**1,191,035**	1,038,713	**1,190,425**	1,038,275
Market value of listed debt securities	**78,861**	86,344	**78,861**	86,314

Note: Investments shown under others in Mainland China as at 31 December 2007 represent debt securities issued by state-owned enterprises and joint-stock enterprises of RMB6,134 million (2006: RMB181 million) and RMB4,071 million (2006: Nil) respectively. The impairment allowance on the above mentioned debt securities issued by state-owned enterprises and joint-stock enterprises amounted to RMB99 million (2006: RMB109 million) and Nil (2006: Nil) at 31 December 2007 respectively.

(c) Available-for-sale debt securities

	Group		Bank	
	2007	2006	**2007**	2006
Issued by:				
Governments				
— in Mainland China	**29,296**	6,532	**29,296**	6,532
— outside Mainland China	**17,105**	24,344	**16,919**	24,077
The PBC	**177,308**	141,642	**177,308**	141,642
Central banks outside Mainland China	**280**	—	**280**	—
Policy banks				
— in Mainland China	**44,587**	14,240	**44,587**	14,240
— outside Mainland China	**1,610**	1,623	**1,610**	1,623
Banks and non-bank financial institutions				
— in Mainland China	**2,794**	864	**2,794**	864
— outside Mainland China	**64,585**	73,874	**63,174**	71,856
Public sector entities outside Mainland China	**22,035**	25,174	**22,028**	25,174
Others				
— in Mainland China (note)	**26,476**	14,555	**26,320**	14,555
— outside Mainland China	**8,975**	6,241	**8,891**	6,188
Total	**395,051**	309,089	**393,207**	306,751

(Expressed in millions of Renminbi unless otherwise stated)

20 INVESTMENT SECURITIES (continued)

(c) Available-for-sale debt securities (continued)

	Group		Bank	
	2007	2006	**2007**	2006
Listed in Hong Kong	**718**	1,872	**676**	1,732
Listed outside Hong Kong	**49,306**	52,893	**49,164**	52,734
Unlisted	**345,027**	254,324	**343,367**	252,285
Total	**395,051**	309,089	**393,207**	306,751

Notes: Investments shown under others in Mainland China as at 31 December 2007 represent debt securities issued by state-owned enterprises and joint-stock enterprises of RMB6,144 million (2006: RMB8,449 million) and RMB20,332 million (2006: RMB6,106 million) respectively.

(d) Available-for-sale equity investments

	Group		Bank	
	2007	2006	**2007**	2006
Debt equity swap investments (note (i) & (ii))	**32,858**	7,550	**32,858**	7,550
Other equity investments	**1,711**	2,067	**1,231**	1,600
Total	**34,569**	9,617	**34,089**	9,150
Listed in Hong Kong	**772**	1,825	**772**	1,426
Listed outside Hong Kong	**27,665**	—	**27,665**	—
Unlisted	**6,132**	7,792	**5,652**	7,724
Total	**34,569**	9,617	**34,089**	9,150

Note:

(i) Pursuant to the arrangement by the PRC government in 1999, the Group acquired unlisted legal person shares ("debt equity swap investments") in certain corporate borrowers in lieu of repayments of loans granted to them. Pursuant to a notice (the "Notice") jointly issued by the State Economic & Trade Commission of the PRC and the PBC on 5 July 1999, commercial banks are prohibited from being involved in management of the operations of these corporate borrowers even though the banks hold equity interests through the above debt equity swap arrangement.

The Group is required to comply with the Notice and has not controlled the financial and operating policy decisions of these corporations nor exerted significant influence over these policies. In substance, the Group does not have any control or significant influence over these corporations. The Group has been advised by its external legal counsel that such direct ownership in these debt equity swap investments does not violate any of the prevailing laws and regulations in the PRC.

(ii) Certain of these unlisted legal person shares were converted into listed A shares with lock-up period restriction. The fair value of these restricted shares is estimated based on the quoted market price of the corresponding listed shares, adjusted for the impact of the restriction. The adjustment, which is made by reference to historical volatility of the respective shares and the restriction, is estimated by using the Asian Option Model. For the year ended 31 December 2007, the increase in fair value was RMB26,175 million and RMB19,631 million, after adjusting for the effect of deferred tax, was credited to revaluation reserve.

(Expressed in millions of Renminbi unless otherwise stated)

21 INVESTMENTS IN SUBSIDIARIES

The following list contains only the particulars of subsidiaries which principally affected the results, assets or liabilities of the Group. Unless otherwise stated, the class of all shares held is ordinary. All of these companies are subsidiaries as defined under Note 1(c) and have been included in the scope of the consolidated financial statements of the Group.

Name of company	Place of incorporation and operation	Particulars of the issued and paid up capital	% of ownership directly held by the Bank	% of ownership indirectly held by the Bank	Principal activities
Sing Jian Development Company Limited (formerly known as China Construction Bank (Asia) Limited)	Hong Kong	300 million shares of HK$1 each	100%	–	Investment
Sino-German Bausparkasse Co., Ltd.	the PRC, limited liability company	RMB150 million	75.1%	–	Home mortgage loan and deposit taking business
CCB Principal Asset Management Co., Ltd. (note)	the PRC, limited liability company	RMB200 million	65%	–	Fund management services
CCB International Group Holdings Limited ("CCBIG")	Hong Kong	1 share of HK$1 each	100%	–	Investment
CCB Financial Leasing Corporation Limited ("CCB Financial Leasing")	the PRC, joint stock company	4,500 million shares of RMB1 each	75.1%	–	Financial leasing
China Construction Bank (Asia) Corporation Limited ("CCB Asia")	Hong Kong	7.75 million shares of HK$40 each	–	100%	Commercial banking and related financial services
CCB International (Holdings) Limited ("CCB International")	Hong Kong	301 million shares of US$1 each	–	100%	Investment

Note: The financial statements of the subsidiary not audited by KPMG and its member firms reflect total net assets and total turnover constituting approximately 0.10% and 0.24% respectively of the related consolidated totals.

22 INTERESTS IN ASSOCIATES

The Group's interests in its associates which are unlisted, are as follows:

Name of company	Place of incorporation	Particulars of issued and paid up capital	% of ownership indirectly held by the Group	Principal activities
QBE Hongkong and Shanghai Insurance Company, Limited	Hong Kong	19.9 million ordinary shares of HK$1 each	25.50%	Insurance
Diamond String Limited ("DSL") (note)	Hong Kong	10,000 ordinary shares of HK$1 each	40.00%	Property investment

Note: On 17 December 2007, the Group acquired 40% of the issued capital of DSL.

(Expressed in millions of Renminbi unless otherwise stated)

23 PROPERTY AND EQUIPMENT

(a) Group

	Bank premises (Note 23(c))	Construction in progress	Computer equipment	Others	Total
Cost or deemed cost:					
As at 1 January 2007	**41,512**	**1,548**	**14,629**	**8,630**	**66,319**
Additions	**2,037**	**2,407**	**4,444**	**3,474**	**12,362**
Disposals	**(331)**	**(68)**	**(1,561)**	**(1,080)**	**(3,040)**
Transfers	**510**	**(1,897)**	**275**	**1,112**	**—**
As at 31 December 2007	**43,728**	**1,990**	**17,787**	**12,136**	**75,641**
Accumulated depreciation and impairment losses:					
As at 1 January 2007	**(5,204)**	**(5)**	**(6,554)**	**(1,519)**	**(13,282)**
Depreciation charges	**(1,665)**	**—**	**(2,959)**	**(2,111)**	**(6,735)**
Impairment losses	**(34)**	**—**	**—**	**—**	**(34)**
Disposals	**115**	**—**	**1,514**	**1,068**	**2,697**
As at 31 December 2007	**(6,788)**	**(5)**	**(7,999)**	**(2,562)**	**(17,354)**
Net carrying value:					
As at 31 December 2007	**36,940**	**1,985**	**9,788**	**9,574**	**58,287**
Cost or deemed cost:					
As at 1 January 2006	38,987	2,344	11,369	6,324	59,024
Additions	1,162	1,761	3,787	2,809	9,519
Disposals	(348)	(77)	(841)	(1,160)	(2,426)
Additions through acquisition of subsidiary	44	—	85	73	202
Transfers	1,667	(2,480)	229	584	—
As at 31 December 2006	41,512	1,548	14,629	8,630	66,319
Accumulated depreciation and impairment losses:					
As at 1 January 2006	(3,658)	(49)	(4,707)	(649)	(9,063)
Depreciation charges	(1,608)	—	(2,581)	(1,809)	(5,998)
Impairment losses	(28)	(13)	—	(1)	(42)
Disposals	110	57	810	997	1,974
Additions through acquisition of subsidiary	(20)	—	(76)	(57)	(153)
As at 31 December 2006	(5,204)	(5)	(6,554)	(1,519)	(13,282)
Net carrying value:					
As at 31 December 2006	36,308	1,543	8,075	7,111	53,037

Note: As at 31 December 2007, ownership documentation for the Group's bank premises with a net carrying value of RMB3,845 million (2006: RMB3,442 million) was being finalised.

(Expressed in millions of Renminbi unless otherwise stated)

23 PROPERTY AND EQUIPMENT (continued)

(b) Bank

	Bank premises (Note 23(c))	Construction in progress	Computer equipment	Others	Total
Cost or deemed cost:					
As at 1 January 2007	41,401	1,548	14,520	8,528	65,997
Additions	2,037	2,407	4,396	3,408	12,248
Disposals	(292)	(68)	(1,546)	(1,069)	(2,975)
Transfers	510	(1,897)	275	1,112	—
As at 31 December 2007	43,656	1,990	17,645	11,979	75,270
Accumulated depreciation and impairment losses:					
As at 1 January 2007	(5,183)	(5)	(6,472)	(1,453)	(13,113)
Depreciation charges	(1,661)	—	(2,945)	(2,094)	(6,700)
Impairment losses	(34)	—	—	—	(34)
Disposals	113	—	1,499	1,059	2,671
As at 31 December 2007	(6,765)	(5)	(7,918)	(2,488)	(17,176)
Net carrying value:					
As at 31 December 2007	36,891	1,985	9,727	9,491	58,094
Cost or deemed cost:					
As at 1 January 2006	38,919	2,344	11,363	6,316	58,942
Additions	1,161	1,761	3,769	2,788	9,479
Disposals	(346)	(77)	(841)	(1,160)	(2,424)
Transfers	1,667	(2,480)	229	584	—
As at 31 December 2006	41,401	1,548	14,520	8,528	65,997
Accumulated depreciation and impairment losses:					
As at 1 January 2006	(3,658)	(49)	(4,704)	(647)	(9,058)
Depreciation charges	(1,608)	—	(2,578)	(1,802)	(5,988)
Impairment losses	(27)	(13)	—	(1)	(41)
Disposals	110	57	810	997	1,974
As at 31 December 2006	(5,183)	(5)	(6,472)	(1,453)	(13,113)
Net carrying value:					
As at 31 December 2006	36,218	1,543	8,048	7,075	52,884

Note: As at 31 December 2007, ownership documentation for the Bank's bank premises with a net carrying value of RMB3,845 million (2006: RMB3,442 million) was being finalised.

(Expressed in millions of Renminbi unless otherwise stated)

23 PROPERTY AND EQUIPMENT (continued)

(c) Analysed by remaining term of leases

The net carrying values of bank premises of the Group and the Bank at the balance sheet date are analysed by the remaining terms of the leases as follows:

	Group		Bank	
	2007	2006	**2007**	2006
Long term leases (over 50 years), held in Hong Kong	**94**	123	**45**	51
Medium term leases (10–50 years), held in Mainland China	**36,551**	35,942	**36,551**	35,924
Short term leases (less than 10 years), held in Mainland China	**295**	243	**295**	243
Total	**36,940**	36,308	**36,891**	36,218

24 GOODWILL

	Group	
	2007	2006
As at 1 January	**1,743**	—
Addition through acquisition of a subsidiary	**—**	1,743
Exchange adjustment	**(119)**	—
As at 31 December	**1,624**	1,743

The goodwill arose from the acquisition of CCB Asia on 29 December 2006.

Impairment test for cash-generating unit containing goodwill

Goodwill is allocated to the Group's cash-generating unit ("CGU") on 29 December 2006.

The recoverable amount of the CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on financial forecasts approved by management covering a ten-year period. Cash flows beyond the ten-year period are extrapolated using the estimate rates stated below. The growth rate does not exceed the long-term average growth rate for the business in which the CGU operates.

Key assumptions used for value-in-use calculations:

	2007	2006
Growth rate after the ten-year period	**5.0%**	5.0%
Discount rate	**9.0%**	9.0%

The weighted average growth rates used are consistent with the forecasts included in industry reports. The discount rates used reflect specific risks relating to the relevant segments.

(Expressed in millions of Renminbi unless otherwise stated)

25 DEFERRED TAX

(a) Analysed by nature

	Group		Bank	
	2007	2006	**2007**	2006
Deferred tax assets	**35**	2,701	**33**	2,682
Deferred tax liabilities	**(771)**	(25)	**(602)**	(25)
Net balance	**(736)**	2,676	**(569)**	2,657

(b) Movements of deferred tax

The components of deferred tax assets/(liabilities) recognised in the balance sheet and the movements during the year are as follows:

Group

	In Mainland China				Outside Mainland China		
	Amortisation of subordinated bonds issue costs	Fair value adjustments for securities	Allowances for loans and advances to customers	Others	Fair value adjustments for securities	Others	Deferred tax assets/ (liabilities)
As at 1 January 2007	**(27)**	**645**	**2,064**	**–**	**(25)**	**19**	**2,676**
Recognised in income statement	**3**	**(1,740)**	**2,708**	**1,915**	**–**	**(10)**	**2,876**
Recognised in equity	**–**	**(5,990)**	**–**	**–**	**53**	**–**	**(5,937)**
Effect of change in tax rate							
– recognised in income statement	**6**	**–**	**(212)**	**–**	**–**	**–**	**(206)**
– recognised in equity	**–**	**(149)**	**–**	**–**	**4**	**–**	**(145)**
As at 31 December 2007	**(18)**	**(7,234)**	**4,560**	**1,915**	**32**	**9**	**(736)**
As at 31 December 2006	(31)	444	–	–	7	–	420
Recognised in income statement	4	–	2,064	–	–	–	2,068
Recognised in equity	–	201	–	–	(32)	–	169
Addition through acquisition of subsidiary	–	–	–	–	–	19	19
As at 31 December 2006	(27)	645	2,064	–	(25)	19	2,676

(Expressed in millions of Renminbi unless otherwise stated)

25 DEFERRED TAX (continued)

(b) Movements of deferred tax (continued)

Bank

	In Mainland China				Outside Mainland China		
	Amortisation of subordinated bonds issue costs	Fair value adjustments for securities	Allowances for loans and advances to customers	Others	Fair value adjustments for securities	Others	Deferred tax assets/ (liabilities)
As at 1 January 2007	**(27)**	**645**	**2,064**	**–**	**(25)**	**–**	**2,657**
Recognised in income statement	**3**	**(1,729)**	**2,708**	**1,915**	**–**	**165**	**3,062**
Recognised in equity	**–**	**(5,990)**	**–**	**–**	**53**	**–**	**(5,937)**
Effect of change in tax rate							
— recognised in income statement	**6**	**–**	**(212)**	**–**	**–**	**–**	**(206)**
— recognised in equity	**–**	**(149)**	**–**	**–**	**4**	**–**	**(145)**
As at 31 December 2007	**(18)**	**(7,223)**	**4,560**	**1,915**	**32**	**165**	**(569)**
As at 1 January 2006	(31)	444	–	–	7	–	420
Recognised in income statement	4	–	2,064	–	–	–	2,068
Recognised in equity	–	201	–	–	(32)	–	169
As at 31 December 2006	(27)	645	2,064	–	(25)	–	2,657

Note: The Group and the Bank did not have significant unrecognised deferred taxation at the balance sheet date.

26 OTHER ASSETS

	Group		Bank	
	2007	2006	**2007**	2006
Interest receivable				
— debt securities	**24,083**	15,193	**24,070**	15,170
— loans and advances to customers	**8,391**	5,509	**8,323**	5,421
— others	**1,426**	590	**1,399**	557
	33,900	21,292	**33,792**	21,148
Land use rights	**17,650**	18,064	**17,578**	18,064
Repossessed assets (note)	**1,616**	1,453	**1,604**	1,408
Intangible assets	**1,134**	1,131	**1,129**	1,127
Others	**13,394**	7,247	**12,516**	6,830
Total	**67,694**	49,187	**66,619**	48,577

Note: Repossessed assets obtained are intended to be realised in an orderly fashion to repay the impaired loans and advances and are not intended for the Group's own use.

(Expressed in millions of Renminbi unless otherwise stated)

27 AMOUNTS DUE TO CENTRAL BANKS

(a) Analysed by nature

	Group and Bank	
	2007	2006
Balances under repurchase agreements	50,967	1,235
Deposit	6	21
Total	50,973	1,256

(b) Analysed by legal form of counterparty

	Group and Bank	
	2007	2006
Balances with		
— The PBC	50,006	21
— Central banks outside Mainland China	967	1,235
Total	50,973	1,256

28 AMOUNTS DUE TO BANKS AND NON-BANK FINANCIAL INSTITUTIONS

(a) Analysed by nature

	Group		Bank	
	2007	2006	2007	2006
Balances under repurchase agreements	58,574	3,905	58,574	3,905
Money market takings	30,924	25,548	30,069	25,459
Deposits	516,563	214,515	516,433	214,429
Total	606,061	243,968	605,076	243,793

(Expressed in millions of Renminbi unless otherwise stated)

28 AMOUNTS DUE TO BANKS AND NON-BANK FINANCIAL INSTITUTIONS (continued)

(b) Analysed by legal form of counterparty

	Group		Bank	
	2007	2006	**2007**	2006
Balances with				
— PRC policy banks	**786**	89	**786**	89
— PRC state-owned banks and non-bank financial institutions	**68,090**	30,995	**68,090**	30,995
— PRC joint-stock banks and non-bank financial institutions	**444,548**	175,109	**444,539**	175,109
— foreign-invested banks and non-bank financial institutions	**92,637**	37,775	**91,661**	37,600
Total	**606,061**	243,968	**605,076**	243,793

29 DEPOSITS FROM CUSTOMERS

	Group		Bank	
	2007	2006	**2007**	2006
Demand deposits				
— corporate customers	**2,130,413**	1,781,875	**2,128,826**	1,779,362
— personal customers	**1,000,524**	834,809	**997,196**	830,618
	3,130,937	2,616,684	**3,126,022**	2,609,980
Time deposits				
— corporate customers	**863,612**	715,743	**852,528**	706,115
— personal customers	**1,345,767**	1,388,829	**1,329,247**	1,376,748
	2,209,379	2,104,572	**2,181,775**	2,082,863
Total	**5,340,316**	4,721,256	**5,307,797**	4,692,843

(Expressed in millions of Renminbi unless otherwise stated)

30 OTHER LIABILITIES AND PROVISIONS

	Group		Bank	
	2007	2006	**2007**	2006
Interest payable				
— deposits from customers	**37,460**	33,293	**37,360**	33,217
— others	**1,442**	1,012	**1,423**	983
	38,902	34,305	**38,783**	34,200
Salaries and welfare payables (Note 30(a))	**7,590**	10,373	**7,350**	10,230
Payable for early retirement expenses (Note 31(c))	**8,998**	—	**8,998**	—
Payables to Jianyin (Notes 30(b) and 42(a))	**6,471**	5,320	**6,471**	5,320
Supplementary retirement benefit obligations (Note 31(b))	**6,159**	5,889	**6,159**	5,889
Business tax, surcharges and other tax payables	**5,492**	4,174	**5,479**	4,172
Dormant accounts	**4,679**	4,571	**4,679**	4,571
Securities underwriting and redemption payable	**1,951**	2,701	**1,951**	2,701
Provisions (Note 30(c))	**1,656**	1,637	**1,656**	1,637
Payment and collection clearance account	**1,027**	1,462	**1,027**	1,462
Settlement accounts	**602**	1,285	**205**	1,285
Foreign exchange option premium payable (Note 40(d))	**—**	5,496	**—**	5,496
Others	**9,062**	7,103	**8,271**	5,892
Total	**92,589**	84,316	**91,029**	82,855

(Expressed in millions of Renminbi unless otherwise stated)

30 OTHER LIABILITIES AND PROVISIONS (continued)

(a) Salaries and welfare payables

The payables to defined contribution retirement schemes included under salaries and welfare payables at the balance sheet date are as follows:

	Group		Bank	
	2007	2006	**2007**	2006
Payables to defined contribution retirement schemes	**1,104**	1,591	**1,095**	1,591

(b) Payables to Jianyin

The balance as at 31 December 2007 included a payable of RMB5,353 million (2006: RMB5,307 million) relating to a receipt of a bill issued by the PBC of RMB21,000 million less advances made and expenses incurred by CCB for the liquidation of a trust and investment company as mandated by the State Council and the PBC, plus the interest accrual on such excess portion.

