2007
ANNUAL REPORT

兴业银行股份有限公司
INDUSTRIAL BANK CO.,LTD.

STOCK CODE: 601166

Industrial Bank's World Ranking in 2007

Tier 1 Capital: 260th, up 37 places over 2006.
Total Assets: 145th, up 19 places over 2006.
Profits on Av. Capital: 87th, up 53 places over 2006.

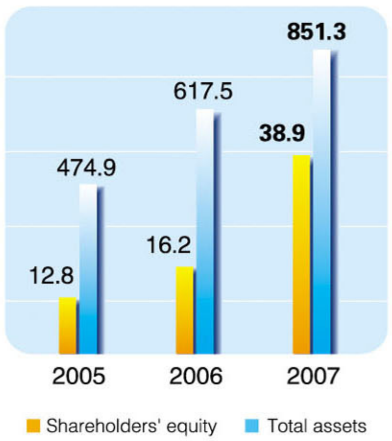
Top 1000 World Banks
The Banker Magazine
July 2007

兴业银行2007年国际排名

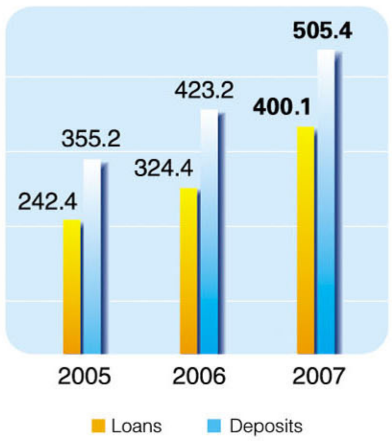
一级资本：列260 位，较2006年上升37 位；
资产总额：列145 位，较2006年上升19 位；
平均资本利润率：列87位，较2006年上升53位。

“全球银行1000 强排名”
——英国《银行家》杂志
2007年7月

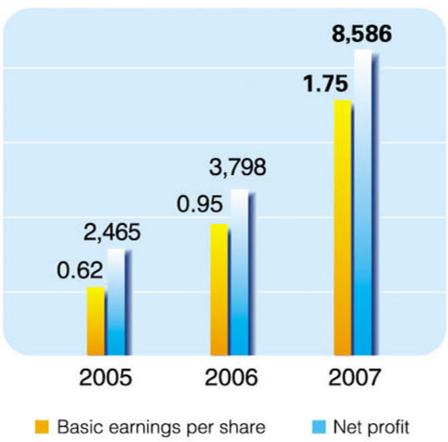
Growth of total assets and shareholders' equity in recent three years (in RMB billion)



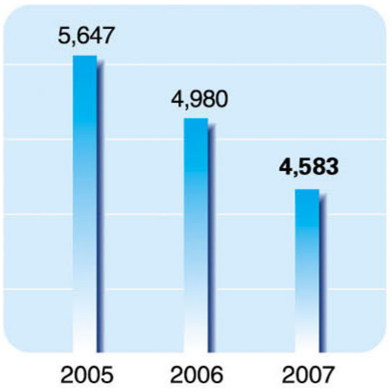
Growth of deposits and loans in recent three years (in RMB billion)



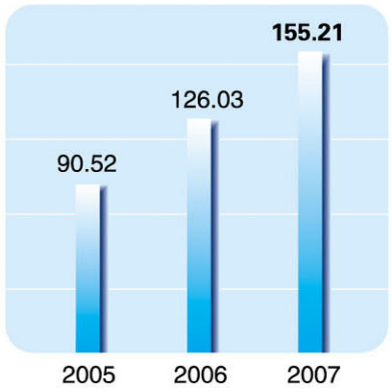
Growth of net profit (in RMB million) and basic earnings per share (RMB/share) in recent three years



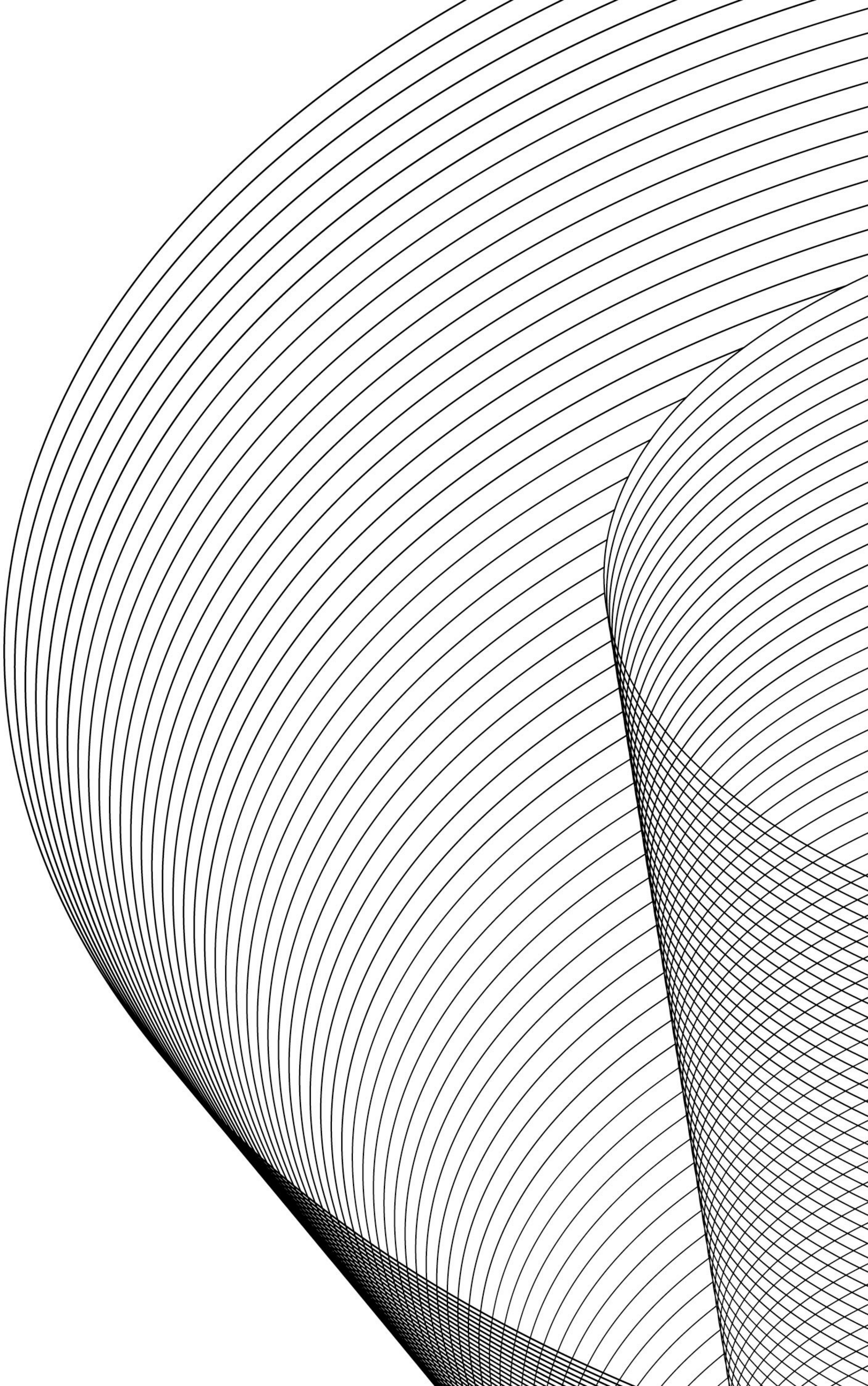
Balance of non-performing loans in recent three years (in RMB million)