(c) Provisions

	Group and Bank	
	2007	2006
As at 1 January	**1,637**	1,802
Charge for the year	**332**	230
Payments made	**(313)**	(395)
As at 31 December	**1,656**	1,637

Note: The balance as at 31 December 2007 included litigation provisions of RMB1,309 million (2006: 1,637 million) and other provisions of RMB347 million (2006: Nil).

(Expressed in millions of Renminbi unless otherwise stated)

31 RETIREMENT BENEFITS

(a) Statutory retirement schemes

In accordance with the labour regulations of the PRC, the Group participates in various defined contribution retirement schemes organised by the municipal and provincial governments for its employees in Mainland China. The Group is required to make contributions to a separate entity which could be the government or publicly administered retirement schemes at certain rates of the salaries, bonuses and certain allowances of its employees. A member of the schemes is entitled to a pension equal to a fixed proportion of the salary prevailing at his or her retirement date.

For its employees outside Mainland China, the Group participates in various defined contribution retirement schemes at funding rates determined in accordance with the local practices and regulations.

The Group has no other material obligations for the payment of its employees' retirement and other post retirement benefits other than the contributions described above and in Note 31(b) and 31(c) below.

(b) Supplementary retirement benefits

The Group pays supplementary retirement benefits for its employees in Mainland China who retired on or before 31 December 2003 ("Eligible Employees"). The amounts recognised in the balance sheet represent the present value of unfunded obligations and any cumulative unrecognised gains or losses less than 10% of the present value of the obligation at the balance sheet date.

The Group's obligations in respect of the supplementary retirement benefits as at the balance sheet date were reviewed by an external independent actuary: Towers, Perrin, Forster & Crosby, Inc., Hong Kong, whose actuaries are members of the Society of Actuaries of the United States of America, using the projected unit credit actuarial cost method.

Net liabilities recognised in the balance sheet represent:

	Group and Bank	
	2007	2006
Present value of the obligations	**6,588**	6,194
Unrecognised actuarial losses	**(429)**	(305)
As at 31 December	**6,159**	5,889

(Expressed in millions of Renminbi unless otherwise stated)

31 RETIREMENT BENEFITS (continued)

(b) Supplementary retirement benefits (continued)

Movements in the net liabilities recognised in the balance sheet are as follows:

	Group and Bank	
	2007	2006
At 1 January	**5,889**	5,621
Payments made	**(429)**	(386)
Expense recognised as staff costs in the income statement		
— interest cost	**194**	195
— past service costs (note)	**505**	459
At 31 December	**6,159**	5,889

Note: The Group adjusted the retirement benefits payable to Eligible Employees in 2006 and 2007. The adjustment of retirement benefits resulted in the increase in the present value of supplementary retirement benefit obligations by RMB505 million and RMB459 million as at 31 December 2007 and 31 December 2006 respectively.

Principal actuarial assumptions at the balance sheet date are as follows:

	2007	2006
Discount rate	**4.50%**	3.25%
Health care cost increases	**7.00%**	7.00%
Average expected future lifetime of Eligible Employees	**15.7 years**	14.5 years

(c) Early retirement expenses

The Group recognised the present value of expected compensation from 1 January 2008 to the date of statutory retirement of early retired employees of RMB8,998 million (2006: Nil) during the year. This is calculated based on an expected annual salary growth rate of 8%, discount rate of 4% and an average period from 1 January 2008 to the retirement date of 5.7 years, and on the actual payments to all early retired employees in 2007.

(Expressed in millions of Renminbi unless otherwise stated)

32 SUBORDINATED BONDS ISSUED

The carrying value of the Group's subordinated bonds issued upon the approval of the PBC and the CBRC is as follows:

		Group and Bank	
	Note	**2007**	2006
4.87% subordinated fixed rate bonds maturing in August 2014	(i)	**11,140**	11,140
Subordinated floating rate bonds maturing in August 2014	(ii)	**3,860**	3,860
4.95% subordinated fixed rate bonds maturing in September 2014	(iii)	**8,300**	8,300
Subordinated floating rate bonds maturing in December 2014	(iv)	**6,078**	6,078
4.95% subordinated fixed rate bonds maturing in December 2014	(v)	**10,622**	10,622
Total nominal value		**40,000**	40,000
Less: Unamortised issuance cost		**(72)**	(83)
Net carrying value		**39,928**	39,917

Notes:

(i) The interest rate per annum on the subordinated fixed rate bonds issued in August 2004 is 4.87%. The Group has an option to redeem the bonds on 1 August 2009. If they are not redeemed by the Group, the interest rate of the bonds will increase to 7.67% per annum from 1 August 2009 for the next five years.

(ii) The interest rate per annum on the subordinated floating rate bonds issued in August 2004 is the PBC one-year fixed deposit rate, which is reset annually, plus an interest margin of 2.00%. The Group has an option to redeem the bonds on 1 August 2009. If they are not redeemed by the Group, the interest margin of the bonds will increase to 2.75% per annum from 1 August 2009 for the next five years.

(iii) The interest rate per annum on the subordinated fixed rate bonds issued in September 2004 is 4.95%. The Group has an option to redeem the bonds on 22 September 2009. If they are not redeemed by the Group, the interest rate will increase to 7.95% per annum from 22 September 2009 for the next five years.

(iv) The interest rate per annum on the subordinated floating rate bonds issued in December 2004 is the weighted 7-day repo rate quoted in the PRC interbank money market plus an interest margin of 2.00%. It is reset every six months. The Group has an option to redeem the bonds on 27 December 2009. If they are not redeemed by the Group, the interest margin will increase to 3.00% per annum from 27 December 2009 for the next five years.

(v) The interest rate per annum on the subordinated fixed rate bonds issued in December 2004 is 4.95%. The Group has an option to redeem the bonds on 27 December 2009. If they are not redeemed by the Group, the interest rate will increase to 7.95% per annum from 27 December 2009 for the next five years.

(Expressed in millions of Renminbi unless otherwise stated)

33 EQUITY

(a) Share capital

	2007		2006	
	No.of shares	**Amount**	No.of shares	Amount
Registered, issued and fully paid:				
Ordinary shares of RMB1 each:				
As at 1 January	**224,689**	**224,689**	224,689	224,689
Shares issued	**9,000**	**9,000**	—	—
As at 31 December	**233,689**	**233,689**	224,689	224,689

On 25 September 2007, a total of 9,000 million A shares with a par value of RMB1 each were issued by the Bank at a subscription price of RMB6.45 per share.

All A shares and H shares are ordinary shares and rank pari passu with the same right and benefits.

(b) Capital reserve

The capital reserve generally records transactions of the following nature:

(i) share premium arising from the issuance of shares at prices in excess of their par value; and

(ii) any other item required by PRC regulations to be so treated.

Capital reserve may be used for increasing paid-in capital as approved by the shareholders.

Movements of capital reserve during the year were as follows:

		2007	2006
As at 1 January		**42,091**	42,091
Share issues			
— gross proceeds upon issue of shares (note)	**58,050**		—
— shares at par value	**(9,000)**		—
— costs of issuing shares	**(931)**	**48,119**	—
Others		**31**	—
As at 31 December		**90,241**	42,091

Note: As described in Note 33 (a), the Bank issued a total of 9,000 million A shares of RMB1 each at a total consideration of RMB58,050 million in 2007. After accounting for interest income and costs directly associated with the share issue, the Bank credited the share premium of RMB48,119 million to capital reserve.

(Expressed in millions of Renminbi unless otherwise stated)

33 EQUITY (continued)

(c) Surplus reserves

Prior to 1 January 2006, surplus reserves consist of statutory surplus reserve fund, discretionary surplus reserve fund and statutory public welfare fund. In accordance with the Company Law of the PRC (Revised in 2005), which was issued on 27 October 2005, the Bank is no longer required to make appropriation to the statutory public welfare fund with effect from 1 January 2006. In 2006, the Bank transferred the balance of the statutory public welfare fund of RMB2,167 million as at 31 December 2005 to the statutory surplus reserve fund in accordance with a notice, Cai Qi [2006] No. 67, issued by the MOF on 15 March 2006.

The Bank is required to appropriate 10% of its net profit, as determined under the Accounting Standards for Business Enterprises and other relevant regulations issued by the MOF (collectively “PRC GAAP”), to the statutory surplus reserve fund until the reserve balance reaches 50% of the registered capital. After making the appropriation to the statutory surplus reserve fund, the Bank may also appropriate its net profit to the discretionary surplus reserve fund upon approval by shareholders in general meeting.

Subject to the approval of shareholders, statutory and discretionary surplus reserve funds may be used to make good prior year losses, if any, and may be converted into capital, provided that the balance of statutory surplus reserve fund after such capitalisation is not less than 25% of the registered capital before such capitalisation.

(d) Investment revaluation reserve

The investment revaluation reserve recorded the changes in fair value of the available-for-sale financial assets.

(e) General reserve

The general reserve of the Group and the Bank at balance sheet date is set up based upon:

	Group		Bank	
	2007	2006	**2007**	2006
MOF requirements (note (i))	**31,093**	10,284	**31,093**	10,284
Hong Kong Banking Ordinance requirements (note (ii))	**422**	56	**105**	56
China Securities Regulatory Commission requirements (note (iii))	**30**	2	**–**	–
Overseas regulatory bodies requirements	**3**	1	**2**	1
	31,548	10,343	**31,200**	10,341

33 EQUITY (continued)

(e) General reserve (continued)

Notes:

(i) Pursuant to notices, the "Measures for Administering the Withdrawal of Reserves for Non-performing Debts by Financial Enterprises" (Cai Jin [2005] No. 49) issued by the MOF on 17 May 2005 and the "Application Guidance of Financing Measures for Financial Institutions" (Cai Jin [2007] No. 23) issued by the MOF on 30 March 2007, banks and certain non-bank financial institutions in Mainland China are required to set aside a general reserve (in addition to allowances for impairment losses) to cover potential losses against their assets. The provision ratio for the general reserve is determined by financial institutions, with reference to the confronted risk factors. In principle, the general reserve balance should not be lower than 1% of the ending balance of gross risk-bearing assets. The general reserve forms part of the equity of the financial institution, and transfers to it are made through appropriations of profit after tax.

The MOF issued another notice, the "Answers to the Questions on Impairment Loss on Loans" (Cai Jin [2005] No. 90) on 5 September 2005. This notice requires financial institutions to set aside the required general reserve within a transitional period of approximately three years, but not more than five years, from 1 July 2005. Management consider that the Bank will comply with the requirements of these notices before 30 June 2010.

(ii) Paragraph 9 of the Seventh Schedule to the Hong Kong Banking Ordinance requires the Group's banking operations in Hong Kong to set aside amounts in a regulatory reserve in respect of losses which it will, or may, incur on loans and advances to customers, in addition to impairment losses recognised in accordance with the accounting policies of the Group. Transfers to and from the regulatory reserve are made directly through retained earnings.

(iii) Pursuant to the relevant regulatory requirements in the PRC, the Bank's subsidiary is required to appropriate certain amounts of its net profit as general reserve.

(f) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of operations outside Mainland China.

(g) Distributability of reserves

At 31 December 2007, the aggregate amount of reserves available for distribution to shareholders of the Bank was RMB30,190 million (2006: RMB42,708 million).

(h) Profit attributable to shareholders of the Bank

The consolidated profit attributable to shareholders of the Bank includes a profit of RMB67,117 million (2006: RMB46,112 million) which has been dealt with in the financial statements of the Bank.

(Expressed in millions of Renminbi unless otherwise stated)

34 PROFIT DISTRIBUTIONS

(a) Profit appropriations and distributions other than dividends declared during the year

	Group		Bank	
	2007	2006	**2007**	2006
Appropriations to				
— Statutory surplus reserve fund	**6,712**	4,632	**6,712**	4,632
— General reserve	**21,205**	11	**20,859**	9
	27,917	4,643	**27,571**	4,641

(b) Cash dividends payable to shareholders of the Bank attributable to the year

	2007	2006
Interim cash dividend of RMB0.067 per ordinary share declared during the year (note (i))	**15,054**	—
Special cash dividend of RMB0.072716 per ordinary share declared during the year (note (ii))	**16,339**	—
Final cash dividend proposed after the balance sheet date of RMB0.065 per ordinary share (2006: RMB0.092 per ordinary share) (note (iii))	**15,190**	20,671
	46,583	20,671

Notes:

(i) In accordance with the resolution approved in the Annual General Meeting of the Bank on 13 June 2007, 45% of the profit after tax for the six months ended 30 June 2007, as determined under PRC GAAP or IFRS, whichever is lower, was distributed in the form of cash dividend to the Bank's shareholders as at the relevant record date.

(ii) In addition to the interim cash dividend, in the Extraordinary General Meeting held on 23 August 2007, the shareholders approved the distribution of all the accumulated undistributed profits, as determined under PRC GAAP or IFRS, whichever is lower, of the Bank as at 30 June 2007 (after the 2007 interim dividend distribution as disclosed above) to all shareholders prior to the issuance of its A shares. The above special cash dividend was RMB0.072716 per share with an aggregate amount of RMB16,339 million.

(iii) On 11 April 2008, the Directors proposed a final cash dividend of RMB0.065 per share in respect of the year ended 31 December 2007. Subject to the agreement of the shareholders in the Annual General Meeting to be held on 12 June 2008, the total amount of approximately RMB15,190 million, 45% of the profit after tax for the six months ended 31 December 2007, as determined under PRC GAAP or IFRS, whichever is lower, is payable to those on the register of shareholders as at 23 June 2008. The dividend has not been recognised as a liability as at the balance sheet date.

On 11 April 2008, the directors proposed the appropriation of general reserve, subject to the agreement of shareholders in the Annual General Meeting to be held on 12 June 2008, the amount was determined as the profit after tax for the six months ended 31 December 2007 under PRC GAAP or IFRS, whichever is lower, after the deduction of the statutory surplus reserve fund appropriation and the final cash dividend for the year ended 31 December 2007 disclosed above. The appropriation has not been recognised as at the balance sheet date.

(Expressed in millions of Renminbi unless otherwise stated)

34 PROFIT DISTRIBUTIONS (continued)

(c) Dividends payable to shareholders of the Bank attributable to the previous year, approved and paid during the year

	2007	2006
Final cash dividend RMB0.092 per ordinary share (2006: RMB0.015 per ordinary share)	20,671	3,370

35 NOTES TO CONSOLIDATED CASH FLOW STATEMENT

(a) Cash and cash equivalents

	2007	2006
Cash	32,240	30,191
Surplus deposit reserves	74,938	103,767
Amounts due from banks and non-bank financial institutions	102,393	82,185
Less: Amounts due over three months when acquired	(15,468)	(15,376)
Balances under resale agreements	(13,595)	(33,278)
	73,330	33,531
Total	180,508	167,489

(b) Investment in new subsidiaries

(i) The Bank and BOA established a finance leasing company, CCB Financial Leasing, on 26 December 2007 in the PRC. The Bank and BOA made cash contributions of RMB3,380 million and RMB1,120 million to CCB Financial Leasing in 2007 for an equity interest of 75.1% and 24.9% respectively.

	2007
Cash contribution to CCB Financial Leasing	(3,380)
Cash and cash equivalent acquired	4,500
Net cash inflow	1,120

(Expressed in millions of Renminbi unless otherwise stated)

35 NOTES TO CONSOLIDATED CASH FLOW STATEMENT (continued)

(b) Investment in new subsidiaries (continued)

(ii) On 24 August 2006, the Board of Directors approved the acquisition of the entire issued share capital of CCB Asia (formerly named as Bank of America (Asia) Limited) from BOA, a shareholder of the Bank, for a consideration of HK$9,710 million (with other transaction cost of HK$48 million, the aggregated cost of acquisition was equivalent to RMB9,811 million). The acquisition was completed on 29 December 2006.

	2006
Cash paid for the acquisition of CCB Asia	(9,811)
Cash and cash equivalent acquired	5,906
Net cash outflow	(3,905)

36 COMMITMENTS AND CONTINGENT LIABILITIES

(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 also 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 categories. The amounts reflected in the table for commitments assume that amounts are fully advanced. The amounts 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.

	Group		Bank	
	2007	2006	**2007**	2006
Contractual amount				
Loan commitments				
— with an original maturity under one year	**53,973**	28,370	**50,316**	25,495
— with an original maturity of one year or over	**213,543**	209,167	**213,541**	209,115
	267,516	237,537	**263,857**	234,610
Guarantees and letters of credit	**450,549**	250,944	**449,312**	249,762
Acceptances	**143,166**	112,678	**143,166**	112,615
Credit card commitments	**99,086**	53,810	**99,086**	53,810
Others	**9,242**	6,306	**9,144**	6,306
	969,559	661,275	**964,565**	657,103

(Expressed in millions of Renminbi unless otherwise stated)

36 COMMITMENTS AND CONTINGENT LIABILITIES (continued)

(a) Credit commitments (continued)

These commitments and contingent liabilities have off-balance sheet credit risk. Before the commitments are fulfilled or expire, management assess and make 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.

	Group		Bank	
	2007	2006	**2007**	2006
Credit risk weighted amounts of contingent liabilities and commitments	**479,813**	303,508	**479,124**	302,471

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.

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

(b) Capital commitments

The Group and the Bank had the following authorised capital commitments in respect of purchase of property and equipment at the balance sheet date:

	Group		Bank	
	2007	2006	**2007**	2006
Purchase of property and equipment				
— contracted for	**1,791**	1,978	**1,766**	1,972
— not contracted for	**1,150**	982	**1,148**	963
Total	**2,941**	2,960	**2,914**	2,935

(Expressed in millions of Renminbi unless otherwise stated)

36 COMMITMENTS AND CONTINGENT LIABILITIES (continued)

(c) Operating lease commitments

The Group and the Bank leases certain property and equipment under operating leases, which typically run for an initial period of one to five years and may include an option to renew the lease when all terms are renegotiated. At the balance sheet date, the future minimum lease payments under non-cancellable operating leases for property and equipment were as follows:

	Group		Bank	
	2007	2006	**2007**	2006
Within one year	**1,838**	1,710	**1,718**	1,592
After one year but within two years	**1,444**	1,241	**1,371**	1,171
After two years but within three years	**1,282**	958	**1,223**	897
After three years but within five years	**1,616**	1,312	**1,519**	1,204
After five years	**1,437**	1,463	**1,215**	1,218
Total	**7,617**	6,684	**7,046**	6,082

(d) Outstanding litigation and disputes

As at 31 December 2007, the Group was the defendant in certain pending litigation and disputes with gross claims of RMB2,557 million (2006: RMB2,566 million). Provisions have been made for the estimated losses of such litigation based upon the opinions of the Group's internal and external legal counsel (Note 30 (c)). The Group considers that the provisions made are reasonable and adequate.

(e) Underwriting obligations

At the balance sheet date, the unexpired underwriting commitments of bonds were as follows:

	Group and Bank	
	2007	2006
Underwriting obligations	**10,950**	1,540

36 COMMITMENTS AND CONTINGENT LIABILITIES (continued)

(f) 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 PBC. 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 and the Bank, but not yet matured at the balance sheet date:

	Group and Bank	
	2007	2006
Redemption obligations	**71,423**	92,243

(g) Provision against commitments and contingent liabilities

The Group and the Bank have assessed and made provision for any probable outflow of economic benefits in relation to the above commitments and contingent liabilities in accordance with their accounting policies. Except for the provisions made against outstanding litigation and disputes (Note 30 (c)), the Group and the Bank have not made other provisions in respect of the above commitments and contingent liabilities at the balance sheet date.

(Expressed in millions of Renminbi unless otherwise stated)

37 PLEDGED ASSETS

(a) Assets pledged as security

	Group		Bank	
	2007	2006	**2007**	2006
Secured liabilities	**109,541**	5,140	**109,541**	5,140
Carrying value of pledged assets analysed by asset type				
Government bonds	**90,466**	3,877	**90,466**	3,877
Corporate bonds	**1,503**	1,594	**1,503**	1,594
Policy bank bonds	**17,828**	—	**17,828**	—
	109,797	5,471	**109,797**	5,471
Carrying value of pledged assets analysed by balance sheet classification				
Available-for-sale debt securities	**17,950**	5,471	**17,950**	5,471
Held-to-maturity debt securities	**87,127**	—	**87,127**	—
Loans and advances to customers	**4,720**	—	**4,720**	—
	109,797	5,471	**109,797**	5,471

The related secured liabilities are recorded as amounts due to central banks, or amounts due to banks and non-bank financial institutions. These transactions are conducted under usual and customary terms to standard borrowing.

(b) Collateral accepted as securities for assets

The Group conducts resale agreements under usual and customary terms, and holds collateral for these transactions. As at 31 December 2007 and 2006, the Group did not hold for resale agreements any collateral which it was permitted to sell or repledge in the absence of default for the transactions.

(Expressed in millions of Renminbi unless otherwise stated)

38 TRANSACTIONS ON BEHALF OF CUSTOMERS

(a) Entrusted lending business

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

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

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

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

	Group and Bank	
	2007	2006
Entrusted loans	**382,761**	319,266
Entrusted funds	**382,761**	319,266

(b) Fiduciary business

The Group's fiduciary business refers to the management of assets for customers in accordance with custody agreements signed by the Group and securities investment funds, social security funds, insurance companies, qualified foreign investors, corporate pensions, and other organisations. The Group fulfils its fiduciary duty in line with these agreements, and all risks related to the assets reside with the asset owners or managers. The income from fiduciary business mainly comprises fees for the custody, sale and management of entrusted assets, and is included in the income statement as fee and commission income.

Entrusted assets are recorded as off-balance-sheet items. Funds raised before investment are treated as amounts due to customers and recorded under "Deposits from customers".

At the balance sheet date, the balance of entrusted assets was as follows:

	Group and Bank	
	2007	2006
Balance of entrusted assets	**928,243**	265,238

38 TRANSACTIONS ON BEHALF OF CUSTOMERS (continued)

(c) Wealth management services

The Group's wealth management services to customers mainly represent sales of wealth management products to corporate and personal banking customers. The funds obtained from wealth management services are invested in investment products, including government bonds, PBC bills, notes issued by policy banks, short-dated corporate notes, trust loans, Qualified Domestic Institutional Investor ("QDII") products and IPO shares. For part of the wealth management services, the Group fulfils its management duty. Credit risk, liquidity risk and interest risk associated with these products are borne by the customers investing in these products. The Group only earns commission which represents charges in relation to the provision of custody, sales and management services. The income is included in the income statement as fee and commission income.

The wealth management products and funds obtained are not assets and liabilities of the Group and are not recognised in the balance sheets. The funds obtained from wealth management services that have not yet been invested are treated as payables to customers and recorded under "Deposits from customers".

At the balance sheet date, the funds raised and accounted for as off-balance sheet by the Group amounted to:

	Group and Bank	
	2007	2006
Funds from wealth management services	**65,905**	6,980

39 SEGMENT REPORTING

The Group managed its business both by business segments and geographical segments. Accordingly, both business and geographical segment information is presented as the Group's primary segment reporting formats.

Measurement of segment assets and liabilities and segment income and results is based on the Group's accounting policies.

Transactions between segments are conducted under normal commercial terms and conditions. Internal charges and transfer pricing are determined with reference to market rates and have been reflected in the performance of each segment. Net interest income and expenses arising from internal charges and transfer pricing adjustments are referred to as "Internal net interest income/expenses". Interest income and expenses earned from third parties are referred to as "External net interest income/expenses".

Segment revenues, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Segment income, expenses, assets, and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between Group entities within a single segment. Segment capital expenditure is the total cost incurred during the year to acquire segment assets (both tangible and intangible) that are expected to be used for more than one year.

39 SEGMENT REPORTING (continued)

(a) Business segments

The Group comprises the following main business segments:

Corporate banking

This segment represents the provision of a range of financial products and services to corporations, government agencies and financial institutions. The products and services include corporate loans, trade financing, deposit taking activities, agency services, consulting and advisory services, cash management services, remittance and settlement services, custody services and guarantee services.

Personal banking

This segment represents the provision of a range of financial products and services to individual customers. The products and services comprise personal loans, deposit taking activities, card business, personal wealth management services, remittance services and securities agency services.

Treasury business

This segment covers the Group's treasury operations. The treasury enters into inter-bank money market transactions and repurchase transactions, and invests in debt instruments. It also trades in debt instruments, derivatives and foreign currency for its own account. The treasury carries out customer driven derivatives, foreign currency and precious metal trading. Its function also includes the management of the Bank's overall liquidity position, including the issuance of subordinated bonds.

Others and unallocated

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

(Expressed in millions of Renminbi unless otherwise stated)

39 SEGMENT REPORTING (continued)

(a) Business segments (continued)

	2007					
	Corporate banking	Personal banking	Treasury business	Others and unallocated	Elimination	Total
External net interest income/(expense)	120,508	(4,261)	74,595	1,933	–	192,775
Internal net interest (expense)/income	(11,096)	57,219	(45,018)	(1,105)	–	–
Net interest income	109,412	52,958	29,577	828	–	192,775
Net fee and commission income	7,471	20,344	2,750	748	–	31,313
Net trading gain	4	97	345	751	–	1,197
Dividend income	–	–	–	343	–	343
Net income arising from investment securities	–	–	318	980	–	1,298
Other operating income/(loss)	174	42	(7,873)	1,448	–	(6,209)
Operating income	117,061	73,441	25,117	5,098	–	220,717
Operating expenses						
– depreciation and amortisation	(2,827)	(4,460)	(467)	(93)	–	(7,847)
– others	(34,960)	(40,339)	(4,548)	(4,633)	–	(84,480)
	(37,787)	(44,799)	(5,015)	(4,726)	–	(92,327)
	79,274	28,642	20,102	372	–	128,390
Provisions for impairment losses	(17,883)	(2,496)	(6,755)	(461)	–	(27,595)
Share of profit in associates	–	–	–	21	–	21
Profit/(loss) before tax	61,391	26,146	13,347	(68)	–	100,816
Capital expenditure	4,656	7,346	769	153	–	12,924
Segment assets	2,748,782	786,851	2,960,545	–	(30,786)	6,465,392
Interests in associates	–	–	–	1,099	–	1,099
Unallocated assets	–	–	–	131,686	–	131,686
Total assets	2,748,782	786,851	2,960,545	132,785	(30,786)	6,598,177
Segment liabilities	3,218,771	2,673,979	178,398	–	(30,786)	6,040,362
Unallocated liabilities	–	–	–	135,534	–	135,534
Total liabilities	3,218,771	2,673,979	178,398	135,534	(30,786)	6,175,896

(Expressed in millions of Renminbi unless otherwise stated)

39 SEGMENT REPORTING (continued)

(a) Business segments (continued)

	2006					
	Corporate banking	Personal banking	Treasury business	Others and unallocated	Elimination	Total
External net interest income/(expense)	100,286	(12,453)	51,555	980	–	140,368
Internal net interest (expense)/income	(22,253)	47,937	(24,477)	(1,207)	–	–
Net interest income/(expense)	78,033	35,484	27,078	(227)	–	140,368
Net fee and commission income	5,635	7,182	580	174	–	13,571
Net trading gain	–	–	264	355	–	619
Dividend income	–	–	–	424	–	424
Net income arising from investment securities	–	–	234	778	–	1,012
Other operating income/(loss)	874	557	(6,193)	361	–	(4,401)
Operating income	84,542	43,223	21,963	1,865	–	151,593
Operating expenses						
– depreciation and amortisation	(3,000)	(3,465)	(463)	(66)	–	(6,994)
– others	(28,387)	(26,619)	(3,152)	(1,510)	–	(59,668)
	(31,387)	(30,084)	(3,615)	(1,576)	–	(66,662)
	53,155	13,139	18,348	289	–	84,931
Provisions for impairment losses	(16,513)	(2,484)	–	(217)	–	(19,214)
Profit before tax	36,642	10,655	18,348	72	–	65,717
Capital expenditure	2,399	3,903	359	3,680	–	10,341
Segment assets	2,499,153	621,550	2,199,334	–	(29,562)	5,290,475
Interests in associates	–	–	–	103	–	103
Unallocated assets	–	–	–	157,933	–	157,933
Total assets	2,499,153	621,550	2,199,334	158,036	(29,562)	5,448,511
Segment liabilities	2,450,821	2,503,048	46,481	–	(29,562)	4,970,788
Unallocated liabilities	–	–	–	147,519	–	147,519
Total liabilities	2,450,821	2,503,048	46,481	147,519	(29,562)	5,118,307

39 SEGMENT REPORTING (continued)

(b) Geographical segments

The Group operates principally in Mainland China with branches located in 31 provinces, autonomous regions and municipalities directly under the central government, and three subsidiaries located in the Bohai Rim. The Group also has bank branch operations in Hong Kong, Singapore, Frankfurt, Johannesburg, Tokyo and Seoul, and subsidiaries operating in Hong Kong.

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

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

— "Yangtze River Delta" refers to the following areas serviced by the tier-1 branches of the Bank: Shanghai Municipality, Jiangsu Province, Zhejiang Province, City of Ningbo and City of Suzhou;

— "Pearl River Delta" refers to the following areas serviced by the tier-1 branches of the Bank: Guangdong Province, City of Shenzhen, Fujian Province and City of Xiamen;

— "Bohai Rim" refers to the following areas serviced by the subsidiaries and tier-1 branches of the Bank: Beijing Municipality, Shandong Province, Tianjin Municipality, Hebei Province and City of Qingdao;

— the "Central" region refers to the following areas serviced by the tier-1 branches of the Bank: Shanxi Province, Guangxi Autonomous Region, Hubei Province, Henan Province, Hunan Province, Jiangxi Province, Hainan Province, Anhui Province and the Three Gorges Area;

— the "Western" region refers to the following areas serviced by the tier-1 branches of the Bank: Sichuan Province, Chongqing Municipality, Guizhou Province, Yunnan Province, Tibet Autonomous Region, Inner Mongolia Autonomous Region, Shaanxi Province, Gansu Province, Qinghai Province, Ningxia Autonomous Region and Xinjiang Autonomous Region; and

— the "Northeastern" region refers to the following areas serviced by the tier-1 branches of the Bank: Liaoning Province, Jilin Province, Heilongjiang Province and City of Dalian.

(Expressed in millions of Renminbi unless otherwise stated)

39 SEGMENT REPORTING (continued)

(b) Geographical segments (continued)

	2007									
	Yangtze River Delta	Pearl River Delta	Bohai Rim	Central	Western	Northeastern	Head office	Outside Mainland China	Elimination	Total
External net interest income	32,260	15,108	19,267	18,805	20,670	5,712	78,295	2,658	–	192,775
Internal net interest income/(expense)	6,499	9,054	10,024	8,070	6,001	4,922	(43,616)	(954)	–	–
Net interest income	38,759	24,162	29,291	26,875	26,671	10,634	34,679	1,704	–	192,775
Net fee and commission income	5,921	5,147	5,578	5,276	4,836	2,426	1,602	527	–	31,313
Net trading gain/(loss)	102	87	96	33	29	33	(49)	866	–	1,197
Dividend income	2	–	71	103	38	3	119	7	–	343
Net income/(loss) arising from investment securities	44	162	342	143	159	139	310	(1)	–	1,298
Other operating income/(loss)	224	235	223	357	348	116	(8,468)	756	–	(6,209)
Operating income	45,052	29,793	35,601	32,787	32,081	13,351	28,193	3,859	–	220,717
Operating expenses										
– depreciation and amortisation	(1,486)	(1,040)	(1,178)	(1,395)	(1,194)	(562)	(944)	(48)	–	(7,847)
– others	(13,954)	(10,068)	(11,741)	(13,048)	(12,560)	(5,615)	(16,323)	(1,171)	–	(84,480)
	(15,440)	(11,108)	(12,919)	(14,443)	(13,754)	(6,177)	(17,267)	(1,219)	–	(92,327)
	29,612	18,685	22,682	18,344	18,327	7,174	10,926	2,640	–	128,390
Provisions for impairment losses	(3,678)	(3,738)	(5,762)	(2,885)	(2,980)	(2,034)	(6,356)	(162)	–	(27,595)
Share of profit in associates	–	–	–	–	–	–	–	21	–	21
Profit before tax	25,934	14,947	16,920	15,459	15,347	5,140	4,570	2,499	–	100,816
Capital expenditure	2,249	1,579	2,353	2,049	2,028	983	1,513	170	–	12,924
Segment assets	1,308,774	952,276	1,172,087	968,641	917,902	436,686	3,091,749	102,812	(2,353,884)	6,597,043
Interests in associates	–	–	–	–	–	–	–	1,099	–	1,099
	1,308,774	952,276	1,172,087	968,641	917,902	436,686	3,091,749	103,911	(2,353,884)	6,598,142
Unallocated assets										35
Total assets										6,598,177
Segment liabilities	1,305,366	950,489	1,166,755	968,695	917,340	437,124	2,677,440	105,800	(2,353,884)	6,175,125
Unallocated liabilities										771
Total liabilities										6,175,896
Off-balance sheet credit commitments	268,705	134,329	215,944	130,146	131,331	47,022	14,224	27,858	–	969,559

(Expressed in millions of Renminbi unless otherwise stated)

39 SEGMENT REPORTING (continued)

(b) Geographical segments (continued)

	2006									
	Yangtze River Delta	Pearl River Delta	Bohai Rim	Central	Western	Northeastern	Head office	Outside Mainland China	Elimination	Total
External net interest income	24,651	10,619	14,997	14,546	14,996	4,196	54,532	1,831	–	140,368
Internal net interest income/(expense)	6,282	7,274	9,218	6,585	6,233	3,723	(38,058)	(1,257)	–	–
Net interest income	30,933	17,893	24,215	21,131	21,229	7,919	16,474	574	–	140,368
Net fee and commission income	2,852	2,398	2,420	2,367	1,845	914	691	84	–	13,571
Net trading gain	37	35	11	4	10	8	159	355	–	619
Dividend income	1	10	12	316	58	1	24	2	–	424
Net income/(loss) arising from investment securities	99	–	345	169	176	75	208	(60)	–	1,012
Other operating income/(loss)	352	176	237	252	566	95	(6,233)	154	–	(4,401)
Operating income	34,274	20,512	27,240	24,239	23,884	9,012	11,323	1,109	–	151,593
Operating expenses										
– depreciation and amortisation	(1,348)	(937)	(1,033)	(1,243)	(1,063)	(521)	(822)	(27)	–	(6,994)
– others	(11,742)	(8,194)	(9,878)	(10,796)	(10,351)	(4,740)	(3,538)	(429)	–	(59,668)
	(13,090)	(9,131)	(10,911)	(12,039)	(11,414)	(5,261)	(4,360)	(456)	–	(66,662)
	21,184	11,381	16,329	12,200	12,470	3,751	6,963	653	–	84,931
Provisions for impairment losses	(2,427)	(1,914)	(7,183)	(3,357)	(2,271)	(1,763)	(189)	(110)	–	(19,214)
Profit before tax	18,757	9,467	9,146	8,843	10,199	1,988	6,774	543	–	65,717
Capital expenditure	2,247	1,565	1,667	1,631	1,405	631	1,144	51	–	10,341
Segment assets	1,041,317	797,048	986,165	829,975	791,787	376,834	2,339,757	115,040	(1,832,216)	5,445,707
Interests in associates	–	–	–	–	–	–	–	103	–	103
	1,041,317	797,048	986,165	829,975	791,787	376,834	2,339,757	115,143	(1,832,216)	5,445,810
Unallocated assets										2,701
Total assets										5,448,511
Segment liabilities	1,038,581	796,748	990,054	831,066	791,764	378,238	2,010,107	113,940	(1,832,216)	5,118,282
Unallocated liabilities										25
Total liabilities										5,118,307
Off-balance sheet credit commitments	187,232	95,175	110,860	96,253	104,593	27,563	15,026	24,573	–	661,275

40 RISK MANAGEMENT

The Group has exposure to the following risks from its use of financial instruments:

— credit risk

— liquidity risk

— market risk

— operational risk

To identify, evaluate, monitor and manage risk, the Group has designed an effective governance framework, internal control policies and processes, and implements them across the Group subject to the approval of the Risk Management and Internal Control Committee and the President.