Provision coverage ratio in recent three years (%)



兴业银行
INDUSTRIAL BANK CO.,LTD.



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Chairman: Gao Jianping

Chairman's Statement

In 2007, with the correct guidance from governmental departments and regulatory authorities, and support from the shareholders and various sectors of the society, the Company abided by the Scientific Outlook on Development, sized up the situation, carried out rational operations, achieved rapid growth in every business line, and accomplished all annual targets set by the Board of Directors: Asset scale expanded rapidly, business structure achieved continuous optimization, both the balance and ratio of non-performing loans continued to decrease, provision coverage ratio further improved, operating profits doubled compared with last year, and the net profit for 2007 reached RMB8,586 million, with a year-on-year increase of 126%.

The successful listing on Shanghai Stock Exchange in February 2007 marked the Company's four-step leaps from a local bank to a regional bank, a nationwide bank and a listed public bank, promoting the great enhancement of the Company's capital strength and brand penetration. As at the end of the year, the Company's net assets reached RMB38.9 billion, an increase of RMB22.7 billion from the beginning of the year; the net capital amounted to RMB47.9 billion, a rise of RMB19.1 billion from the beginning of the year; and the capital adequacy ratio reached 11.73%. In the latest list of Top 1000 World Banks complied by *The Banker* Magazine, the Company was ranked 260th in terms of tier 1 capital, up 37 places compared with last year, and 145th in terms of total assets, up 19 places over last year. Meanwhile, the Company was awarded "The Best Ten Chinese Banks", "The Fourth Session of Best Corporate Citizen in China of 2007", and "The Best Corporate Public Image of 2007" by authoritative media. Here, on behalf of the Board of Directors, I would like to extend my heartfelt thanks to our investors and all sectors of the society who have been supporting and caring for our development all the time.

After the listing, the Company has been striving to adapt itself to the changing external environment, adjust its market orientation accordingly, and build itself into a responsible mainstream commercial bank. In 2007, we continued to improve the corporate legal person governance, promote the governance concepts, enhance innovation of governance mechanism, and successfully completed the office-term shift of the Board of Directors with a more rational composition through an innovative way of "democratic recommendation and competitive nomination". We consistently improved the organizational structure of the Board of Directors, scientifically adjusted the setup of special committees with arrangement of qualified personnel. The Audit and Related Party Transaction Control Committee and Remuneration & Evaluation Committee were both composed of non-senior-management directors. The Company actively integrated the fulfillment of social responsibilities with its own sustainable development, and strived to perform the social responsibilities in its daily business operations. Advocating green credit, the Company firstly launched energy conservation and emission reduction loans among domestic banks. As at the end of 2007, the Company had granted 38 energy efficiency loans totaling RMB663 million to finance projects that were estimated to save 835.1 thousand tons of standard coals and 2,639.5 thousand tons of CO_2 each year. The Company officially joined in the United Nation Environment Programme Finance Initiative in October to solemnly commit itself to environmental protection and sustainable finance. For the outstanding performance and achievement in energy conservation and emission reduction, in June 2007, the Company was awarded the "Runner-up of FT Sustainable Deal of the Year 2007" jointly launched by *Financial Times* and International Finance Corporation, thus becoming the only domestic financial institution to win this special honor.

2008 is a significant connecting year for the implementation of the Company's five-year development plan, and also the 20th anniversary of the Company. In the coming year, although the international and domestic environment of economy and finance becomes more complicated, China's economy will still maintain its steady and rapid growth momentum. Facing the new situation, with a strong sense of responsibility and mission, we will continue to advance towards the goal of "building a top-grade bank with centuries of reputation", continuously improve our corporate governance, risk resistance, profit-making and customer service capability, actively fulfill social responsibilities, create a harmonious and progressive public image, and deliver good returns to our investors, customers, employees and society, thus writing a new chapter of Industrial Bank's undertaking.

Chairman

President's Report

In 2007, the Company diligently implemented decisions made by the Board of Directors, followed the State macro-control and financial regulatory requirements, proactively took opportunities arising from changes of operating environment, carried out steady operations with level-headed enterprise, and deepened the strategic transformation of business development mode and profit-making mode. The rapid and healthy growth momentum was maintained, and remarkable results were achieved.

Every business line witnessed continued growth. As at the end of 2007, the Company's total assets reached RMB851,335 million with a 37.88% increase over the beginning of the year. The deposit balance was RMB505,371 million, and the loan balance was RMB400,143 million, up 19.42% and 23.36% respectively from the beginning of the year. As at the end of the reporting period, the Company's non-performing loan balance was RMB4,583 million, with non-performing loan ratio standing at 1.15%, representing the continued improvement of the Company's asset quality. The profit after tax for the year after non-recurring gains and losses reached RMB7,990 million, with a year-on-year increase of 112.14%, indicating the further enhancement of the Company's profit-making ability. The Company raised nearly RMB16 billion from its initial public offering of 1,001 million new shares in domestic A-share market, which greatly reinforced the Company's capital base.

Operational transformation was promoted steadily. The retail banking business speeded up its development pace. The retail credit assets doubled again, and the newly increased retail loans of 2007 and total balance ranked the second among the same type of domestic banks. The Company reinforced the adjustment in institutional business structure, strengthened its development base, steadily pushed ahead the small and medium-sized enterprises pilot loans and energy conservation and emission reduction loans, officially launched the Bank-to-Bank Platform, and achieved new breakthrough in investment banking business. Wealth management business expanded rapidly, and asset structure saw continued optimization. Income structure became more diversified, income from intermediary business increased greatly, and comprehensive operations took initial steps. The Fund Company and Futures Department were under active preparation, and the nationwide service network was further improved by founding and opening branches in Dalian, Qingdao and Nanning, and establishing Harbin Branch through acquisition, which was opened in February 2008.