(a) Credit risk

Credit risk management

Credit risk represents the potential loss that may arise from the failure of a debtor or counterparty to meet its contractual obligations or commitments to the Group. It arises primarily from credit business. In treasury business, credit risk represents the asset value attributable to the Group is reduced for the lowering of ratings for issuers of debt securities.

Credit business

With respect to governance, the Risk Management and Internal Control Committee organizes and coordinates the Group's risk management and internal control and guides its members to fulfil their duties. The Risk Management Department, under the supervision of the Risk Management and Internal Control Committee, is responsible for formulating credit risk management policies; the Risk Monitoring Department is responsible for monitoring the implementation of credit risk management policies; and the Credit Approval Department is responsible for organising credit approval and customer credit ratings activities. The risk management departments participate in, share and coordinate the work of the Corporate Banking Department, the Institutional Banking Department, the International Business Department, the Housing Finance & Personal Lending Department, the Credit Card Centre, the Special Assets Resolution Department and the Legal Department in terms of the application of credit risk management.

40 RISK MANAGEMENT (continued)

(a) Credit risk (continued)

Credit business (continued)

The Group has put in place industry credit approval guidelines for credit risk management of corporate and institutional businesses, as well as credit acceptance and rejection policies for corporate and institutional clients and has also set up the policies for managing the structure of credit portfolio. In addition, the Group has implemented industry credit limit management to enhance the credit portfolio management. The Group's credit risk management covers areas of its corporate operations including pre-lending evaluations, credit approval and post-lending management. In respect of pre-lending evaluations, the Group assesses customer credit ratings and prepares customer evaluation reports by reference to its internal rating system and performs integrated analyses on benefits and risks of loans to form the evaluation reports. For credit approval, all credit business are subject to the approval of credit approval officers. For post-lending management, the Group continually monitors granted loans and other credit related business; strengthens the risk monitoring on targeted industries, geographical segments, products and clients; immediately reports any adverse events that may significantly affect a borrower's repayment ability; and implements measures to prevent and control related risks. The Group has also adopted a parallel operating mechanism between risk managers and customer relationship managers for the credit business for medium to large sized corporate customers. Risk managers are involved in all credit processes to improve the independence and effectiveness of the risk management process.

In terms of its personal credit operations, the Group relies on credit assessment of applicants as the basis for loan approval. In dealing with personal credit, customer relationship managers are required to assess the income level, credit history, and repayment ability of the applicant. The customer relationship managers then forward the application and their recommendations to the loan-approval departments or personnel for consent. Stressing the post-lending monitoring of personal loans, the Group focuses on borrowers' repayment ability, the status of collateral and any changes to their value. Once a loan becomes overdue, the Group starts the recovery process according to standard personal loan recovery procedures.

To mitigate risks, under appropriate circumstances, the Group requests customers to provide collateral and guarantees. It also sets guidelines for specific types of collateral or their suitability of charging against credit risks, as well as determining evaluation parameters. Collateral structures and legal covenants are regularly reviewed to ensure that they still serve their intended purposes and conform to market practices.

40 RISK MANAGEMENT (continued)

(a) Credit risk (continued)

Loan grading classification

The Group adopts a loan risk classification approach to manage the loan portfolio risk. Loans are classified as normal, special mention, substandard, doubtful and loss according to their level of risk. Substandard, doubtful, and loss loans are considered to be impaired loans and advances when one or more events demonstrate there is objective evidence of impairment and causes losses. The allowance for impairment loss on impaired loans and advances is collectively or individually assessed as appropriate.

The core definitions of the five categories of loans and advances are set out below:

Normal:	Borrowers can honour the terms of their loans. There is no reason to doubt their ability to repay principal and interest in full on a timely basis.
Special mention:	Borrowers are able to service their loans currently, although repayment may be adversely affected by specific factors.
Substandard:	Borrowers' abilities to service their loans are in question and they cannot rely entirely on normal business revenues to repay principal and interest. Losses may ensue even when collateral or guarantees are invoked.
Doubtful:	Borrowers cannot repay principal and interest in full and significant losses will need to be recognised even when collateral or guarantees are invoked.
Loss:	Principal and interest of loans cannot be recovered or only a small portion, of which can be recovered after taking all possible measures or resorting to all necessary legal procedures.

Treasury business

The Group sets credit limits for treasury operations based on the credit risk inherent in the products, counterparties and geographical area. The system closely monitors the credit exposure on a real-time basis, regularly reviews its credit limit policies and routinely updates the credit limits.

(Expressed in millions of Renminbi unless otherwise stated)

40 RISK MANAGEMENT (continued)

(a) Credit risk (continued)

Maximum credit risk exposure

The maximum exposure to credit risk at the balance sheet date without taking into consideration of any collateral held or other credit enhancement is represented by the carrying amount of each type of financial assets in the balance sheet after deducting any impairment allowance. A summary of the maximum exposure is as follows:

	Group		Bank	
	2007	2006	**2007**	2006
Balances with central banks	**935,134**	509,482	**935,025**	509,452
Amounts due from banks and non-bank financial institutions	**102,393**	82,185	**96,281**	76,026
Loans and advances to customers	**3,183,229**	2,795,976	**3,151,289**	2,767,232
Non-equity investments	**2,165,015**	1,899,775	**2,158,400**	1,894,837
Amounts due from subsidiaries	**—**	—	**31,530**	12,047
Other financial assets	**60,562**	42,155	**59,246**	41,383
Subtotal	**6,446,333**	5,329,573	**6,431,771**	5,300,977
Credit commitments	**969,559**	661,275	**964,565**	657,103
Maximum credit risk exposure	**7,415,892**	5,990,848	**7,396,336**	5,958,080

(Expressed in millions of Renminbi unless otherwise stated)

40 RISK MANAGEMENT (continued)

(a) Credit risk (continued)

Distribution of loans and advances to customers in terms of credit quality are as follows:

	Loans and advances to customers			
	Group		Bank	
	2007	2006	**2007**	2006
Carrying amount				
Individually assessed and impaired				
Gross amount	**77,245**	58,423	**77,204**	58,262
Allowances for impairment losses	**(48,215)**	(41,570)	**(48,183)**	(41,541)
Carrying amount	**29,030**	16,853	**29,021**	16,721
Collectively assessed and impaired				
Gross amount	**7,925**	35,976	**7,925**	35,976
Allowances for impairment losses (Note 19(b))	**(4,928)**	(13,930)	**(4,928)**	(13,929)
Carrying amount	**2,997**	22,046	**2,997**	22,047
Overdue but not impaired (note (i))				
— less than 90 days	**20,120**	22,543	**20,049**	22,510
— 90–180 days	**2,864**	3,714	**2,861**	3,698
— 181–365 days	**—**	84	**—**	69
— over 1 year	**—**	676	**—**	676
Gross amount	**22,984**	27,017	**22,910**	26,953
Allowances for impairment losses (note (ii))	**(951)**	(1,128)	**(951)**	(1,125)
Carrying amount	**22,033**	25,889	**21,959**	25,828
Neither overdue nor impaired				
Gross amount	**3,164,003**	2,752,193	**3,132,094**	2,723,513
Allowances for impairment losses (note (ii))	**(34,834)**	(21,005)	**(34,782)**	(20,877)
Carrying amount	**3,129,169**	2,731,188	**3,097,312**	2,702,636
Total carrying amount	**3,183,229**	2,795,976	**3,151,289**	2,767,232

(Expressed in millions of Renminbi unless otherwise stated)

40 RISK MANAGEMENT (continued)

(a) Credit risk (continued)

Notes:

(i) As at 31 December 2007, the loans and advances of the Group, which were overdue but not impaired and were subject to individual assessment of impairment losses, were RMB2,575 million. The covered portion and uncovered portion of these loans and advances were RMB1,691 million and RMB884 million respectively. The fair value of collaterals held against these loans and advances amounted to RMB3,403 million.

As at 31 December 2007, the loans and advances of the Bank, which were overdue but not impaired and were subject to individual assessment of impairment losses, were RMB2,506 million. The covered portion and uncovered portion of these loans and advances were RMB1,627 million and RMB879 million respectively. The fair value of collaterals held against these loans and advances amounted to RMB3,314 million.

The fair value of collaterals was estimated by the Group based on the latest available external valuations adjusted by taking into account the current realization experience as well as market situation.

(ii) The balances represent collectively assessed allowances of impairment losses.

Distribution of amounts due from banks and non-bank financial institutions in terms of credit quality is as follows:

	Amounts due from banks and non-bank financial institutions			
	Group		Bank	
	2007	2006	**2007**	2006
Carrying amount				
Individually assessed and impaired				
Gross amount	**663**	1,166	**663**	1,166
Allowances for impairment	**(539)**	(920)	**(539)**	(920)
Carrying amount	**124**	246	**124**	246
Neither overdue nor impaired				
— grade A to AAA	**76,470**	36,418	**70,702**	36,418
— grade B to BBB	**7,340**	1,542	**7,339**	1,542
— unrated	**18,459**	43,979	**18,116**	37,820
Carrying amount	**102,269**	81,939	**96,157**	75,780
Total carrying amount	**102,393**	82,185	**96,281**	76,026

(Expressed in millions of Renminbi unless otherwise stated)

40 RISK MANAGEMENT (continued)

(a) Credit risk (continued)

The Group adopts a credit rating approach to manage the risk of debt securities portfolio held by the operations in Mainland China. Debt securities are rated with reference to Bloomberg Composite, or major rating agencies where the issuers of the securities are located. The carrying amounts of debt securities analysed by the rating agency designations at the balance sheet date are as follows:

	Group		Bank	
	2007	2006	**2007**	2006
Carrying amount				
Individually assessed and impaired				
Gross amount	**9,556**	712	**9,556**	712
Allowances for impairment	**(5,332)**	(712)	**(5,332)**	(712)
Carrying amount	**4,224**	—	**4,224**	—
Neither overdue nor impaired				
Bloomberg Composite				
— AAA	**149,251**	190,500	**149,251**	190,500
— AA- to AA+	**53,025**	51,759	**53,025**	51,759
— A- to A+	**35,298**	53,608	**35,298**	53,608
— lower than A-	**4,038**	487	**4,038**	487
Subtotal	**241,612**	296,354	**241,612**	296,354
Other agency ratings				
— AAA	**291,007**	269,984	**291,007**	269,984
— AA- to AA+	**3,120**	1,805	**3,120**	1,805
— A- to A+ (note)	**1,590,683**	1,301,748	**1,590,683**	1,301,748
— lower than A-	**982**	1,571	**982**	1,571
Subtotal	**1,885,792**	1,575,108	**1,885,792**	1,575,108
Subtotal of debt securities held by operations in Mainland China	**2,131,628**	1,871,462	**2,131,628**	1,871,462
Debt securities held by operations outside Mainland China	**33,387**	28,313	**26,772**	23,375
Total	**2,165,015**	1,899,775	**2,158,400**	1,894,837

Note: This includes debt securities issued by the PRC government, PBC and PRC policy banks amounted to RMB1,562,754 million (2006: RMB1,288,036 million).

(Expressed in millions of Renminbi unless otherwise stated)

40 RISK MANAGEMENT (continued)

(a) Credit risk (continued)

The table below shows a breakdown of total credit extended by the Group and the Bank by type of collateral:

	Group		Bank	
	2007	2006	**2007**	2006
Loans secured by monetary assets	**325,515**	265,074	**324,860**	264,258
Loans secured by tangible assets, other than monetary assets	**1,453,056**	1,212,165	**1,426,739**	1,186,402
Guaranteed loans	**748,904**	681,167	**748,366**	680,897
Unsecured loans	**744,682**	715,203	**740,168**	713,147
Gross loans and advances to customers	**3,272,157**	2,873,609	**3,240,133**	2,844,704
Less: Allowances for impairment losses	**(88,928)**	(77,633)	**(88,844)**	(77,472)
Net loans and advances to customers	**3,183,229**	2,795,976	**3,151,289**	2,767,232

Repossessed assets

The Group and the Bank obtained assets by taking possession of collateral held as security, calling guarantees or other credit enhancements. The carrying amount of such assets as at the balance sheet date was as follows:

	Group		Bank	
	2007	2006	**2007**	2006
Land and buildings	**1,280**	1,251	**1,268**	1,206
Other assets	**336**	202	**336**	202
	1,616	1,453	**1,604**	1,408

40 RISK MANAGEMENT (continued)

(b) Market risk

Market risk is the risk of loss, in respect of the Group's on and off-balance sheet activities, arising from adverse movements in market rates including interest rates, foreign exchange rates, commodity prices, stock prices and other prices. Market risk arises from both the Group's trading and non-trading business.

The Group is exposed to primarily structural interest rate risk arising from commercial banking and position risk arising from treasury transactions. Interest rate risk is inherent in many of its businesses and largely arises from mismatches between the re-pricing dates of assets and liabilities.

The Group's foreign exchange exposure mainly comprises exposures from foreign currency portfolios within treasury proprietary investments, and currency exposures from its overseas businesses.

The Group considers the market risk arising from commodity or stock prices in respect of its investment portfolios is immaterial.

The Risk Management Department is responsible for formulating a standardised market risk management policies and rules. The Asset and Liability Management Department (the "ALM") is responsible for managing the size and structure of the balance sheet in response to structural market risk. The Financial Market Department manages the head office' s RMB and foreign currency investment portfolios, conducts proprietary and customer-driven transactions, as well as implements market risk management policies and rules. The Risk Monitoring Department is responsible for the supervising the implementation of market risk management policies and rules of the Bank. The Audit Department assesses whether market risk management is adequate and effective.

The Group monitors market risk separately in respect of trading portfolios and non-trading portfolios. Trading portfolios include exchange rate and interest rate derivatives as well as trading securities. The historical simulation model for the Value-at-risk ("VaR") analysis is a major tool used by the Bank to measure and monitor the market risk of its trading portfolio and available-for-sale debt securities. Net interest income sensitivity analysis, interest rate repricing gap analysis and foreign exchange risk concentration analysis are the major tools used by the Group to monitor the market risk of its overall businesses.

VaR analysis

VaR is a technique which estimates the potential losses that could occur on risk positions taken, due to movements in market rates, foreign exchange rates and prices over a specified time horizon and at a given level of confidence. The Financial Market Department calculates interest rate VaR for the Bank's debt investments as well as interest rate and exchange rate VaR for the Bank's derivatives. By reference to historical movements in market rates and prices, the Financial Market Department calculates VaR on a daily basis for foreign currency portfolio and at least on a monthly basis for RMB portfolios. VaR is calculated at a confidence level of 99% and with a holding period of one day.

(Expressed in millions of Renminbi unless otherwise stated)

40 RISK MANAGEMENT (continued)

(b) Market risk (continued)

VaR analysis (continued)

A summary of the VaR of the Bank's trading portfolios and available-for-sale debt securities as at 31 December 2007 and 31 December 2006 and during the respective year is as follows:

	2007			
	As at 31 December	Average	Maximum	Minimum
RMB trading portfolios				
Interest rate risk	4	3	7	2
RMB available-for-sale debt securities				
Interest rate risk	258	209	291	93
Foreign currency trading portfolios				
Interest rate risk	93	44	93	17
Foreign currency risk	203	24	203	12
Diversification	(96)	(15)	(96)	(11)
	200	53	200	18
Foreign currency available-for-sale debt securities				
Interest rate risk	662	551	720	366

	2006			
	As at 31 December	Average	Maximum	Minimum
RMB trading portfolios				
Interest rate risk	2	4	6	2
RMB available-for-sale debt securities				
Interest rate risk	133	219	320	128
Foreign currency trading portfolios				
Interest rate risk	61	107	168	16
Foreign currency risk	2	6	7	—
Diversification	(2)	(6)	(8)	—
	61	107	167	16
Foreign currency available-for-sale debt securities				
Interest rate risk	369	427	666	220

40 RISK MANAGEMENT (continued)

(b) Market risk (continued)

VaR analysis (continued)

Although VaR is an important tool for measuring market risk, the assumptions on which the model is based do give rise to some limitations, including the following:

— A 1-day holding period assumes that it is possible to hedge or dispose of positions within that period. This is considered to be a realistic assumption in almost all cases but may not be the case in situations in which there is severe market illiquidity for a prolonged period;

— A 99 percent confidence level does not reflect losses that may occur beyond this level. Even within the model used there is one percent probability that losses could exceed the VaR;

— VaR is calculated on an end-of-day basis and does not reflect exposures that may arise on positions during the trading day;

— The use of historical data as a basis for determining the possible range of future outcomes may not always cover all possible scenarios, especially those of an exceptional nature; and

— The VaR measure is dependent upon the Bank's position and the volatility of market prices. The VaR of an unchanged position reduces if the market price volatility declines and vice versa.

Net interest income sensitivity analysis

In monitoring interest rate risk on its overall non-derivative financial assets and liabilities, the Bank regularly measures its future net interest income sensitivity to an increase or decrease in market interest rates (assuming no asymmetrical movement in yield curves and a constant balance sheet position). An incremental 100 basis points parallel fall or rise in all yield curves, other than that applicable to balances with central banks of which being constant, would increase or decrease planned net interest income for the next twelve months from the reporting date by RMB23,341 million (2006: RMB16,912 million). Had the impact of yield curves movement for demand deposits from customers been excluded, the planned net interest income for the next twelve months from the reporting date would decrease or increase by RMB7,207 million (2006: RMB8,581 million).

The above interest rate sensitivity is for illustration purposes only and is assessed based on simplified assumptions. The figures here indicate estimated net interest income movements under various predicted yield curve scenarios and subject to the Bank's current interest rate exposures. However, this effect has not taken into account the possible risk management measures that can be undertaken by the Financial Market Department or related business departments to mitigate interest rate risk. In practice, the Financial Market Department strives to reduce loss arising from interest rate risk while increasing its net income. These estimated figures have also assumed that the interest rates on various maturities will move within similar ranges, and therefore do not have any potential effect on net interest income in the event that some interest rates may change and others remain unchanged. Moreover, the above estimations are based on other simplified assumptions, including that all positions will be retained and rolled over upon maturity.

(Expressed in millions of Renminbi unless otherwise stated)

40 RISK MANAGEMENT (continued)

(b) Market risk (continued)

Interest rate repricing gap analysis

Interest rate risk is inherent in many of the Group's businesses. It mainly arises from mismatches between the repricing dates of assets and liabilities.

The ALM regularly monitors such interest rate risk positions. In terms of measuring and managing the interest rate risk, the Group regularly measures interest rate sensitive repricing gaps, and the impact on the Group's net interest income and economic value under different interest rates scenarios. The primary objective of such interest rate risk management is to reduce potential adverse effects on net interest income and economic value due to interest rate movements.

The following tables indicate the effective interest rates for the year ended 31 December 2007 and the year ended 31 December 2006, and the expected next repricing dates (or maturity dates whichever are earlier) for the assets and liabilities at the balance sheet date.

Group

	2007						
	Effective interest rate (note (i))	Total	Non-interest bearing	Less than three months	Between three months and one year	Between one year and five years	More than five years
Assets							
Cash and balances with central banks	1.78%	967,374	32,240	935,134	–	–	–
Amounts due from banks and non-bank financial institutions	3.57%	102,393	–	88,663	13,545	182	3
Loans and advances to customers (note (ii))	6.31%	3,183,229	–	1,420,365	1,697,293	30,795	34,776
Investments	3.29%	2,201,810	36,795	331,537	513,923	916,255	403,300
Others	–	143,371	143,371	–	–	–	–
Total assets	4.70%	6,598,177	212,406	2,775,699	2,224,761	947,232	438,079
Liabilities							
Amounts due to central banks	6.10%	50,973	–	50,973	–	–	–
Amounts due to banks and non-bank financial institutions	1.82%	606,061	–	601,443	4,588	30	–
Deposits from customers	1.57%	5,340,316	38,056	3,963,298	1,073,451	257,440	8,071
Certificates of deposit issued	4.81%	9,284	–	6,659	1,363	1,262	–
Others	–	129,334	129,334	–	–	–	–
Subordinated bonds issued	4.86%	39,928	–	–	9,920	30,008	–
Total liabilities	1.63%	6,175,896	167,390	4,622,373	1,089,322	288,740	8,071
Asset-liability gap	3.07%	422,281	45,016	(1,846,674)	1,135,439	658,492	430,008

(Expressed in millions of Renminbi unless otherwise stated)

40 RISK MANAGEMENT (continued)

(b) Market risk (continued)

Interest rate repricing gap analysis (continued)

Group (continued)

	2006						
	Effective interest rate (note (i))	Total	Non-interest bearing	Less than three months	Between three months and one year	Between one year and five years	More than five years
Assets							
Cash and balances with central banks	1.70%	539,673	30,191	509,482	–	–	–
Amounts due from banks and non-bank financial institutions	3.33%	82,185	–	77,067	4,879	239	–
Loans and advances to customers (note (ii))	5.57%	2,795,976	–	1,200,801	1,532,253	38,106	24,816
Investments	2.92%	1,909,392	9,617	269,623	618,099	597,663	414,390
Others	–	121,285	121,285	–	–	–	–
Total assets	4.28%	5,448,511	161,093	2,056,973	2,155,231	636,008	439,206
Liabilities							
Amounts due to central banks	2.58%	1,256	–	1,256	–	–	–
Amounts due to banks and non-bank financial institutions	2.21%	243,968	–	239,020	4,698	250	–
Deposits from customers	1.53%	4,721,256	36,346	3,348,482	989,439	335,151	11,838
Certificates of deposit issued	4.17%	6,957	–	4,718	1,443	796	–
Others	–	104,953	104,953	–	–	–	–
Subordinated bonds issued	4.72%	39,917	–	–	9,917	30,000	–
Total liabilities	1.59%	5,118,307	141,299	3,593,476	1,005,497	366,197	11,838
Asset-liability gap	2.69%	330,204	19,794	(1,536,503)	1,149,734	269,811	427,368

Notes:

(i) Effective interest rate represents the ratio of interest income/expense to average interest bearing assets/liabilities.

(ii) For loans and advances to customers, the above "less than three months" category includes overdue amounts (net of allowances for impairment losses) of RMB42,480 million as at 31 December 2007 (2006: RMB52,520 million). Overdue amounts represent loans and advances to customers, of which the whole or part of the principals was overdue, or interest was overdue for more than 90 days but for which principal was not yet due.

(Expressed in millions of Renminbi unless otherwise stated)

40 RISK MANAGEMENT (continued)

(b) Market risk (continued)

Interest rate repricing gap analysis (continued)

Bank

	2007						
	Effective interest rate (note (i))	Total	Non-interest bearing	Less than three months	Between three months and one year	Between one year and five years	More than five years
Assets							
Cash and balances with central banks	1.78%	967,106	32,081	935,025	–	–	–
Amounts due from banks and non-bank financial institutions	3.57%	96,281	–	82,552	13,544	182	3
Loans and advances to customers (note (ii))	6.32%	3,151,289	–	1,389,534	1,696,715	30,427	34,613
Investments	3.29%	2,192,585	34,185	327,476	511,946	915,859	403,119
Amounts due from subsidiaries	4.99%	31,530	12,715	14,330	4,017	468	–
Others	–	143,048	143,048	–	–	–	–
Total assets	4.69%	6,581,839	222,029	2,748,917	2,226,222	946,936	437,735
Liabilities							
Amounts due to central banks	6.10%	50,973	–	50,973	–	–	–
Amounts due to banks and non-bank financial institutions	1.83%	605,076	–	600,458	4,588	30	–
Amounts due to subsidiaries	4.96%	23,083	555	18,250	4,095	183	–
Deposits from customers	1.56%	5,307,797	36,923	3,933,678	1,072,455	257,054	7,687
Certificates of deposit issued	4.91%	8,347	–	6,003	1,082	1,262	–
Others	–	127,118	127,118	–	–	–	–
Subordinated bonds issued	4.86%	39,928	–	–	9,920	30,008	–
Total liabilities	1.62%	6,162,322	164,596	4,609,362	1,092,140	288,537	7,687
Asset-liability gap	3.07%	419,517	57,433	(1,860,445)	1,134,082	658,399	430,048

(Expressed in millions of Renminbi unless otherwise stated)

40 RISK MANAGEMENT (continued)

(b) Market risk (continued)

Interest rate repricing gap analysis (continued)

Bank (continued)

	2006						
	Effective interest rate (note (i))	Total	Non-interest bearing	Less than three months	Between three months and one year	Between one year and five years	More than five years
Assets							
Cash and balances with central banks	1.70%	539,556	30,104	509,452	–	–	–
Amounts due from banks and non-bank financial institutions	3.35%	76,026	–	70,908	4,879	239	–
Loans and advances to customers (note (ii))	5.57%	2,767,232	–	1,173,119	1,531,655	37,779	24,679
Investments	2.92%	1,903,987	9,150	269,205	617,639	593,831	414,162
Amounts due from subsidiaries	4.44%	12,047	9,800	1,745	502	–	–
Others	–	119,055	119,055	–	–	–	–
Total assets	4.28%	5,417,903	168,109	2,024,429	2,154,675	631,849	438,841
Liabilities							
Amounts due to central banks	2.58%	1,256	–	1,256	–	–	–
Amounts due to banks and non-bank financial institutions	2.21%	243,793	–	238,870	4,673	250	–
Amounts due to subsidiaries	3.23%	1,208	502	681	25	–	–
Deposits from customers	1.53%	4,692,843	36,284	3,320,927	988,681	335,113	11,838
Certificates of deposit issued	4.17%	5,957	–	4,514	1,443	–	–
Others	–	103,218	103,218	–	–	–	–
Subordinated bonds issued	4.72%	39,917	–	–	9,917	30,000	–
Total liabilities	1.59%	5,088,192	140,004	3,566,248	1,004,739	365,363	11,838
Asset-liability gap	2.69%	329,711	28,105	(1,541,819)	1,149,936	266,486	427,003

Notes:

(i) Effective interest rate represents the ratio of interest income/expense to average interest bearing assets/liabilities.

(ii) For loans and advances to customers, the above "less than three months" category includes overdue amounts (net of allowances for impairment losses) of RMB42,411 million as at 31 December 2007 (2006: RMB52,505 million).

(Expressed in millions of Renminbi unless otherwise stated)

40 RISK MANAGEMENT (continued)

(b) Market risk (continued)

Foreign exchange risk concentration analysis

The Group's foreign exchange exposure mainly comprises exposures that arise from proprietary investments in the treasury's portfolio, and currency exposures originated by the Group's overseas businesses.

The Group also uses derivatives (principally foreign exchange options and swaps, and interest rate swaps) in the management of its own asset and liability portfolios and structural positions (Note 40(d)), and manages other currency risk by spot and forward foreign exchange transactions and by matching its foreign currency denominated assets with corresponding liabilities in the same currency.

The Group's total equity is denominated in RMB, which is its functional currency. The currency exposures of the Group and the Bank's assets and liabilities at the balance sheet date were as follows:

Group

	2007			
	RMB	USD (RMB equivalent)	Others (RMB equivalent)	Total (RMB equivalent)
Assets				
Cash and balances with central banks	958,896	5,842	2,636	967,374
Amounts due from banks and non-bank financial institutions	40,076	53,588	8,729	102,393
Loans and advances to customers	2,986,566	121,700	74,963	3,183,229
Investments	1,921,778	256,566	23,466	2,201,810
Others	123,499	9,790	10,082	143,371
Total assets	6,030,815	447,486	119,876	6,598,177
Liabilities				
Amounts due to central banks	50,006	–	967	50,973
Amounts due to banks and non-bank financial institutions	537,781	56,438	11,842	606,061
Deposits from customers	5,158,239	99,379	82,698	5,340,316
Certificates of deposit issued	10	1,680	7,594	9,284
Others	120,707	3,443	5,184	129,334
Subordinated bonds issued	39,928	–	–	39,928
Total liabilities	5,906,671	160,940	108,285	6,175,896
Net position	124,144	286,546	11,591	422,281
Net notional amount of derivatives	249,734	(247,282)	7,071	9,523

(Expressed in millions of Renminbi unless otherwise stated)

40 RISK MANAGEMENT (continued)

(b) Market risk (continued)

Foreign exchange risk concentration analysis (continued)

Group (continued)

	2006			
	RMB	USD (RMB equivalent)	Others (RMB equivalent)	Total (RMB equivalent)
Assets				
Cash and balances with central banks	530,964	5,930	2,779	539,673
Amounts due from banks and non-bank financial institutions	55,500	20,591	6,094	82,185
Loans and advances to customers	2,647,561	84,622	63,793	2,795,976
Investments	1,583,878	306,685	18,829	1,909,392
Others	110,089	7,133	4,063	121,285
Total assets	4,927,992	424,961	95,558	5,448,511
Liabilities				
Amounts due to central banks	21	—	1,235	1,256
Amounts due to banks and non-bank financial institutions	198,679	40,247	5,042	243,968
Deposits from customers	4,529,300	126,440	65,516	4,721,256
Certificates of deposit issued	—	1,577	5,380	6,957
Others	98,548	5,185	1,220	104,953
Subordinated bonds issued	39,917	—	—	39,917
Total liabilities	4,866,465	173,449	78,393	5,118,307
Net position	61,527	251,512	17,165	330,204
Net notional amount of derivatives	237,615	(228,602)	232	9,245

(Expressed in millions of Renminbi unless otherwise stated)

40 RISK MANAGEMENT (continued)

(b) Market risk (continued)

Foreign exchange risk concentration analysis (continued)

Bank

	2007			
	RMB	USD (RMB equivalent)	Others (RMB equivalent)	Total (RMB equivalent)
Assets				
Cash and balances with central banks	958,738	5,836	2,532	967,106
Amounts due from banks and non-bank financial institutions	39,923	47,915	8,443	96,281
Loans and advances to customers	2,986,508	119,782	44,999	3,151,289
Investments	1,919,973	251,537	21,075	2,192,585
Amounts due from subsidiaries	8	28,421	3,101	31,530
Others	126,877	9,629	6,542	143,048
Total assets	6,032,027	463,120	86,692	6,581,839
Liabilities				
Amounts due to central banks	50,006	–	967	50,973
Amounts due to banks and non-bank financial institutions	537,781	56,394	10,901	605,076
Amounts due to subsidiaries	5,022	16,686	1,375	23,083
Deposits from customers	5,157,286	90,802	59,709	5,307,797
Certificates of deposit issued	10	1,680	6,657	8,347
Others	119,928	3,258	3,932	127,118
Subordinated bonds issued	39,928	–	–	39,928
Total liabilities	5,909,961	168,820	83,541	6,162,322
Net position	122,066	294,300	3,151	419,517
Net notional amount of derivatives	249,731	(244,455)	4,247	9,523

(Expressed in millions of Renminbi unless otherwise stated)

40 RISK MANAGEMENT (continued)

(b) Market risk (continued)

Foreign exchange risk concentration analysis (continued)

Bank (continued)

	2006			
	RMB	USD (RMB equivalent)	Others (RMB equivalent)	Total (RMB equivalent)
Assets				
Cash and balances with central banks	530,930	5,926	2,700	539,556
Amounts due from banks and non-bank financial institutions	55,402	14,841	5,783	76,026
Loans and advances to customers	2,647,560	83,203	36,469	2,767,232
Investments	1,582,919	302,798	18,270	1,903,987
Amounts due from subsidiaries	—	10,528	1,519	12,047
Others	110,271	6,927	1,857	119,055
Total assets	4,927,082	424,223	66,598	5,417,903
Liabilities				
Amounts due to central banks	21	—	1,235	1,256
Amounts due to banks and non-bank financial institutions	198,679	40,192	4,922	243,793
Amounts due to subsidiaries	258	1	949	1,208
Deposits from customers	4,528,787	118,121	45,935	4,692,843
Certificates of deposit issued	—	1,577	4,380	5,957
Others	98,522	4,154	542	103,218
Subordinated bonds issued	39,917	—	—	39,917
Total liabilities	4,866,184	164,045	57,963	5,088,192
Net position	60,898	260,178	8,635	329,711
Net notional amount of derivatives	237,615	(227,442)	(932)	9,241

40 RISK MANAGEMENT (continued)

(c) Liquidity risk

Liquidity risk is the risk that no sufficient funds are available to meet liabilities as they fall due. It is caused by mismatches of assets and liabilities in terms of their amounts and maturity dates. In accordance with liquidity policies, the Group monitors the future cash flows to ensure that an appropriate level of highly liquid assets is maintained.

At the Group level, liquidity is managed and coordinated through the ALM. The ALM is responsible for formulation of the liquidity policies in accordance with regulatory requirements and prudential principles. Such policies include:

— adopting a prudent strategy and ensuring sufficient funds are available at any moment to satisfy any payment request;

— optimising the Group's asset and liability structure, diversifying and stabilizing the source of funds, and reserving an appropriate proportion of highly credit-rated and liquid asset portfolio; and

— managing and utilizing centrally the Bank's liquid funds.

A substantial portion of the Group's assets are funded by customer deposits. These customer deposits, which have been growing in recent years, are widely diversified in types and maturities and represent a stable source of funds.

The Group principally uses liquidity analysis and gap analysis to measure the liquidity risk. Gap analysis is to predict the cash flow within one year. Scenario analyses are then applied to assess the impact of liquidity risk.

(Expressed in millions of Renminbi unless otherwise stated)

40 RISK MANAGEMENT (continued)

(c) Liquidity risk (continued)

The following tables provide an analysis of the assets and liabilities of the Group and the Bank based on the remaining periods to repayment at the balance sheet date.

Group

	2007							
	Repayable on demand	Within one month	Between one month and three months	Between three months and one year	Between one year and five years	More than five years	Indefinite (note(i))	Total
Assets								
Cash and balances with central banks	107,178	109,320	14,330	–	–	–	736,546	967,374
Amounts due from banks and non-bank financial institutions	17,255	55,839	15,457	13,548	137	3	154	102,393
Loans and advances to customers	27,271	122,830	250,102	924,681	941,207	880,105	37,033	3,183,229
Investments (note (ii))	–	114,462	133,683	341,943	1,071,124	489,263	51,335	2,201,810
Others	30,978	2,926	11,263	11,427	2,673	1,497	82,607	143,371
Total assets	182,682	405,377	424,835	1,291,599	2,015,141	1,370,868	907,675	6,598,177
Liabilities								
Amounts due to central banks	6	50,000	967	–	–	–	–	50,973
Amounts due to banks and non-bank financial institutions	510,163	80,154	11,126	4,587	31	–	–	606,061
Deposits from customers	3,354,269	209,972	436,796	1,069,347	261,755	8,177	–	5,340,316
Certificates of deposit issued	–	245	1,078	3,563	4,398	–	–	9,284
Others	83,694	3,902	6,686	12,748	13,794	7,739	771	129,334
Subordinated bonds issued	–	–	–	–	–	39,928	–	39,928
Total liabilities	3,948,132	344,273	456,653	1,090,245	279,978	55,844	771	6,175,896
(Short)/long position	(3,765,450)	61,104	(31,818)	201,354	1,735,163	1,315,024	906,904	422,281
Notional amount of derivatives	–	82,677	86,080	395,935	98,164	42,524	–	705,380

(Expressed in millions of Renminbi unless otherwise stated)

40 RISK MANAGEMENT (continued)

(c) Liquidity risk (continued)

Group (continued)

	2006							
	Repayable on demand	Within one month	Between one month and three months	Between three months and one year	Between one year and five years	More than five years	Indefinite (note(i))	Total
Assets								
Cash and balances with central banks	133,958	–	–	–	–	–	405,715	539,673
Amounts due from banks and non-bank financial institutions	12,921	50,549	13,498	4,879	338	–	–	82,185
Loans and advances to customers	21,773	110,061	236,353	833,647	834,980	709,290	49,872	2,795,976
Investments (note (ii))	–	48,641	155,883	496,110	780,660	418,481	9,617	1,909,392
Others	2,324	5,925	11,200	19,125	3,224	683	78,804	121,285
Total assets	170,976	215,176	416,934	1,353,761	1,619,202	1,128,454	544,008	5,448,511
Liabilities								
Amounts due to central banks	21	–	1,235	–	–	–	–	1,256
Amounts due to banks and non-bank financial institutions	203,870	21,017	14,133	4,698	250	–	–	243,968
Deposits from customers	2,641,787	377,198	353,852	998,144	336,958	13,317	–	4,721,256
Certificates of deposit issued	–	–	–	1,806	5,151	–	–	6,957
Others	45,967	7,256	13,639	25,434	8,395	4,237	25	104,953
Subordinated bonds issued	–	–	–	–	–	39,917	–	39,917
Total liabilities	2,891,645	405,471	382,859	1,030,082	350,754	57,471	25	5,118,307
(Short)/long position	(2,720,669)	(190,295)	34,075	323,679	1,268,448	1,070,983	543,983	330,204
Notional amount of derivatives	–	83,020	67,987	376,252	41,313	19,158	–	587,730

(Expressed in millions of Renminbi unless otherwise stated)