Risk management and internal control were strengthened in an all-around way. System reform and process reengineering were continuously advanced, and retail banking divisional structure management reform obtained initial achievements. Asset and liability management, as well as the capability of prevention against liquidity risk were further enhanced. The Company strengthened guidance on credit extension, set up the Legal and Compliance Department, completed the first phase construction of risk management and capital allocation system, and steadily improved its risk management capability.

In 2008, the Company will continue to abide by the Sate macro-control policy, seize opportunities brought by the 30th anniversary of the Reform and Opening-up and the Olympic Games, diligently implement the operating targets and business plan set by the Board of Directors, and further enhance the strategic transformation, the fundamental management, and the core competitiveness, ultimately promoting harmonious and healthy development of every business line.

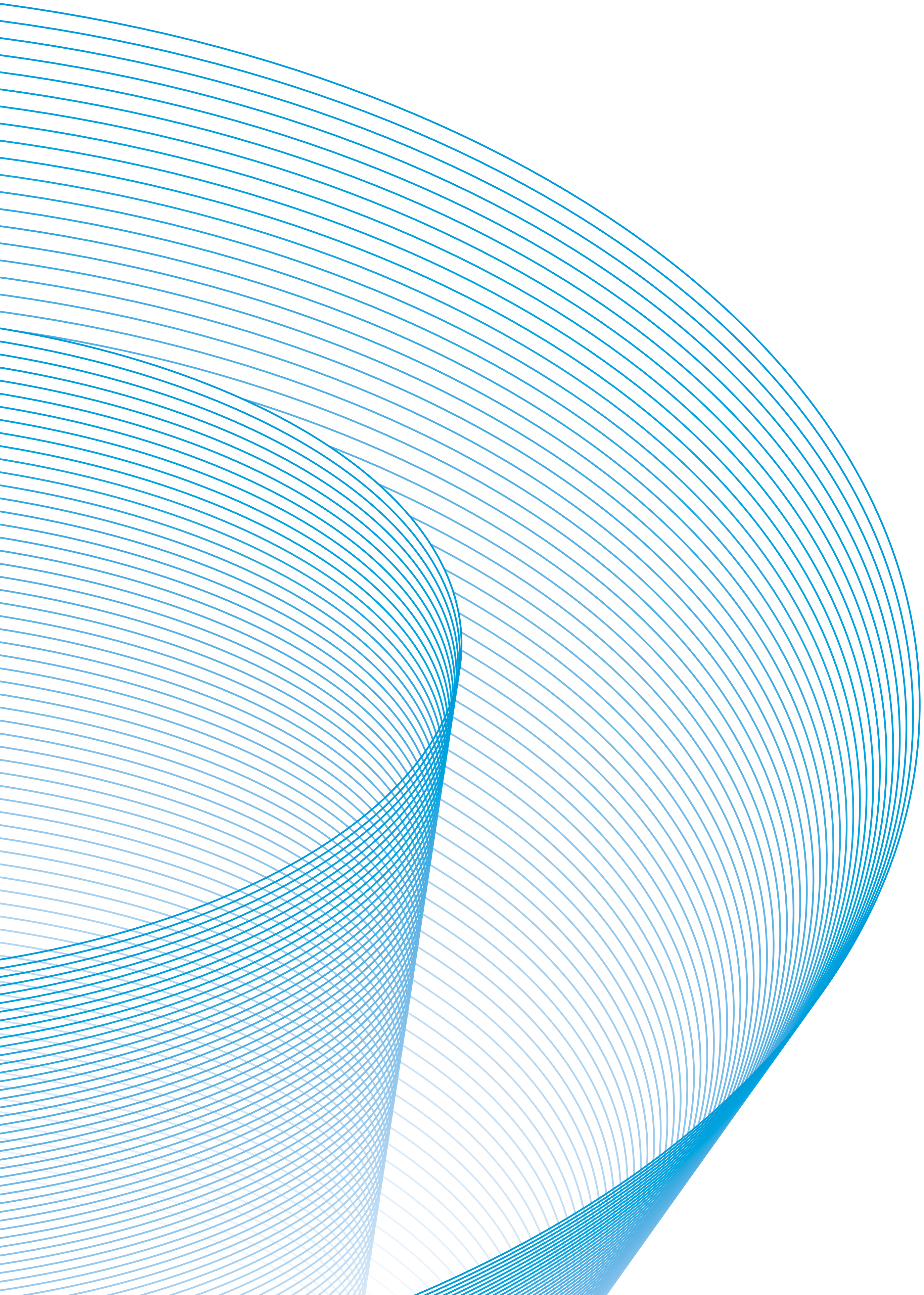
President

Director, President: Li Renjie

Chairwoman of the Board of Supervisors: Bi Zhonghua

Director, Vice President: Kang Yukun

Director, Vice President: Chen Dekang



Important Notice

The Company's Board of Directors, Board of Supervisors, directors, supervisors and senior management hereby warrant that the information contained in this report is free from any false representation, misleading statement or material omission, and assume joint and several liabilities for the truthfulness, accuracy and completeness of the contents thereof.

The Company's Annual Report 2007 and Abstract were approved at the 7th session of the sixth Board of Directors on March 18, 2008. 15 directors were required to attend the meeting, and 15 directors were in fact present (Independent directors Ba Shusong and Deng Liping authorized independent director Wang Guogang to exercise their voting rights on behalf of them). 6 supervisors attended the meeting without voting right. There was no director, supervisor or senior management who could not warrant or disagreed on the truthfulness, accuracy and completeness of the contents of the annual report.

The Company's 2007 financial statements have been audited by Fujian Huaxing Certified Public Accountants Ltd. and Ernst & Young in accordance with Chinese Auditing Standards ("CAS") and International Auditing Standards ("IAS") respectively, and both have issued standard and unqualified auditors' reports.

The Board of Directors of Industrial Bank Co.,Ltd.

The Company's Chairman Gao Jianping, President Li Renjie and Financial Director Li Jian, hereby undertake that the financial statements in the Annual Report 2007 are true and complete.