40 RISK MANAGEMENT (continued)

(c) Liquidity risk (continued)

Bank

	2007							
	Repayable on demand	Within one month	Between one month and three months	Between three months and one year	Between one year and five years	More than five years	Indefinite (note(i))	Total
Assets								
Cash and balances with central banks	107,019	109,320	14,330	–	–	–	736,437	967,106
Amounts due from banks and non-bank financial institutions	16,946	50,511	14,985	13,545	137	3	154	96,281
Loans and advances to customers	26,107	121,555	248,325	920,853	931,964	865,500	36,985	3,151,289
Investments (note (ii))	–	112,176	132,599	341,347	1,068,654	489,083	48,726	2,192,585
Amounts due from subsidiaries	887	843	12,726	4,025	468	–	12,581	31,530
Others	30,703	2,357	11,015	11,383	2,503	1,488	83,599	143,048
Total assets	181,662	396,762	433,980	1,291,153	2,003,726	1,356,074	918,482	6,581,839
Liabilities								
Amounts due to central banks	6	50,000	967	–	–	–	–	50,973
Amounts due to banks and non-bank financial institutions	510,034	79,914	10,510	4,587	31	–	–	605,076
Amounts due to subsidiaries	5,667	1,192	11,938	4,103	183	–	–	23,083
Deposits from customers	3,346,987	191,963	431,373	1,068,319	261,363	7,792	–	5,307,797
Certificates of deposit issued	–	244	1,078	2,627	4,398	–	–	8,347
Others	83,531	2,803	6,031	12,624	13,790	7,737	602	127,118
Subordinated bonds issued	–	–	–	–	–	39,928	–	39,928
Total liabilities	3,946,225	326,116	461,897	1,092,260	279,765	55,457	602	6,162,322
(Short)/long position	(3,764,563)	70,646	(27,917)	198,893	1,723,961	1,300,617	917,880	419,517
Notional amount of derivatives	–	77,780	76,287	394,752	98,003	42,392	–	689,214

(Expressed in millions of Renminbi unless otherwise stated)

40 RISK MANAGEMENT (continued)

(c) Liquidity risk (continued)

Bank (continued)

	2006							
	Repayable on demand	Within one month	Between one month and three months	Between three months and one year	Between one year and five years	More than five years	Indefinite (note(i))	Total
Assets								
Cash and balances with central banks	133,841	–	–	–	–	–	405,715	539,556
Amounts due from banks and non-bank financial institutions	12,639	45,317	12,952	4,879	239	–	–	76,026
Loans and advances to customers	20,744	109,882	235,879	830,429	826,248	695,284	48,766	2,767,232
Investments (note (ii))	–	48,611	155,818	495,673	776,407	418,328	9,150	1,903,987
Amounts due from subsidiaries	132	400	510	–	502	703	9,800	12,047
Others	1,763	5,729	11,425	18,942	3,178	675	77,343	119,055
Total assets	169,119	209,939	416,584	1,349,923	1,606,574	1,114,990	550,774	5,417,903
Liabilities								
Amounts due to central banks	21	–	1,235	–	–	–	–	1,256
Amounts due to banks and non-bank financial institutions	203,785	20,973	14,112	4,673	250	–	–	243,793
Amounts due to subsidiaries	529	543	111	25	–	–	–	1,208
Deposits from customers	2,634,713	361,530	349,076	997,298	336,909	13,317	–	4,692,843
Certificates of deposit issued	–	–	–	1,806	4,151	–	–	5,957
Others	44,320	7,190	13,622	25,430	8,394	4,237	25	103,218
Subordinated bonds issued	–	–	–	–	–	39,917	–	39,917
Total liabilities	2,883,368	390,236	378,156	1,029,232	349,704	57,471	25	5,088,192
(Short)/long position	(2,714,249)	(180,297)	38,428	320,691	1,256,870	1,057,519	550,749	329,711
Notional amount of derivatives	–	69,813	67,965	376,189	40,299	19,017	–	573,283

Notes:

(i) For cash and balances with central banks, the indefinite period amount represents statutory deposit reserves and fiscal balances maintained with the PBC. For amounts due from banks and non-bank financial institutions, loans and advances to customers, receivables and debt securities within investments, they represent the balances being impaired or overdue for more than one month. Equity investments are also reported under indefinite period.

(ii) Of the amounts in investments, RMB459,439 million (2006: RMB324,322 million) and RMB450,824 million (2006: RMB319,355 million) are trading securities and available-for-sale investments of the Group and the Bank respectively, the remaining term to maturity of which does not represent the intended holding period by the Group and the Bank.

(Expressed in millions of Renminbi unless otherwise stated)

40 RISK MANAGEMENT (continued)

(c) Liquidity risk (continued)

The following tables provide an analysis of the contractual undiscounted cashflow of non-derivatives financial liabilities and off-balance sheet credit commitments of the Group and the Bank at the balance sheet date. The Group's and the Bank's expected cash flows on these instruments vary significantly from this analysis.

Group

	2007							
	Carrying amount	Gross cash outflow	Repayable on demand	Within one month	Between one month and three months	Between three months and one year	Between one year and five years	More than five years
Amounts due to central banks	50,973	51,398	6	50,417	975	–	–	–
Amounts due to banks and non-bank financial institutions	606,061	609,396	513,110	80,469	11,140	4,645	32	–
Deposits from customers	5,340,316	5,468,056	3,392,401	212,919	446,308	1,110,938	296,289	9,201
Certificates of deposit issued	9,284	9,835	–	273	1,157	3,837	4,568	–
Other financial liabilities	26,355	26,355	22,504	1,696	580	905	–	670
Subordinated bonds issued	39,928	58,928	–	–	–	2,012	10,954	45,962
	6,072,917	6,223,968	3,928,021	345,774	460,160	1,122,337	311,843	55,833
Off-balance sheet credit commitments	–	267,516	108,751	28,187	32,836	44,566	38,001	15,175

	2006							
	Carrying amount	Gross cash outflow	Repayable on demand	Within one month	Between one month and three months	Between three months and one year	Between one year and five years	More than five years
Amounts due to central banks	1,256	1,264	21	–	1,243	–	–	–
Amounts due to banks and non-bank financial institutions	243,968	244,246	203,957	21,080	14,179	4,766	264	–
Deposits from customers	4,721,256	4,798,777	2,642,368	377,838	363,789	1,026,295	371,543	16,944
Certificates of deposit issued	6,957	7,403	–	18	24	1,995	5,366	–
Other financial liabilities	36,549	36,549	23,008	2,981	3,549	6,227	546	238
Subordinated bonds issued	39,917	60,118	–	–	–	1,909	9,574	48,635
	5,049,903	5,148,357	2,869,354	401,917	382,784	1,041,192	387,293	65,817

(Expressed in millions of Renminbi unless otherwise stated)

40 RISK MANAGEMENT (continued)

(c) Liquidity risk (continued)

Bank

	2007							
	Carrying amount	Gross cash outflow	Repayable on demand	Within one month	Between one month and three months	Between three months and one year	Between one year and five years	More than five years
Amounts due to central banks	50,973	51,398	6	50,417	975	–	–	–
Amounts due to banks and non-bank financial institutions	605,076	608,401	512,980	80,228	10,520	4,641	32	–
Amounts due to subsidiaries	22,997	23,032	5,668	1,190	11,871	4,099	204	–
Deposits from customers	5,307,797	5,434,836	3,385,118	194,705	440,762	1,109,719	295,829	8,703
Certificates of deposit issued	8,347	8,856	–	273	1,156	2,859	4,568	–
Other financial liabilities	24,534	24,534	21,994	752	261	857	–	670
Subordinated bonds issued	39,928	58,928	–	–	–	2,012	10,954	45,962
	6,059,652	6,209,985	3,925,766	327,565	465,545	1,124,187	311,587	55,335
Off-balance sheet credit commitments	–	263,857	106,014	27,953	32,368	44,348	38,000	15,174

	2006							
	Carrying amount	Gross cash outflow	Repayable on demand	Within one month	Between one month and three months	Between three months and one year	Between one year and five years	More than five years
Amounts due to central banks	1,256	1,264	21	–	1,243	–	–	–
Amounts due to banks and non-bank financial institutions	243,793	244,071	203,872	21,038	14,157	4,740	264	–
Amounts due to subsidiaries	1,208	1,209	529	544	111	25	–	–
Deposits from customers	4,692,843	4,770,039	2,635,294	362,152	358,735	1,025,425	371,489	16,944
Certificates of deposit issued	5,957	6,333	–	17	23	1,981	4,312	–
Other financial liabilities	35,195	35,195	22,506	2,850	3,282	5,896	460	201
Subordinated bonds issued	39,917	60,118	–	–	–	1,909	9,574	48,635
	5,020,169	5,118,229	2,862,222	386,601	377,551	1,039,976	386,099	65,780

(Expressed in millions of Renminbi unless otherwise stated)

40 RISK MANAGEMENT (continued)

(d) Derivatives

Derivatives include forward, swap and option transactions undertaken by the Group in the foreign exchange and interest rate markets. The Group, through the operations of its branch network, structures deals to offer customised risk management products to suit individual customer needs. These positions are actively managed through entering offsetting deals with external parties to ensure that the Group's net exposures are within acceptable risk levels. The Group also uses derivatives (principally foreign exchange options and swaps, and interest rate swaps) in the management of asset and liability portfolios and structural positions.

Group

	2007			2006		
	Notional amounts (note(i))	Fair values		Notional amounts	Fair values	
	Total	Assets	Liabilities	Total	Assets	Liabilities
Interest rate derivatives	121,169	1,322	1,403	115,271	1,107	1,040
Currency derivatives (note(ii))	584,108	13,308	6,548	472,459	13,407	1,675
Precious metal derivatives	67	—	1	—	—	—
Stock options purchased	36	2	—	—	—	—
Total	705,380	14,632	7,952	587,730	14,514	2,715

Bank

	2007			2006		
	Notional amounts	Fair values		Notional Amounts	Fair values	
	Total	Assets	Liabilities	Total	Assets	Liabilities
Interest rate derivatives	120,091	1,308	1,395	113,999	1,088	1,035
Currency derivatives (note(ii))	569,020	12,986	6,213	459,284	13,198	1,487
Precious metal derivatives	67	—	1	—	—	—
Stock options purchased	36	2	—	—	—	—
Total	689,214	14,296	7,609	573,283	14,286	2,522

(Expressed in millions of Renminbi unless otherwise stated)

40 RISK MANAGEMENT (continued)

(d) Derivatives (continued)

Notes:

(i) The notional amounts of the derivatives indicate the volume of transactions outstanding at the balance sheet date, they do not represent amounts at risk.

(ii) On 12 January 2005, the Bank entered into an agreement with Huijin, pursuant to which the Bank purchased from Huijin an option to sell to Huijin a maximum of USD22,500 million in exchange for Renminbi at a pre-determined exchange rate of USD1 to RMB8.2769. The option has been exercised in 2007 in twelve equal monthly instalments. The total option premium of RMB5,587 million has been paid to Huijin in twelve equal monthly instalments in 2007.

The fair value of option as at 31 December 2006 was approximately RMB12,058 million, which was included in "Positive fair value of derivatives". The premium payable was stated at its discounted value of approximately RMB5,496 million as at 31 December 2006 and was included under "Other liabilities and provisions" (Note 30).

The realised exchange gain of approximately RMB2,505 million for the exercised option was recognised as net foreign exchange gain for the year ended 31 December 2007. The change in fair value of the option of approximately RMB2,365 million was recognised as net foreign exchange gain for the year ended 31 December 2006.

The Group purchased derivatives to hedge currency risk after the above option was exercised in 2007 in twelve equal monthly instalments.

The credit risk-weighted amounts in respect of these derivatives are as follows:

	Group		Bank	
	2007	2006	**2007**	2006
Interest rate derivatives	**1,843**	2,075	**1,839**	2,049
Currency derivatives	**4,040**	3,506	**3,985**	3,165
Equity derivatives	**2**	—	**2**	—

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 effects of bilateral netting arrangements have been taken into account in calculating the credit risk-weighted amounts.

(e) Operational risks

Operational risk represents the risk of loss due to deficient and flawed internal processes, personnel and information system, or other external events.

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

— implementing the "Operational Risk Management Policy for CCBC"; defining the segregation of duties, the management process and management principles; as well as constructing the Group's overall operational risk management framework;

40 RISK MANAGEMENT (continued)

(e) Operational risks (continued)

— pilot-testing the self-assessment method for operational risk and internal control processes in certain branches; setting the self-assessment policies, standardizing the statistical analysis on the Group's operational risk loss data; building up the Group's operational risk loss database; installing independence on operational risk management and reinforcing key controls monitoring on operational risk management;

— establishing an internal reporting system for any staff misconduct which may adversely affect the Group's business. Under the internal reporting system, statistics for staff misconduct are regularly reported to the Head Office, while significant incidents are required to be reported to the Head Office within 24 hours after their occurrence;

— amending and continuously improving the internal control system; enhancing staff training; implementing an accountability system to ensure compliance with policies and processes; as well as establishing relevant policies and procedures, in which the management is held responsible for any staff misconduct;

— strengthening a system of operational checks and balances between departments and different positions, as well as the centralized assignment and rotation of key personnel;

— developing the system's authorization management and business operational model;

— backing-up data in the Group's key data processing system to minimize operational risks from an IT malfunction, and setting up a computer disaster recovery centre to automatically backup operational data; and

— forming an anti-money laundering team within the Compliance Department to bolster legal cash management, standardize account management, and improve anti-money laundering education and training to ensure all staff throughout the Bank have the necessary knowledge and basic skills to combat money laundering activities.

(f) Fair value

(i) Financial assets

The Group's financial assets mainly include cash, amounts due from central bank, banks and non-bank financial institutions, loans and advances to customers, and investments.

Amounts due from central banks, banks and non-bank financial institutions

Amounts due from central bank, banks and non-bank financial institutions are mainly priced at market interest rates and mature within one year. Accordingly, the carrying values approximate the fair values.

Loans and advances to customers

Loans and advances to customers are mostly priced at floating rates close to the PBC rates. Accordingly, their carrying values approximate the fair values.

(Expressed in millions of Renminbi unless otherwise stated)

40 RISK MANAGEMENT (continued)

(f) Fair value (continued)

(i) Financial assets (continued)

Investments

Available-for-sale investments and debt securities at fair value through profit or loss are stated at fair value in the financial statements. The following table shows the carrying values and the fair values of receivables and held-to-maturity debt securities which are not presented on the balance sheet at their fair values.

Group

	Carrying values		Fair values	
	2007	2006	**2007**	2006
Receivables	**551,336**	546,357	**541,152**	545,538
Held-to-maturity debt securities	**1,191,035**	1,038,713	**1,177,626**	1,045,201

Bank

	Carrying values		Fair values	
	2007	2006	**2007**	2006
Receivables	**551,336**	546,357	**541,152**	545,538
Held-to-maturity debt securities	**1,190,425**	1,038,275	**1,176,332**	1,044,763

(ii) Financial liabilities

The Group's financial liabilities mainly include amounts due to central banks, amounts due to banks and non-bank financial institutions, deposits from customers, certificates of deposit issued and subordinated bonds issued. The carrying values of financial liabilities approximated their fair values at the balance sheet date, except that the fair value of subordinated bonds issued as at 31 December 2007 was RMB39,998 million (2006: RMB41,100 million), which was higher than their carrying value of RMB39,928 million (2006: RMB39,917 million).

40 RISK MANAGEMENT (continued)

(g) Capital management

The Group's capital management comprises the management of the capital adequacy ratio, capital financing, and economic capital, of which the prime focus is capital adequacy ratio management. The Group calculates capital adequacy ratio in accordance with the guidelines issued by the CBRC. These guidelines may have significant difference with the relevant requirements in Hong Kong or other jurisdictions. The capital of the Group is analysed into core capital and supplementary capital.

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

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

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

Capital allocation

Maximisation of the return on risk-adjusted capital is the principal basis used in determining how capital is allocated within the Group to particular businesses or activities. Account is also taken of synergies with other businesses and activities, the availability of management and other resources, and the fit of the activity with the Group's longer term strategic objectives. The Group's policies in respect of capital management and allocation are reviewed regularly by the board of directors.

The amount of capital allocated to each business or activity is based primarily upon the regulatory capital, but in some cases the regulatory requirements do not reflect fully the varying degree of risk associated with different activities.

In such cases the capital requirements may be flexed to reflect differing risk profiles. The process of allocating capital to specific businesses and activities is undertaken by the ALM.

(Expressed in millions of Renminbi unless otherwise stated)

40 RISK MANAGEMENT (continued)

(g) Capital management (continued)

The Group's consolidated regulatory capital position calculated in accordance with the guidelines issued by the CBRC as at 31 December 2006 and 2007 were as follows:

	2007	2006
Core capital adequacy ratio (note (i))	**10.37%**	9.92%
Capital adequacy ratio (note (ii))	**12.58%**	12.11%
Components of capital base		
Core capital:		
— share capital	**233,689**	224,689
— capital reserve, investment revaluation reserve and exchange reserve (note (iv))	**85,408**	40,852
— surplus reserve and general reserve	**49,393**	21,476
— retained earnings (note (iii) & (iv))	**16,609**	22,421
— minority interests	**1,304**	95
	386,403	309,533
Supplementary capital:		
— general provision for doubtful debts	**33,373**	28,736
— positive changes in fair value of available-for-sale investments and trading financial instruments (note (iv))	**10,527**	—
— term subordinated bonds	**40,000**	40,000
	83,900	68,736
Total capital base before deductions	**470,303**	378,269
Deductions:		
— goodwill	**(1,624)**	(1,743)
— unconsolidated equity investments	**(4,687)**	(2,040)
— others (note (v))	**(810)**	(91)
Total capital base after deductions	**463,182**	374,395
Risk-weighted assets (note (vi))	**3,683,123**	3,091,089

40 RISK MANAGEMENT (continued)

(g) Capital management (continued)

Notes:

(i) Core capital adequacy ratio is calculated by dividing the net amount of core capital, which is after deductions of 100% of goodwill and 50% of unconsolidated equity investments and others, by risk-weighted assets.

(ii) The capital adequacy ratio is calculated by dividing the total capital base after deductions by risk-weighted assets.

(iii) Retained earnings have been deducted by the dividend proposed by the Bank after the balance sheet date.

(iv) The reserve arising from the cumulative net positive changes in the fair value of available-for-sale investments is excluded from the core capital and 50% of the balance is included in supplementary capital as at 31 December 2007. Such cumulative net positive changes in fair value were included in the core capital for the calculation of capital adequacy ratio as at 31 December 2006. In addition, the unrealised cumulative net positive changes in fair value of trading financial instruments, net of income tax, are excluded from the core capital and included in the supplementary capital at 31 December 2007, but which were included in the core capital for the calculation of capital adequacy ratio as at 31 December 2006.

(v) Others mainly represent investments in those asset backed securities specified by the CBRC.