Corporate Profile

I. **Legal Chinese Name: 兴业银行股份有限公司**

Chinese Abbreviation: 兴业银行

Legal English Name: INDUSTRIAL BANK CO.,LTD. (hereinafter referred to as "the Company")

II. **Legal Representative: Gao Jianping**

III. **Secretary to the Board of Directors: Tang Bin**

Representative of Securities Affairs: Zhao Jie

Address: 154 Hudong Road, Fuzhou, PRC

Postcode: 350003

Tel: (86) 591-87824863

Fax: (86) 591-87842633

Investor Email: irm@cib.com.cn

IV. **Registered & Office Address: 154 Hudong Road, Fuzhou, PRC**

Postcode: 350003

Website: www. cib.com.cn

V. **Selected Newspapers for Information Disclosure:**

China Securities Journal, Shanghai Securities News, Securities Times, Securities Daily

Website Designated by China Securities Regulatory Commission (CSRC) for Publishing Annual Reports: www.sse.com.cn

Place where the Annual Report can be Obtained: the Company's Office of the Board of Directors

VI. **Place of Stock Listing: Shanghai Stock Exchange**

Stock Abbreviation: Industrial Bank

Stock Code: 601166

VII. **Other Related Information:**

Date of First Registration: August 22, 1988

Place of First Registration: Fujian Provincial Administration Bureau of Industry and Commerce

Date of Registration Change: January 16, 2008

Place of Registration Change: Fujian Provincial Administration Bureau of Industry and Commerce

Business License No.: 350000100009440

Taxation Registration No.: State Tax Rongtai Zi 350100158142711

Local Tax Fujian Zi 350102158142711

Domestic Certified Public Accountants Engaged by the Company: Fujian Huaxing Certified Public Accountants Limited

Office Address: 7-9 Floor, B# Zhongshan Building, 152 Hudong Road, Fuzhou

International Certified Public Accountants Engaged by the Company: Ernst & Young

Office Address: 18 Floor, Two International Finance Centre, Hong Kong

VIII. **The Annual Report is prepared in both Chinese and English. Should there be any discrepancy in interpretation, the Chinese version shall prevail.**

Financial and Business Highlights

I. MAJOR FINANCIAL DATA AND INDICATORS

in RMB'000

Item	CAS	IAS
Operating profit	10,848,558	10,910,172
Total profit	10,910,171	10,910,172
Net profit attributable to the listed company's shareholders	8,585,767	8,585,767
Net profit after non-recurring gains and losses attributable to the listed company's shareholders	7,990,413	8,585,767
Net cash flow arising from operating activities	25,261,548	25,326,686

Items and amount of the deducted non-recurring gains and losses:

in RMB'000

Item	Amount
Non-operating income	88,582
Non-operating expenses	(26,969)
Recovery of assets written off in previous years	23,643
Impact on income tax	(28,918)
Taxable salary adjustment for 2006	539,016
Total	595,354

II. KEY ACCOUNTING DATA AND FINANCIAL INDICATORS OF THE PREVIOUS THREE YEARS AS AT THE END OF THE REPORTING PERIOD

in RMB'000

Item	2007	2006	Increase/decrease in 2007 compared with 2006(%)	2005
Operating income	22,055,411	13,660,824	61.45	9,749,734
Total profit	10,910,171	5,046,201	116.21	3,544,722
Net profit attributable to the listed company's shareholders	8,585,767	3,798,256	126.04	2,464,968
Net profit after non-recurring gains and losses attributable to the listed company's shareholders	7,990,413	3,766,657	112.14	2,458,643
Basic earnings per share (RMB)	1.75	0.95	84.21	0.62
Diluted earnings per share (RMB)	1.75	0.95	84.21	0.62
Basic earnings per share after non-recurring gains and losses (RMB)	1.63	0.94	73.40	0.61
Return on total assets (%)	1.17	0.70	Up 0.47 percentage points	0.60
Fully-diluted return on net assets (%)	22.07	23.45	Down 1.38 percentage points	19.28
Weighted return on average net assets (%)	25.34	26.21	Down 0.87 percentage points	21.62
Fully-diluted return on net assets after non-recurring gains and losses (%)	20.54	23.25	Down 2.71 percentage points	19.23
Weighted return on average net assets after non-recurring gains and losses (%)	23.58	25.99	Down 2.41 percentage points	21.57
Net cash flow arising from operating activities	25,261,548	10,954,477	130.60	82,951,280
Net cash flow per share arising from operating activities (RMB)	5.05	2.74	84.31	20.74

Item	2007 year-end	2006 year-end	Increase/decrease in 2007 compared with 2006 (%)	2005 year-end
Total assets	851,335,270	617,460,396	37.88	474,934,937
Shareholder's equity	38,897,077	16,199,667	140.11	12,785,385
Net assets per share attributable to the listed company's shareholders (RMB)	7.78	4.05	92.10	3.20
Loan loss provision	7,114,000	6,275,667	13.36	5,111,552

Note: The Company's total share capital was 3,999 million shares at 2006 year-end. It issued 1,001 million new shares during its 2007 IPO. As at December 31, 2007, its total share capital increased to 5 billion shares. Please note the impact of the total share capital change on the Company's financial indicators per share.

III. MAJOR FINANCIAL DATA AUDITED UNDER CAS AND IAS AND DIFFERENCES HEREIN

in RMB'000

	Net profit		Net assets	
	2007	2006	2007 year-end	2006 year-end
Stated based on PRC GAAP	8,585,767	3,798,256	38,897,077	16,199,667
Stated based on IFRS	8,585,767	3,798,256	38,897,076	16,199,666

IV. LOAN LOSS PROVISION UNDER CAS AND IAS DURING THE REPORTING PERIOD

in RMB '000

Item	CAS	IAS
2006 year-end	6,275,667	6,275,667
Charge for the reporting period(+)	1,591,396	1,591,396
Releases of interests on impaired loans(-)	158,645	158,645
Recoveries of loans written-off in previous years(+)	23,643	23,643
Write-offs during the reporting period(-)	451,083	451,083
Transfer-out for the reporting period(-)	166,978	166,979
2007 year-end	7,114,000	7,113,999

Note: "Transfer-out for the reporting period" referred to idle loan provision transferred out when loans turned into debt repayment assets.