(vi) The balances of risk-weighted assets include 12.5 times of the market risk capital.

41 SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

In determining the carrying amounts of some assets and liabilities, the Group makes estimates of the effects of uncertain future events on those assets and liabilities at the balance sheet date. These estimates involve assumptions about such items as risk adjustment to cash flows or discount rates used and future changes in prices affecting other costs. The Group's estimates and assumptions are based on historical experience and expectations of future events and are reviewed periodically. In addition to assumptions and estimations of future events, judgements are also made during the process of applying the Group's accounting policies.

(a) Impairment losses on loans and advances and held-to-maturity investments

The Group reviewed the portfolios of loans and advances and held-to-maturity investments periodically to assess whether impairment losses exist and if they exist, the amounts of impairment losses. Objective evidence for impairment includes observable data indicating that there is a measurable decrease in the estimated future cash flows identified with an individual loan or held-to-maturity investment. It also includes observable data indicating adverse changes in the repayment status of borrowers or issuers in the assets portfolio or national or local economic conditions that correlate with defaults on the assets in the portfolio. The impairment loss for a loan or held-to-maturity investment that is individually assessed for impairment is the decrease in the estimated discounted future cash flow of that asset. When loans and advances and held-to-maturity investments are collectively assessed for impairment, the estimate is based on historical loss experience for assets with credit risk characteristics similar to the loans and advances. Historical loss experience is adjusted on the basis of the relevant observable data that reflect current economic conditions. Management review the methodology and assumptions used in estimating future cash flows regularly to reduce any difference between loss estimates and actual loss.

41 SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

(b) Impairment of available-for-sale equity investments

For available-for-sale equity investments, a significant or prolonged decline in fair value below cost is considered to be objective evidence of impairment. Judgement is required when determining whether a decline in fair value has been significant or prolonged. In making this judgement, the Group considers historical data of market volatility and historical share price of the specific equity investment as well as other factors, such as sector performance, and financial information regarding the investee.

(c) Fair value of financial instruments

The fair values for financial instruments without active market to provide quoted price are established by using valuation techniques. These techniques include using recent arm's length market transactions, reference to the current fair value of similar instruments, discounted cash flow analysis and option pricing models. The Group has established a process to ensure that valuation techniques are constructed by qualified personnel and are validated and reviewed by independent personnel. Valuation techniques are certified before implementation and are calibrated to ensure that outputs reflect actual market conditions. Valuation models established by the Group make the maximum use of market inputs and rely as little as possible on Group-specific data. However, it should be noted that some inputs, such as credit and counterparty risk, and risk correlations, require management estimates. Management estimates and assumptions are reviewed periodically and are adjusted if necessary.

(d) Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity investments if the Group has the intention and ability to hold them until maturity. In evaluating whether the requirements to classify a financial asset as held-to-maturity are met, management make significant judgements. Failure in correctly assessing the Group's intention and ability to hold specific investments until maturity may result in reclassification of the whole portfolio as available-for-sale.

(e) Income taxes

Determining income tax provisions involves judgement on the future tax treatment of certain transactions. The Group carefully evaluates the tax implications of transactions and tax provisions are set up accordingly. The tax treatment of such transactions is reconsidered periodically to take into account all changes in tax legislations. Deferred tax assets are recognised for tax losses not yet used and temporary deductible differences. As those deferred tax assets can only be recognised to the extent that it is probable that future taxable profits will be available against which the unused tax credits can be utilised, management's judgement is required to assess the probability of future taxable profits. Management's assessment is constantly reviewed and additional deferred tax assets are recognised if it becomes probable that future taxable profits will allow the deferred tax assets to be recovered.

(Expressed in millions of Renminbi unless otherwise stated)

42 MATERIAL RELATED PARTY TRANSACTIONS

(a) Huijin and companies under Huijin

(i) Huijin

Huijin directly and indirectly owned 67.97% and 70.69% of the issued share capital of the Bank as at 31 December 2007 and 2006. Huijin was incorporated on 16 December 2003 as a wholly state-owned investment company with the approval of the State Council. Huijin is a government agency, and was established to hold certain equity investments on behalf of the State Council. As part of the Restructuring, the Group carried out the following transactions with Huijin:

— Huijin has undertaken to assume all the debts, obligations and liabilities relating to the business acquired by the Bank, which arose for any reason prior to 31 December 2003 and were not succeeded by the Bank at Restructuring; and

— Huijin entered into a foreign exchange option agreement with the Bank on 12 January 2005. The purpose of the option is to hedge against the Bank's currency risk arising from capital contributed by Huijin of USD22,500 million. The option has been fully exercised during the year ended 31 December 2007.

Approved by the State Council China Investment Corporation ("CIC") was established on 29 September 2007 with a registered capital of USD200 billion. Subject to the completion of the relevant registration procedures, Huijin will become a wholly owned subsidiary of CIC and continue to exercise rights and obligations in the Bank on behalf of the PRC government. The application procedure to transfer the equity interests of Huijin to CIC was still in progress at 31 December 2007.

Transactions entered into with Huijin in the normal course of business at market rates during the year, and the corresponding balances outstanding at the balance sheet date are as follows:

	Group and Bank	
	2007	2006
Interest expense arising from:		
Deposits from customers	**944**	1,120
Liabilities:		
Deposits from customers	**11,938**	24,616
Interest payable	**2**	63
Total	**11,940**	24,679

(Expressed in millions of Renminbi unless otherwise stated)

42 MATERIAL RELATED PARTY TRANSACTIONS (continued)

(a) Huijin and companies under Huijin (continued)

(ii) Jianyin

As at 31 December 2007, Jianyin, which is wholly owned by Huijin, directly owned 8.85% (2006: 9.21%) of the issued share capital of the Bank. Its principal activities include the holding of equity investments, asset management and other business activities as approved by the relevant PRC government authorities.

Jianyin and its affiliates entered into certain services and operating lease agreements with the Group subsequent to the Restructuring. These transactions were entered in the normal course of business at market rates.

Transactions during the year and the corresponding balances outstanding at the balance sheet date with Jianyin and its affiliates are as follows:

	Group and Bank	
	2007	2006
Income or expenses:		
Interest income	**22**	26
Interest expenses	**318**	170
Other income (note (ii-1))	**242**	133
Operating expenses (note (ii-2))	**801**	646
Assets or liabilities:		
Loans and advances to customers	**–**	46
Other assets (note (ii-3))	**305**	275
Amounts due to banks and non-bank financial institutions (note (ii-4))	**70,698**	13,706
Other liabilities and provisions (Note 30)	**6,471**	5,320
Deposits from customers	**3,247**	1,130

Notes:

(ii-1) This includes custody management fee income earned by the Group for managing assets on behalf of Jianyin and its affiliates and income from disposal of property and equipment to Jianyin and its affiliates.

(ii-2) This mainly represents rental expenses paid by the Group for leased assets, including properties and motor vehicles, owned by Jianyin and its affiliates, and fees for supporting services provided by Jianyin and its affiliates.

(ii-3) This mainly represents payments for the acquisition of property and equipment by the Group on behalf of Jianyin and its affiliates.

(ii-4) Amounts due to Jianyin and its affiliates are unsecured and are repayable under normal commercial terms. No allowance for impairment losses was made by the Group in respect of amounts due from Jianyin and its affiliates.

For the year ended 31 December 2007, the Group acquired property and equipment with net amount RMB nil million (2006: RMB120 million) from Jianyin and its affiliates.

For the year ended 31 December 2007, the Group disposed of long outstanding receivables with a net book value of RMB73 million (2006: Nil) at a consideration of RMB92 million to Jianyin.

(Expressed in millions of Renminbi unless otherwise stated)

42 MATERIAL RELATED PARTY TRANSACTIONS (continued)

(a) Huijin and companies under Huijin (continued)

(iii) Other companies under Huijin

Huijin also has controlling equity interests or significant influence in certain other banks and non-bank financial institutions in Mainland China. The Group transacts with these companies according to normal commercial terms and at market rates. These include sale and purchase of debt securities, conducting money market transactions and inter-bank clearing.

Transactions during the year and corresponding balances outstanding at the balance sheet date with these companies are as follows:

	Group and Bank	
	2007	2006
Interest income arising from:		
Debt securities issued by these banks and non-bank financial institutions	**661**	620
Amounts due from these banks and non-bank financial institutions	**196**	38
Loans and advances to customers	**10**	3
	867	661
Interest expense arising from:		
Amounts due to these banks and non-bank financial institutions	**757**	141
Assets or liabilities:		
Debt securities issued by these banks and non-bank financial institutions	**15,993**	15,974
Amounts due from these banks and non-bank financial institutions	**6,235**	3,374
Loans and advances to customers	**3**	240
Amounts due to these banks and non-bank financial institutions	**47,875**	16,934
Deposits from customers	**7,512**	—

The Group has issued subordinated bonds with a nominal value of RMB40,000 million. These bonds are bearer bonds and are traded in the secondary market. Accordingly, the Group has no information in respect of the amount of the Group's bonds held by these banks and non-bank financial institutions at the balance sheet date.

(Expressed in millions of Renminbi unless otherwise stated)

42 MATERIAL RELATED PARTY TRANSACTIONS (continued)

(b) Subsidiaries

Transactions during the year and corresponding balances outstanding at the balance sheet date with subsidiaries are as follows:

	Bank	
	2007	**2006**
Income or expenses:		
Interest income	**252**	89
Interest expenses	**245**	15
Fee and commission income	**55**	—
Fee and commission expenses	**—**	15
Net trading gain	**48**	—
Other operating income	**24**	15
Assets or liabilities:		
Amounts due from banks and non-bank financial institutions	**17,052**	750
Loans and advances to customers	**827**	292
Debt securities issued by these banks and non-bank financial institutions	**936**	1,205
Other assets	**12,715**	9,800
Amounts due to banks and non-bank financial institutions	**21,080**	654
Other liabilities and provisions	**555**	502
Deposits from customers	**1,448**	52

42 MATERIAL RELATED PARTY TRANSACTIONS (continued)

(c) Transactions with other PRC state-owned entities

The Group operates in an economic regime currently predominated by entities directly or indirectly owned by the PRC government through its government authorities, agencies, affiliations and other organisations ("state-owned entities").

Transactions with other state-owned entities include but are not limited to the following:

— lending and deposit taking;

— taking and placing of inter-bank balances;

— entrusted lending and other custody services;

— insurance and securities agency, and other intermediary services;

— sale, purchase, underwriting and redemption of bonds issued by other state-owned entities;

— purchase, sale and leases of property and other assets; and

— rendering and receiving of utilities and other services.

These transactions are conducted in the ordinary course of the Group's banking business on terms similar to those that would have been entered into with non-state-owned entities. The Group has also established its pricing strategy and approval processes for major products and services, such as loans, deposits and commission income. Such pricing strategy and approval processes do not depend on whether the customers are state-owned entities or not. Having due regard to the substance of the relationships, the Group is of the opinion that none of these transactions are material related party transactions that require separate disclosure.

(d) Key management personnel

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including directors, supervisors and senior executives.

(Expressed in millions of Renminbi unless otherwise stated)

42 MATERIAL RELATED PARTY TRANSACTIONS (continued)

(d) Key management personnel (continued)

The compensation of directors and supervisors is disclosed in Note 11. The senior executives annual compensation before individual income tax during the year is as follows:

	Group and Bank					
	2007					
	Salaries RMB'000	Discretionary bonus RMB'000	Sub-total RMB'000	Contributions to defined Contribution Retirement Schemes RMB'000	Other benefits in kind (note (i)) RMB'000	Total RMB'000
Vice president						
Xin Shusen	492	685	1,177	21	353	1,551
Chen Zuofu	492	697	1,189	21	353	1,563
Fan Yifei	492	680	1,172	21	368	1,561
Chief financial officer						
Pang Xiusheng	445	578	1,023	21	303	1,347
Chief risk officer						
Zhu Xiaohuang	445	567	1,012	21	306	1,339
Chief audit officer						
Yu Yongshun	445	536	981	21	295	1,297
Controller of wholesale banking						
Gu Jingpu	445	540	985	21	299	1,305
Controller of retail banking						
Du Yajun	445	546	991	21	297	1,309
Controller of investment and wealth management banking						
Mao Yumin (appointed in September 2007)	156	104	260	–	–	260
Secretary to the board of directors						
Chen Caihong (appointed in August 2007)	111	133	244	5	59	308
Company secretary						
Chan Mei Sheung (appointed in October 2007)	836	412	1,248	17	–	1,265
Qualified accountant						
Yuen Yiu Leung (note (iii))	1,984	435	2,419	98	22	2,539
	6,788	5,913	12,701	288	2,655	15,644
Resigned in 2007						
Company secretary						
Ha Yiu Fai (note (ii) & (iii))	1,754	242	1,996	74	24	2,094
Secretary to the board of directors and controller of investment and wealth management banking						
Zhang Long (note (ii))	183	216	399	10	88	497
	8,725	6,371	15,096	372	2,767	18,235

(Expressed in millions of Renminbi unless otherwise stated)

42 MATERIAL RELATED PARTY TRANSACTIONS (continued)

(d) Key management personnel (continued)

	Group and Bank					
	2006					
	Salaries RMB'000	Discretionary bonus RMB'000	Sub-total RMB'000	Contributions to defined Contribution Retirement Schemes RMB'000	Other benefits in kind (note (i)) RMB'000	Total RMB'000
Vice president						
Xin Shusen	426	585	1,011	19	208	1,238
Chen Zuofu	426	581	1,007	19	204	1,230
Fan Yifei	426	634	1,060	19	241	1,320
Chief financial officer						
Pang Xiusheng (appointed in April 2006)	253	338	591	13	131	735
Chief risk officer						
Zhu Xiaohuang (appointed in April 2006)	253	346	599	13	105	717
Chief audit officer						
Yu Yongshun	380	470	850	19	145	1,014
Secretary to the board of directors and controller of investment and wealth management banking						
Zhang Long (appointed in December 2006)	221	282	503	11	149	663
Controller of wholesale banking						
Gu Jingpu (appointed in May 2006)	221	289	510	11	110	631
Controller of retail banking						
Du Yajun (appointed in May 2006)	221	289	510	–	87	597
Company secretary						
Ha Yiu Fai	1,685	657	2,342	101	30	2,473
Qualified accountant						
Yuen Yiu Leung	1,130	770	1,900	90	16	2,006
	5,642	5,241	10,883	315	1,426	12,624
Resigned in 2006						
Secretary to the board of directors						
Xuan Changneng	285	349	634	16	149	799
	5,927	5,590	11,517	331	1,575	13,423

42 MATERIAL RELATED PARTY TRANSACTIONS (continued)

(d) Key management personnel (continued)

Notes:

(i) Other benefits in kind included the Bank's contributions to medical fund, housing provident fund and other social insurances, which are payable to labour and securities authorities based on the lower of certain percentage of the salaries or the prescribed upper limits as required by the relevant regulations issued by the government authorities. Other benefits also included the Bank's contribution to its own corporate annuity plan (which was set up in accordance with the relevant policies issued by the government authorities) and supplementary medical insurance.

(ii) Mr Zhang Long resigned as the Controller of investment and wealth management banking on 21 June 2007 and Mr Mao Yumin was appointed as the Controller of investment and wealth management banking on 5 September 2007; Mr Zhang Long resigned as the Secretary to the Board of Directors in 2007 and Mr Chen Caihong was appointed as the Secretary to the Board of Directors on 24 August 2007; Mr Ha Yiu Fai resigned as the Bank's Company secretary on 29 October 2007 and Ms. Chan Mei Sheung was appointed as the Bank's Company secretary on 29 October 2007.

(iii) Mr Yuen Yiu Leung's salaries include salary of 2005 and 2006 paid in 2007 of RMB350 thousand; Mr Ha Yiu Fai's salaries include salary of 2005 and 2006 paid in 2007 of RMB177 thousand.

(e) Contributions to defined contribution retirement schemes

The Group participates in various defined contribution retirement schemes organised by municipal and provincial governments for its employees in Mainland China. For its employees outside Mainland China, the Group participates in various defined contribution retirement schemes at funding rates determined in accordance with the local practices and regulations. The details of the Group's defined contribution retirement schemes are described in Notes 30(a) and 31(a).

43 EVENTS AFTER THE BALANCE SHEET DATE

Final dividend

After the balance sheet date, the Directors proposed a final dividend. Further details are disclosed in Note 34(b).

44 ULTIMATE PARENT

The Group is owned and controlled by the PRC government. The majority of the Group's shares are held by Huijin, a government agency.

45 COMPARATIVE FIGURES

As a result of adopting *IFRS 7, Financial instruments: Disclosures*, the Amendments to IAS 1, *Presentation of financial statements: Capital disclosure*, and complying with the Banking (Disclosure) Rules, certain comparative figures have been adjusted to conform with changes in disclosures in current year and to show separately comparative amounts in respect of items disclosed for the first time in 2007. Further details of these developments are disclosed in Note 2.

46 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2007

Up to the date of issue of the financial statements, a number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2007, and have not been applied in preparing these consolidated financial statements.

The Group is in the process of making assessment of the expected impact of these amendments, new standards and new interpretations at initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Bank's results of operations and financial position.

Revised IAS 1 Presentation of Financial Statements requires the separation of changes in equity of an entity arising from transactions with owners from other changes in equity. The Group will apply Revised IAS 1 for annual accounting periods beginning 1 January 2009.

IFRS 8 Operating Segments introduces the "management approach" to segment reporting. The Group will apply IFRS 8 for annual accounting periods beginning 1 January 2009.

IFRIC 11 IFRS 2 — Group and Treasury Share Transactions provides guidance on share-based payment transactions involving equity instruments of the entity (treasury share) or its parent. The Group will apply IFRIC 11 for annual accounting periods beginning 1 January 2008.

IFRIC 12 Service Concession Arrangements addresses the accounting treatment of assets and expense arising from service concession arrangements. The Group will apply IFRIC 12 for annual accounting periods beginning 1 January 2008.

IFRIC 13 Customer Loyalty Programmes addresses the accounting by entities that operates, or otherwise participate in, customer loyalty programmes under which the customer can redeem credits for awards such as free or discounted goods or services. The Group will apply IFRIC 13 for annual accounting periods beginning 1 January 2009.

IFRIC 14 IAS 19 — The limit on a Defined Benefit Asset, Minimum Funding Requirements ("MRF") and their Interaction clarifies when refunds or reductions in future contributions relating to defined benefit assets should be regarded as available and provides guidance on the impact of MFR. The Group will apply IFRIC 14 for annual accounting periods beginning 1 January 2008.

Unaudited Supplementary Financial Information

Year ended 31 December 2007 (Expressed in millions of Renminbi unless otherwise stated)

The information set out below does not form part of the audited financial statements, and is included herein for information purposes only.

(a) DIFFERENCE BETWEEN THE FINANCIAL STATEMENTS PREPARED UNDER IFRS AND THOSE PREPARED IN ACCORDANCE WITH PRC GAAP

China Construction Bank Corporation (the "Bank") prepares consolidated financial statements, which include the financial statements of the Bank and its subsidiaries (collectively the "Group"), in accordance with International Financial Reporting Standards ("IFRS") and its interpretations promulgated by the International Accounting Standards Board and the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

As a financial institution incorporated in the People's Republic of China (the "PRC") and listed in the Shanghai Stock Exchange, the Group also prepares its consolidated financial statements for the year ended 31 December 2007 in accordance with the Accounting Standards for Business Enterprises and other relevant regulations issued by the Ministry of Finance of the PRC (collectively "PRC GAAP").

There is no difference in the net profit for the year ended 31 December 2007 or total equity as at 31 December 2007 between the Group's consolidated financial statements prepared under IFRS and those prepared under PRC GAAP respectively.

(b) LIQUIDITY RATIOS

Group

	As at 31 December 2007	**Average for the year ended 31 December 2007**	As at 31 December 2006	Average for the year ended 31 December 2006
RMB current assets to RMB current liabilities	**40.98%**	**43.52%**	39.05%	43.30%
Foreign currency current assets to foreign currency current liabilities	**100.51%**	**172.01%**	200.36%	185.21%

The above liquidity ratios are calculated in accordance with the formula promulgated by the China Banking Regulatory Commission.

The Hong Kong Banking (Disclosure) Rules (the "Rule") became effective on 1 January 2007. The Rule requires the disclosure of average liquidity ratio, being the arithmetic mean of each calendar month liquidity ratio. The Group prepared liquidity ratio on a semiannual basis and the disclosed average liquidity ratio is the arithmetic mean of two consecutive liquidity ratios as at 31 December and 30 June.

For the year ended 31 December 2007 (Expressed in millions of Renminbi unless otherwise stated)

(c) CURRENCY CONCENTRATIONS

Group

	2007			
	US Dollars (RMB equivalent)	HK Dollars (RMB equivalent)	Others (RMB equivalent)	Total (RMB equivalent)
Spot assets	454,533	73,927	46,589	575,049
Spot liabilities	(167,987)	(78,756)	(30,169)	(276,912)
Forward purchases	155,788	21,834	33,183	210,805
Forward sales	(403,066)	(4,925)	(43,025)	(451,016)
Net option position	(4)	—	4	—
Net long position	39,264	12,080	6,582	57,926
Net structural position	31	378	57	466

	2006			
	US Dollars (RMB equivalent)	HK Dollars (RMB equivalent)	Others (RMB equivalent)	Total (RMB equivalent)
Spot assets	427,605	58,808	37,250	523,663
Spot liabilities	(173,449)	(53,402)	(24,991)	(251,842)
Forward purchases	153,315	11,839	14,607	179,761
Forward sales	(206,302)	(3,481)	(22,733)	(232,516)
Net option position	(175,615)	—	—	(175,615)
Net long position	25,554	13,764	4,133	43,451
Net structural position	—	301	11	312

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

— investments in property and equipment and premises, net of accumulated depreciation;

— capital and statutory reserves of overseas branches; and

— investments in overseas subsidiaries and related companies.

For the year ended 31 December 2007 (Expressed in millions of Renminbi unless otherwise stated)

(d) CROSS-BORDER CLAIMS

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

For the purpose of this unaudited supplementary financial information, Mainland China excludes the Hong Kong Special Administrative Region of the PRC ("Hong Kong"), the Macau Special Administrative Region of the PRC and Taiwan.

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

Cross-border claims have been disclosed by country or geographical area. A country or geographical area is reported where it constitutes 10% or more of the aggregate amount of cross-border claims, after taking into account any risk transfers. Risk transfers are only made if the claims are guaranteed by a party in a country which is different from that of the counterparty or if the claims are on an overseas branch of a bank whose head office is located in another country.

Group

	2007			
	Banks and non-bank financial institutions	**Public sector entities**	**Others**	**Total**
Asia Pacific excluding Mainland China	**42,051**	**1,355**	**32,515**	**75,921**
— of which attributed to Hong Kong	**12,706**	**899**	**17,102**	**30,707**
Europe	**57,474**	**—**	**10,064**	**67,538**
North and South America	**114,802**	**68,146**	**49,984**	**232,932**
	214,327	**69,501**	**92,563**	**376,391**

	2006			
	Banks and non-bank financial institutions	Public sector entities	Others	Total
Asia Pacific excluding Mainland China	26,317	3,769	24,475	54,561
— of which attributed to Hong Kong	8,550	1,424	7,406	17,380
Europe	61,064	—	9,205	70,269
North and South America	127,769	76,069	56,004	259,842
	215,150	79,838	89,684	384,672

The above cross-border claims are disclosed in accordance with the requirements of the Rule. According to these requirements, "Others" includes the transactions with sovereign. Prior to 2007, these transactions are disclosed in "Public sector entities". Comparative figures have been revised to conform with current year's presentation.

For the year ended 31 December 2007 (Expressed in millions of Renminbi unless otherwise stated)

(e) OVERDUE LOANS AND ADVANCES TO CUSTOMERS

Group

	2007	2006
Gross loans and advances to customers which have been overdue with respect to either principal or interest for periods of:		
— between 3 and 6 months	**6,847**	9,798
— between 6 and 12 months	**8,017**	14,295
— over 12 months	**52,159**	53,536
Total	**67,023**	77,629
As a percentage of total loans and advances to customers:		
— between 3 and 6 months	**0.21%**	0.34%
— between 6 and 12 months	**0.25%**	0.50%
— over 12 months	**1.59%**	1.86%
Total	**2.05%**	2.70%

The definition of overdue loans and advances to customers is set out in the unaudited supplementary financial information (f).

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

As at 31 December 2007, the loans and advances to customers of RMB56,981 million and RMB10,042 million of the above overdue loans and advances were subject to individual assessment and collective assessment for impairment respectively. The covered portion and uncovered portion of these individually assessed loans and advances were RMB13,058 million and RMB43,923 million respectively. The fair value of collaterals held against these individually assessed loans and advances was RMB16,406 million. The fair value of collaterals was estimated by management based on the latest available external valuations adjusted by taking into account the current realisation experience as well as market situation. The impairment allowances made against these individually assessed loans and advances were RMB41,635 million.

For the year ended 31 December 2007 (Expressed in millions of Renminbi unless otherwise stated)

(f) OVERDUE LOANS AND ADVANCES TO CUSTOMERS BY GEOGRAPHICAL SECTOR

Group

	2007	2006
Yangtze River Delta	**7,996**	9,599
Pearl River Delta	**9,552**	12,498
Bohai Rim	**18,702**	21,468
Central	**11,710**	12,142
Western	**10,468**	12,954
Northeastern	**6,232**	6,374
Head office	**2,186**	2,439
Outside Mainland China	**177**	155
Total	**67,023**	77,629

The above analysis represents loans and advances overdue for more than 90 days as required by the Rule.

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

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

For the year ended 31 December 2007 (Expressed in millions of Renminbi unless otherwise stated)

(g) RESCHEDULED LOANS AND ADVANCES TO CUSTOMERS

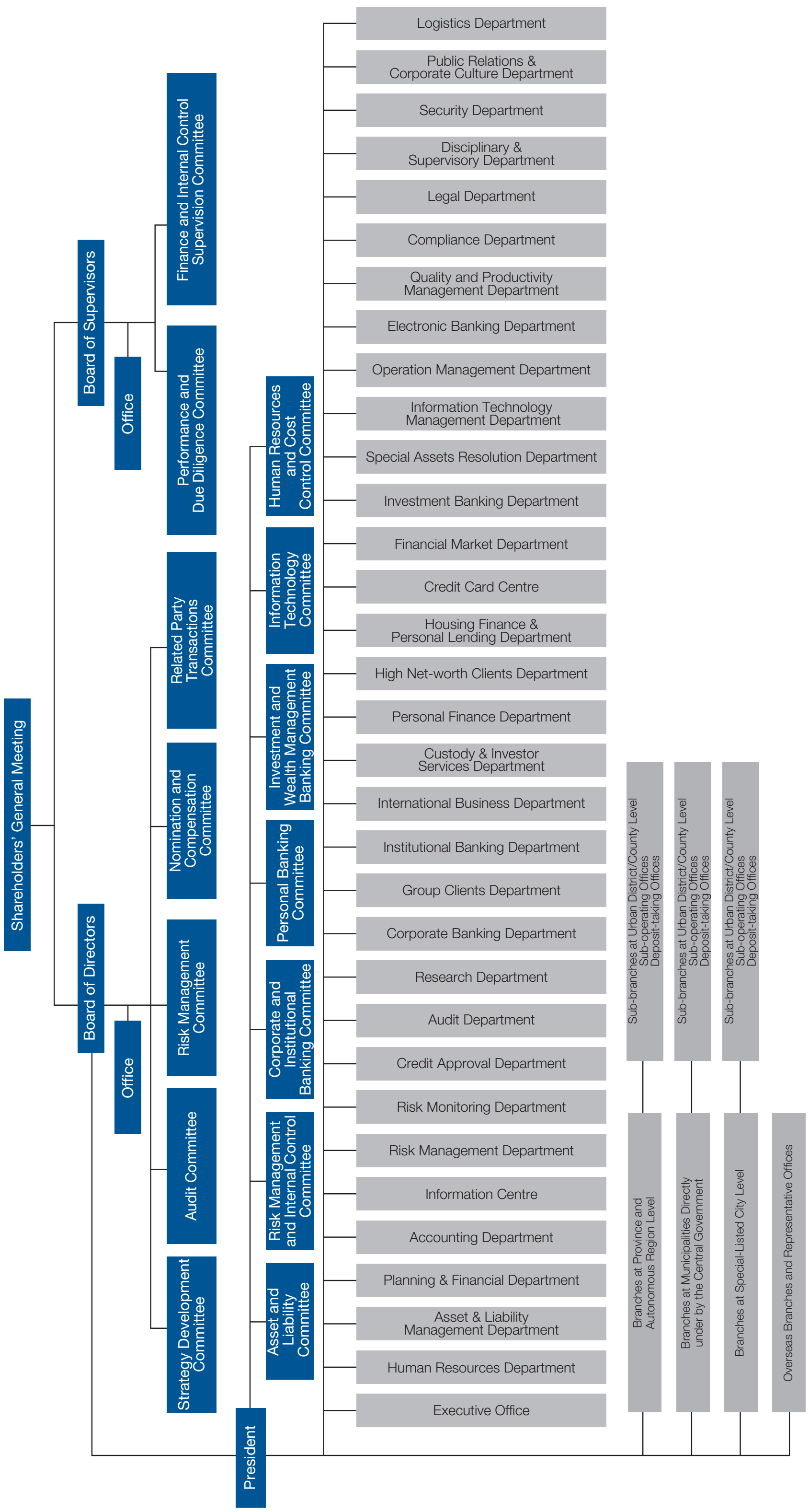
Group

	2007		2006	
		% of total loans and advances		% of total loans and advances
Rescheduled loans and advances to customers	**3,648**	**0.11%**	3,384	0.12%
Less:				
— rescheduled loans and advances to customers but overdue more than 90 days	**(2,471)**	**(0.08%)**	(1,929)	(0.07%)
Rescheduled loans and advances to customers overdue not more than 90 days	**1,177**	**0.03%**	1,455	0.05%

(h) NON-BANK MAINLAND CHINA EXPOSURE

The Bank is a commercial bank incorporated in Mainland China with its banking business primarily conducted in Mainland China. As at 31 December 2007, substantial amounts of the Bank's exposures arose from businesses with Mainland China entities or individuals. Analyses of various types of exposures by counterparty have been disclosed in the respective notes to the financial statements.

Organisational Structure



Branches and Subsidiaries

Tier-one Branches in Mainland China

Anhui Branch

Address : No. 253, Huizhou Road, Hefei
Postcode : 230001
Telephone : (0551) 2874100
Facsimile : (0551) 2872014

Beijing Branch

Address : No.4, Building 28, Xuanwumen West Street, Beijing
Postcode : 100053
Telephone : (010) 63603664
Facsimile : (010) 63603656

Chongqing Branch

Address : No. 123, Minzu Road, Yuzhong District, Chongqing
Postcode : 400010
Telephone : (023) 63771855
Facsimile : (023) 63771835

Dalian Branch

Address : No. 1, Jiefang Street, Zhongshan District, Dalian
Postcode : 116001
Telephone : (0411) 82818818
Facsimile : (0411) 82804560

Fujian Branch

Address : No.142, Guping Road, Fuzhou
Postcode : 350003
Telephone : (0591) 87811098
Facsimile : (0591) 87856865

Gansu Branch

Address : No. 77, Qin'an Road, Lanzhou
Postcode : 730030
Telephone : (0931) 4891555
Facsimile : (0931) 4891862

Guangdong Branch

Address : No. 509, Dongfeng Middle Road, Guangzhou
Postcode : 510045
Telephone : (020) 83018888
Facsimile : (020) 83013950

Guangxi Branch

Address : No. 92, Minzu Road, Nanning
Postcode : 530022
Telephone : (0771) 5513110
Facsimile : (0771) 5513012

Guizhou Branch

Address : No. 56, Zhonghua North Road, Guiyang
Postcode : 550001
Telephone : (0851) 6696000
Facsimile : (0851) 6696377

Hainan Branch

Address : CCB Plaza, Guomao Avenue, Haikou
Postcode : 570125
Telephone : (0898) 68587488
Facsimile : (0898) 68587569

Hebei Branch

Address : No. 40, Ziqiang Road, Shijiazhuang
Postcode : 050000
Telephone : (0311) 87888866
Facsimile : (0311) 88601010

Henan Branch

Address : No.80, Huayuan Road, Zhengzhou
Postcode : 450003
Telephone : (0371) 65556699
Facsimile : (0371) 65556688

Heilongjiang Branch

Address : No. 67, Hongjun Street, Nan'gang District, Harbin
Postcode : 150001
Telephone : (0451) 53619788
Facsimile : (0451) 53625552

Hubei Branch

Address : No. 709, Jianshe Street, Wuhan
Postcode : 430015
Telephone : (027) 65775888
Facsimile : (027) 65775881

Hunan Branch

Address : Yin'gang Plaza, No. 2, Baisha Road, Changsha
Postcode : 410005
Telephone : (0731) 4419191
Facsimile : (0731) 4419141

Jilin Branch

Address : No. 810, Xi'an Road, Changchun
Postcode : 130061
Telephone : (0431) 88573030
Facsimile : (0431) 88988748

Jiangsu Branch

Address : No. 188, Hongwu Road, Nanjing
Postcode : 210002
Telephone : (025) 84200545
Facsimile : (025) 84209316

Jiangxi Branch

Address : No. 366, Bayi Street, Nanchang
Postcode : 330006
Telephone : (0791) 6848200
Facsimile : (0791) 6848318

Branches and Subsidiaries

Liaoning Branch
Address : No. 176, Zhongshan Road, Heping District, Shenyang
Postcode : 110002
Telephone : (024) 22787600
Facsimile : (024) 22856915

Inner Mongolia Branch
Address : No. 9, Zhao Wuda Street, Huhhot
Postcode : 010010
Telephone : (0471) 6200303
Facsimile : (0471) 6200257

Ningbo Branch
Address : No. 31, Guangji Street, Ningbo
Postcode : 315010
Telephone : (0574) 87313888
Facsimile : (0574) 87325019

Ningxia Branch
Address : No. 98, Nanxun West Road, Yinchuan
Postcode : 750001
Telephone : (0951) 4126111
Facsimile : (0951) 4106165

Qingdao Branch
Address : No. 71, Guizhou Road, Qingdao
Postcode : 266002
Telephone : (0532) 82651888
Facsimile : (0532) 82670157

Qinghai Branch
Address : No. 59, West Street, Xining
Postcode : 810000
Telephone : (0971) 8261181
Facsimile : (0971) 8261225

Three Gorges Branch
Address : No. 1, Xiling First Road, Yichang, Hubei
Postcode : 443000
Telephone : (0717) 6736888-3515
Facsimile : (0717) 6738137

Shandong Branch
Address : No. 178, Luoyuan Street, Jinan
Postcode : 250012
Telephone : (0531) 82088108
Facsimile : (0531) 86169108

Shaanxi Branch
Address : No. 38, South Guangji Street, Xi'an
Postcode : 710002
Telephone : (029) 87617515
Facsimile : (029) 87617514

Shanxi Branch
Address : No. 126, Yingze Street, Taiyuan
Postcode : 030001
Telephone : (0351) 4957800
Facsimile : (0351) 4957871

Shanghai Branch
Address : No.900, Lujiazui Ring Road, Shanghai
Postcode : 200120
Telephone : (021) 58880000
Facsimile : (021) 58781818

Shenzhen Branch
Address : East Section, Finance Centre, South Hongling Road, Shenzhen
Postcode : 518010
Telephone : (0755) 82488189
Facsimile : (0755) 82246144

Sichuan Branch
Address : Sichuan CCB Plaza, No. 86, Tidu Street, Chengdu
Postcode : 610016
Telephone : (028) 86767161
Facsimile : (028) 86767187

Suzhou Branch
Address : No. 18, Suhua Road, Suzhou
Postcode : 215021
Telephone : (0512) 62788786
Facsimile : (0512) 62788019

Tianjin Branch
Address : Plus 1 No.19, Nanjing Road, Hexi District, Tianjin
Postcode : 300203
Telephone : (022) 23401616
Facsimile : (022) 23400503

Xiamen Branch
Address : No. 98, Lujiang Road, Xiamen
Postcode : 361003
Telephone : (0592) 2158888
Facsimile : (0592) 2158862

Tibet Branch
Address : No. 99, Beijing Middle Road, Lhasa
Postcode : 850000
Telephone : (0891) 6838792
Facsimile : (0891) 6836818

Xinjiang Branch
Address : No. 99, Minzhu Road, Urumqi
Postcode : 830002
Telephone : (0991) 2848666
Facsimile : (0991) 2819160

Yunnan Branch
Address : CCB Plaza, Jinbi Road, Kunming
Postcode : 650021
Telephone : (0871) 3060997
Facsimile : (0871) 3060333

Zhejiang Branch
Address : No. 288, Tiyuchang Road, Hangzhou
Postcode : 310003
Telephone : (0571) 85313263
Facsimile : (0571) 85313001

Branches and Representative Offices outside Mainland China

Hong Kong Branch

Address : 44–45/F, Tower One,
Lippo Centre,
89 Queensway,
Admiralty, Hong Kong
Telephone : (852) 28684438
Facsimile : (852) 25377182
Website : www.ccbhk.com

Singapore Branch

Address : 9 Raffles Place,
#33-01/02,
Republic Plaza,
Singapore 048619
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165 West Street,
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Branches and Subsidiaries

Subsidiaries

China Construction Bank (Asia) Corporation Limited

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Website : www.asia.ccb.com

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Sino-German Bausparkasse Co. Ltd.

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