V. SUPPLEMENTARY FINANCIAL DATA OF PREVIOUS THREE YEARS AS AT THE END OF THE REPORTING PERIOD

in RMB'000

Item	2007 year-end		2006 year-end		Increase/decrease in 2007 compared with 2006 (%)		2005 year-end	
	CAS	IAS	CAS	IAS	CAS	IAS	CAS	IAS
Total liabilities	812,438,193	812,438,193	601,260,729	601,260,731	35.12	35.12	462,149,552	461,975,512
Placements from banks and other financial institutions	991,402	991,402	716,100	716,100	38.44	38.44	403,510	403,510
Total deposits	505,370,856	505,370,856	423,196,711	423,196,711	19.42	19.42	355,218,109	355,218,109
Total loans	400,142,777	400,142,776	324,376,831	324,376,831	23.36	23.36	242,436,751	242,571,507
of which:								
Corporate loans	260,500,263	260,500,263	252,594,402	252,594,402	3.13	3.13	199,376,814	199,376,814
Retail loans	132,395,244	132,395,243	64,618,425	64,618,425	104.89	104.89	30,575,841	30,575,841
Discount	7,247,270	7,247,270	7,164,004	7,164,004	1.16	1.16	12,484,096	12,618,852

VI. APPENDIX TO INCOME STATEMENT FOR THE REPORTING PERIOD

i. Audited under CAS

in RMB'000

Item	2007	Return on net assets (%)		Earnings per share (RMB/share)	
		Fully diluted	Weighted average	Fully diluted	Weighted average
Net profit attributable to the listed company's shareholders	8,585,767	22.07	25.34	1.75	1.75
Net profit after non-recurring gains and losses attributable the listed company's shareholders	7,990,413	20.54	23.58	1.63	1.63

Note: Relevant data were calculated in accordance with the Rules for Report Preparation in Information Disclosure for Public Companies No. 9: Calculation and Disclosure of Return on Net Assets and Earning per Share(amended in 2007).

ii. Audited under IAS

in RMB'000

Item	2007	Return on net assets (%)		Earnings per share (RMB/share)	
		Fully diluted	Weighted average	Fully diluted	Weighted average
Net profit attributable to the listed company's shareholders	8,585,767	22.07	25.34	1.75	1.75
Net profit after non-recurring gains and losses attributable the listed company's shareholders	8,585,767	22.07	25.34	1.75	1.75

VII. SUPPLEMENTARY FINANCIAL INDICATORS OF PREVIOUS THREE YEARS AS AT THE END OF THE REPORTING PERIOD

Unit: %

Item		Standard value	2007 year-end	2006 year-end	2005 year-end
Capital adequacy ratio		⩾ 8	11.73	8.71	8.13
Non-performing loan ratio		⩽ 5	1.15	1.53	2.33
Loan-to-deposit ratio	Translated into RMB	⩽ 75	68.73	72.41	64.80
Asset liquidity ratio	Translated into RMB	⩾ 25	39.22	51.03	65.08
Inter-bank placement ratio	Borrow in RMB	⩽ 4	0.13	0.16	0
	Lend out RMB	⩽ 8	0.66	2.30	0.30
Proportion of loans to the largest single borrower		⩽ 10	4.18	4.17	5.77
Proportion of loans to the largest ten borrowers		⩽ 50	20.94	28.52	39.43
Cost-to-income ratio			36.53	38.60	40.01
Provision coverage ratio			155.21	126.03	90.52

VII. SUPPLEMENTARY FINANCIAL INDICATORS OF PREVIOUS THREE YEARS AS AT THE END OF THE REPORTING PERIOD *continued*

Notes:

1. Capital adequacy ratio, loan-to-deposit ratio, asset liquidity ratio, proportion of loans to the largest single borrower, proportion of loans to the largest ten borrowers, 2005 year-end and 2006 year-end inter-bank placement ratio were calculated based on data reported to regulatory authorities, while the other data were calculated based on relevant data contained in the annual report.
2. Pursuant to Document YJF [2006] No. 345 and Document YJF [2005] No. 253 issued by China Banking Regulatory Commission ("CBRC"), loans originated from fund raised from the Company's financial bonds issuance were not included in loan-to-deposit ratio calculation.
3. Non-performing loan ratio was calculated on five-category classification basis.
   Non-performing loan ratio=(substandard loans + doubtful loans + loss loans)/ total loans × 100%.
4. Cost-to-income ratio=(operating and administrative expenses+ other operating costs)/operating income × 100%.
5. Provision coverage ratio=loan loss provision/non-performing loans × 100%.
6. Inter-bank placement ratio(borrow-in RMB)=borrow-in RMB placements/RMB deposits × 100%.
7. Inter-bank placement ratio (lend-out RMB)=lend-out RMB placements/RMB deposits × 100%.

VIII. CHANGES IN SHAREHOLDERS' EQUITY DURING THE REPORTING PERIOD

i. Audited under CAS

in RMB'000

Item	2006 year-end	Increase during the period	Decrease during the period	2007 year-end
Share capital	3,999,000	1,001,000	-	5,000,000
Capital surplus	2,945,381	14,803,801	393,158	17,356,024
General reserve	3,626,865	1,147,003	-	4,773,868
Surplus reserve	1,406,135	858,576	-	2,264,711
Retained earnings	4,222,286	8,585,767	3,305,579	9,502,474
Total	16,199,667	26,396,147	3,698,737	38,897,077

ii. Audited under IAS

in RMB'000

Item	2006 year-end	Increase during the period	Decrease during the period	2007 year-end
Share capital	3,999,000	1,001,000	-	5,000,000
Capital surplus	2,839,214	14,720,959	-	17,560,173
General reserve	1,406,135	858,576	-	2,264,711
Surplus reserve	3,626,865	1,147,002	-	4,773,867
Retained earnings	4,222,285	8,585,767	3,305,578	9,502,474
Unrealized gains and losses on available-for-sale investments (after tax)	106,167	82,842	393,158	(204,149)
Total	16,199,666	26,396,146	3,698,736	38,897,076

IX. CAPITAL COMPOSITION AND CHANGES

in RMB million

Item	2007 year-end	2006 year-end	2005 year-end
Net capital	47,859	28,801	20,077
of which:			
Core capital	36,255	15,864	12,112
Supplementary capital	12,094	12,937	7,965
Deductions	490	0	0
Risk-weighted assets	406,225	326,126	246,991
Capital at market risk	129	364	0
Capital adequacy ratio(%)	11.73	8.71	8.13
Core capital adequacy ratio(%)	8.83	4.80	4.90

Note: The data set out in the table were those reported to the regulatory authorities.

X. ITEMS MEASURED AT FAIR VALUE

in RMB'000

Item	2006 year-end	Change during the period	2007 year-end	Impact of fair value changes on the profit for the period
Trading financial assets	9,186,318	(661,251)	8,525,067	(45,658)
Available-for-sale financial assets	70,390,614	(27,025,739)	43,364,875	0
Derivative financial assets	106,538	1,150,892	1,257,430	(75,050)
Derivative financial liabilities	115,930	1,225,942	1,341,872	
Precious metal	1,203,704	614,246	1,817,950	71,062
Total	81,003,104	(24,695,910)	56,307,194	(49,646)

The Company's financial instruments measured at fair value include trading financial assets, available-for-sale financial assets, derivative financial assets, derivative financial liabilities and precious metal. For the above mentioned financial instruments in the active market, the Company gives priority to the quoted price to determine their fair value, and for those not in the active market, the Company applies valuation techniques to determine their fair value. The valuation techniques include reference to the price used in the recent market transactions among the parties which are familiar with the situation and willing to take the transactions, and reference to the current fair value of other financial instruments substantially the same, discounted cash flow and option pricing model, etc. The scale of trading financial assets in the Company is small in proportion to the total assets, and the change of their fair value has little infection on the profits of the Company. The change of fair value of the available-for-sale financial assets enters into the owner's equity. With the rapid development of the RMB derivatives market in the year 2007, the derivative financial assets and liabilities of the Company by the end of year 2007 has a big increase from that of 2006. By the implementation of strict pricing, re-evaluation and risk control procedures, the Company carries out effective management on the risks of the derivatives market, and the impact of the change of derivative financial assets and liabilities on the profit of the Company is not notable.

Changes in Share Capital and Shareholders

I. CHANGES IN SHARES DURING THE REPORTING PERIOD

i. Changes in shares

As approved by CBRC's Circular on Approving Industrial Bank's Initial Public Offering (YJFXZ [2007] No. 10), the Company issued 1,001 million RMB-denominated ordinary shares (A shares) in 2007, and was listed on Shanghai Stock Exchange on February 5, 2007. After the public listing, the Company's total share capital increased to 5 billion shares.

Changes in shares during the reporting period:

Unit: Share

	2006-12-31		Increase/	2007-12-31	
	Number	%	decrease	Number	%
I. Shares with sale restriction	3,999,000,000	100.00	300,000,000	4,299,000,000	85.98
i.Shares issued before IPO	3,999,000,000	100.00	-	3,999,000,000	79.98
of which:					
State-owned shares	1,207,641,631	30.20	-	1,207,641,631	24.15
State-owned legal person shares	1,109,814,284	27.75	-	1,109,814,284	22.20
Other domestic legal person shares	682,544,085	17.07	-	682,544,085	13.65
Overseas legal person shares	999,000,000	24.98	-	999,000,000	19.98
ii.Shares issued during IPO			300,000,000	300,000,000	6.00
II. Shares without sale restriction			701,000,000	701,000,000	14.02
i.RMB-denominated ordinary shares			701,000,000	701,000,000	14.02
III. Total	3,999,000,000	100.00	1,001,000,000	5,000,000,000	100.00

Notes:

1. The Company issued 1,001 million A shares during its IPO in 2007, of which, 450,750,000 shares were placed to online investors and had become tradable on Shanghai Stock Exchange since February 5, 2007; 250,250,000 shares were placed to offline pricing-enquiry investors and had become tradable on Shanghai Stock Exchange since May 8, 2007; 300,000,000 shares were placed to strategic investors with sale restriction period maturing on February 4, 2008, and had became tradable since February 5, 2008.
2. The Company had issued 3,999,000,000 shares before its initial public offering. Among these shares, 1,020,000,000 shares would be locked up for three years as promised by the Finance Bureau of Fujian Province, and other 2,979,000,000 shares had an one-year lock-up period starting from the date of listing, and had become tradable since February 5, 2008 with their lock-up period maturing on February 4, 2008.

ii. Trading schedule of shares with sale restriction

Unit: share

Date	Number of new shares available for trading upon the maturity of lock-up period	Number of remaining shares with sale restriction	Number of remaining shares without sale restriction	Note
February 5, 2008	2,979,000,000	1,020,000,000	3,980,000,000	The lock-up period for shares issued before IPO matured.
	300,000,000			The lock-up period for shares placed to strategic investors during IPO matured.
February 5, 2010	1,020,000,000	0	5,000,000,000	The lock-up period for shares issued before IPO will mature.

II. SHAREHOLDERS

i. Total number of shareholders

As at the end of the reporting period, the Company had a total of 78,778 shareholders.

ii. Shares held by top ten shareholders

Unit: share

No.	Name of shareholder	Type of shareholder	Number of shares held as at December 31, 2007	Proportion in total share capital (%)	Number of shares with sale restriction held during the period	Pledged or frozen shares
1	The Finance Bureau of Fujian Province	State organ	1,020,000,000	20.40	1,020,000,000	N/A
2	Hang Seng Bank Limited	Overseas legal person	639,090,000	12.78	639,090,000	N/A
3	Tetrad Ventures Pte Ltd	Overseas legal person	199,950,000	4.00	199,950,000	N/A
4	China National Cereal, Oils & Foodstuffs Corporation	State-owned legal person	170,000,000	3.40	170,000,000	N/A
5	International Finance Corporation	Overseas legal person	159,960,000	3.20	159,960,000	N/A
6	China Electronic Information Industry Group Corporation	State-owned legal person	150,000,000	3.00	150,000,000	N/A
7	Baosteel Group Corporation	State-owned legal person	145,000,000	2.90	145,000,000	N/A
8	Fujian Tobacco Company	State-owned legal person	133,333,334	2.67	133,333,334	N/A
9	Shanghai Guoxin Investment & Development Co., Ltd.	State-owned legal person	88,000,000	1.76	88,000,000	N/A
10	Sept-wolves Investment Co., Ltd.	Domestic other legal persons	85,333,333	1.71	85,333,333	18,130,000 shares were pledged.

II. SHAREHOLDERS *continued*

ii. Shares held by top ten shareholders *continued*

Note: During the reporting period, there was no change in the ownership of the shares held by the above shareholders. There was no co-relationship among the above shareholders, and they didn't belong to persons acting in concert.

iii. Shares held by top ten shareholders without sale restriction

Unit: share

No.	Name of shareholder	Number of shares without sale restriction held during the period	Proportion in total share capital (%)	Share type
1	Great Wall Selected Securities Investment Fund	27,039,284	0.54	RMB Ordinary Share
2	GF Large Cap Growth Hybrid Securities Investment Fund	20,757,522	0.42	RMB Ordinary Share
3	GF Jufeng Securities Investment Fund	20,437,828	0.41	RMB Ordinary Share
4	Hua An Mid & Small Cap Growth Securities Investment Fund	19,800,880	0.40	RMB Ordinary Share
5	GF Strategy Selected Hybrid Securities Investment Fund	19,335,607	0.39	RMB Ordinary Share
6	GF Stable Growth Securities Investment Fund	16,758,513	0.34	RMB Ordinary Share
7	Harvest Strategy & Growth Hybrid Securities Investment Fund	16,512,846	0.33	RMB Ordinary Share
8	CMF Core Value Hybrid Securities Investment Fund	11,503,827	0.23	RMB Ordinary Share
9	Great Wall Consumption Value-added Securities Investment Fund	11,025,426	0.22	RMB Ordinary Share
10	UBS SDIC Core Enterprise Securities Investment Fund	10,467,467	0.21	RMB Ordinary Share

Note: Among the top ten largest shareholders without sale restriction, the largest shareholder Great Wall Selected Securities Investment Fund and the ninth largest shareholder Great Wall Consumption Value-added Securities Investment Fund are under the same management of Great Wall Fund Management Co., Ltd., the second largest shareholder GF Large Cap Growth Hybrid Securities Investment Fund, the third largest shareholder GF Jufeng Securities Investment Fund, the fifth largest shareholder GF Strategy Selected Hybrid Securities Investment Fund, and the sixth largest shareholder GF Stable Growth Securities Investment Fund are under the same management of GF Fund Management Co., Ltd. The Company is unaware of the existence of any co-relationship among the other shareholders or whether they belong to persons acting in concert.

iv. Strategic investors participating in new share allotment and agreed shareholding period

Unit: share

No.	Name of shareholder	Number of shares held through strategic placement	Agreed shareholding period
1	National Social Security Fund	20,000,000	12 months since the date of listing
2	China National Offshore Oil Corp.	20,000,000	12 months since the date of listing
3	Sinopec Finance Company Limited	20,000,000	12 months since the date of listing
4	China Power Finance Co., Ltd.	20,000,000	12 months since the date of listing
5	Shanghai Chengtou Corporation	20,000,000	12 months since the date of listing
6	Founder Group	20,000,000	12 months since the date of listing
7	Fujian Investment Enterprise Group Corporation	20,000,000	12 months since the date of listing
8	Fujian Investment & Development Co., Ltd.	20,000,000	12 months since the date of listing
9	China Foreign Economy and Trade Trust & Investment Co., Ltd.	20,000,000	12 months since the date of listing
10	China Haohua Chemical (Group) Corporation	20,000,000	12 months since the date of listing
11	China City Construction Holding Group Company	20,000,000	12 months since the date of listing
12	China Minmetals Investment Company Limited	15,000,000	12 months since the date of listing
13	China Energy Conservation Investment Corporation	15,000,000	12 months since the date of listing
14	Zhejiang Provincial Energy Group Company Ltd.	15,000,000	12 months since the date of listing
15	Bailian Group Co., Ltd.	15,000,000	12 months since the date of listing
16	Taikang Life Insurance Company Ltd.	10,000,000	12 months since the date of listing
17	Xiamen C&D Corporation Limited	10,000,000	12 months since the date of listing
	Total	300,000,000	

Note: The Company issued 1,001 million A shares during its initial public offering in 2007, of which, 300 million shares were placed to the above strategic investors with a lock-up period of one year since the date of listing. Since February 5, 2008, the shares allotted to the above strategic shareholders had become tradable upon the maturity of lock-up period.

II. SHAREHOLDERS *continued*

v. Shareholders holding more than 5% of the Company's shares

Unit: share

No.	Name of shareholder	2006 year-end	Increase/decrease during reporting period	2007 year-end	Share type	Pledged or frozen shares
1	The Finance Bureau of Fujian Province	1,020,000,000	0	1,020,000,000	Shares with sale restriction	N/A
2	Hang Seng Bank Limited	639,090,000	0	639,090,000	Shares with sale restriction	N/A

1. The Finance Bureau of Fujian Province: a government institution legal person

Legal representative: Mr. Ma Lusheng
Legal address: 5 Zhongshan Road, Gulou District, Fuzhou, PRC
Post code: 350003

2. Hang Seng Bank Limited: a Hong Kong listed company

Legal representative: Mr. Raymond C F Or
Registered capital: HKD 11 billion
Legal address: 83 Dex Voeux, Central Hong Kong
Date of incorporation: March 3, 1933

Directors, Supervisors, Senior Management and Employees

I. DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

i. Basic information

Name	Title	Gender	Date of birth	Office term	Whether received from shareholder companies or other related companies
Gao Jianping	Chairman	Male	1959.07	2007.10.19-2010.10.18	No
Liao Shizhong	Director	Male	1962.10	2007.10.19-2010.10.18	Yes
Patrick K W Chan	Director	Male	1956.05	2007.10.19-2010.10.18	Yes
Chua Phuay Hee	Director	Male	1953.09	2007.10.19-2010.10.18	No
John Law	Director	Male	1950.09	2007.10.19-2010.10.18	Yes
Li Xiaochun	Director	Male	1964.09	2007.10.19-2010.10.18	Yes
Huang Kongwei	Director	Male	1966.10	2007.10.19-2010.10.18	Yes
Li Renjie	Director, President	Male	1955.03	2007.10.19-2010.10.18	No
Kang Yukun	Director, Vice President	Male	1954.05	2007.10.19-2010.10.18	No
Chen Dekang	Director, Vice President	Male	1954.09	2007.10.19-2010.10.18	No
Wang Guogang	Independent Director	Male	1955.11	2007.10.19-2010.10.18	No
Ba Shusong	Independent Director	Male	1969.08	2007.10.19-2010.10.18	No
Deng Liping	Independent Director	Male	1954.11	2007.10.19-2010.10.18	No
Xu Bin	Independent Director	Male	1944.09	2007.10.19-2010.10.18	No
Lim Peng Khoon	Independent Director	Male	1949.08	2007.10.19-2010.10.18	No
Bi Zhonghua	Chairwoman of the Board of Supervisors	Female	1952.07	2007.10.19-2010.10.18	No
Wu Xiaohui	Supervisor	Female	1961.01	2007.10.19-2010.10.18	Yes
Chen Xiaohong	Supervisor	Female	1965.11	2007.10.19-2010.10.18	Yes
Deng Weili	Supervisor	Male	1964.09	2007.10.19-2010.10.18	Yes
Xie Kuixing	Supervisor	Male	1965.02	2007.10.19-2008.02.29	Yes
Lai Furong	Supervisor	Male	1968.10	2007.10.19-2010.10.18	No
Hua Bing	Supervisor	Male	1966.11	2007.10.19-2010.10.18	No
Li Shuang	External Supervisor	Male	1944.08	2007.10.19-2010.10.18	No
Wu Shinong	External Supervisor	Male	1956.12	2007.10.19-2010.10.18	No
Tang Bin	Secretary to the Board of Directors	Male	1957.02	2007.10.19-2010.10.18	No

1. As at the end of the reporting period, the Company's directors, supervisors and senior management did not hold any shares of the Company.

I. DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT *continued*

i. Basic information *continued*

2. The decision-making procedures, criteria and actual offering of remuneration for directors, supervisors and senior management: Remuneration for directors and supervisors is set and offered in accordance with Regulations on Director Remuneration of Industrial Bank, Remuneration Scheme for Supervisor Remuneration of Industrial Bank, Regulations on Independent Director Allowance of Industrial Bank, and Regulations on External Supervisor Allowance of Industrial Bank. The specific criteria are as follows: directors and supervisors holding full-time positions in the Company shall receive remuneration according to their posts, and no cross or repeated offering of remuneration is allowed; shareholder-appointed directors and supervisors who do not hold full-time positions in the Company shall receive remuneration from their own companies. Allowance for independent directors and external supervisors is composed of basic allowance, committee allowance and meeting subsidy.

3. Remuneration scheme for the Company's senior management was determined by the Remuneration and Evaluation Committee under the Board of Directors in accordance with the Regulations on Senior Management Remuneration of Industrial Bank and Rules of Senior Management Performance Evaluation of Industrial Bank.

4. In 2007, the total number of directors, supervisors and senior management receiving remuneration (after tax) from the Company was 15, of whom, 5 were independent directors, 2 were external supervisors, 3 were employee supervisors, 4 were directors holding full-time positions in the Company, and 1 was non-director senior management member. In 2007, the Company offered total remuneration of RMB15,933.3 thousand (after tax) to all directors, supervisors and senior management, among whom, 7 were paid less than RMB200 thousand, 2 were paid between RMB200 thousand and RMB1 million, 1 was paid between RMB1 million and RMB2 million, and 5 were paid between RMB2 million and RMB3 million.

5. The Company's supervisor Mr. Xie Kuixing resigned as supervisor on February 29, 2008 due to new appointment.

ii. Appointments of directors and supervisors in shareholder companies

Name	Shareholder company	Appointment
Patrick K W Chan	Hang Seng Bank Limited	Executive Director, Chief Financial Officer
John Law	International Finance Corporation	Principal Banking Specialist, Global Financial Markets
Li Xiaochun	China Electronic Information Industry Group Corporation	Chief Accountant
Huang Kongwei	Baosteel Group Corporation	Vice Director of Assets Operation Department
Wu Xiaohui	China National Cereal, Oils & Foodstuffs Corporation	Chief Accountant
Chen Xiaohong	Fujian Tobacco Company	Director of Audit Department
Deng Weili	Shanghai Guoxin Investment & Development Co., Ltd.	General Manager

As at the end of the reporting period, other directors and supervisors of the Company did not have any appointment in the existing shareholder companies.

iii. Major working experiences of directors, supervisors and senior management, and their appointments or concurrent-appointments in companies other than shareholders

Mr. Gao Jianping, Chairman

Bachelor degree, senior economist. He has served previously as Deputy General Manager of the Office of Industrial Bank, Director of the Industrial Bank's Office in Fuzhou Economic and Technological Development Zone, General Manager of the Office of Industrial Bank, Head of Industrial Bank's Shanghai Branch Preparatory Group, Vice President of Industrial Bank and President of Industrial Bank's Shanghai Branch, Vice President of Industrial Bank (in charge of overall management), Secretary of Communist Party Committee, Chairman and President of Industrial Bank, and currently as Secretary of Communist Party Committee and Chairman of Industrial Bank.

He has no appointment or concurrent-appointment in companies other than shareholders.

Mr. Liao Shizhong, Director

Master degree, associate research fellow. He has served previously as assistant research fellow, Deputy Director and Associate Research Fellow of Scientific Research Division of Economics Institute of Fujian Provincial Academy of Social Sciences, Deputy Director of Fujian Provincial Institute for Fiscal Science Research, Deputy Secretary-general and Secretary-general of Fujian Provincial Society of Finance, and currently as Vice President of Fujian Provincial Society of Finance and Director of Fujian Provincial Institute for Fiscal Science Research.

Appointment or concurrent-appointment in companies other than shareholders: Vice President of Fujian Provincial Society of Finance, and Director of Fujian Provincial Institute of Fiscal Science Research.

Mr. Patrick K W Chan, Director

Master degree. He has served previously as Accounting Head of Ernst & Young (Hong Kong), Director of Accounting Department of Southeast Asia Properties & Finance Ltd., Head of Finance Management Department and Chief Audit Executive of Australia and New Zealand Banking (Hong Kong) Group, Head of Accounting Department of Chase Manhattan Bank (Hong Kong), Deputy General Manager and Group Chief Financial Officer and Corporate Secretary of Hong Kong Dah Sing Financial Holdings Ltd., Deputy General Manager and Chief Financial Officer of Hang Seng Bank, and currently as Executive Director and Chief Financial Officer of Hang Seng Bank.

He has no appointment or concurrent-appointment in companies other than shareholders.

Mr. Chua Phuay Hee, Director

Master degree. He has served previously as Director of Insurance and Statistics Department, Manager of Human Resources and Administration Department, Director of Securities Business Department of Monetary Authority of Singapore, General Manager of Investment and Plan Department, Chief Financial Officer, Chief Risk Officer of Keppel TatLee Bank of Singapore, and currently as Executive Director of Wilmar International Limited.

Appointment or concurrent-appointment in companies other than shareholders: Executive Director of Wilmar International Limited.

I. DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT *continued*

iii. Major working experience of directors, supervisors and senior management, and their appointments or concurrent-appointments in companies other than shareholders *continued*

Mr. John Law, Director

Master degree. He has served previously as Business Risk Reviewer for Asia Pacific Region and Business Manager for North China Region of Citibank, Training Head for Asia Pacific Region of J.P. Morgan & Co., Risk Manager for Greater China and Senior Credit Officer for Asia Pacific Region of Euroclear, Regional Credit Officer for Asia Pacific Financial Markets of Citibank, and currently as Principal Banking Specialist of Global Financial Markets of International Finance Corporation.

Appointment or concurrent-appointment in companies other than shareholders: Director of Bank of Nanjing and Director of UBS Securities Co., Limited.

Mr. Li Xiaochun, Director

Master degree, research-fellow senior accountant. He has served previously as a technical in former Electronics Department 711 Factory, assistant staff, Vice Director, Director and Vice General Manager of Material Department of Aerospace Research Institute II, Director and Chairman of China Aerospace Science and Industry Financial Company Limited, and currently as Chief Accountant of China Electronic Information Industry Group Corporation.

He has no appointment or concurrent-appointment in companies other than shareholders.

Mr. Huang Kongwei, Director

Master degree, senior engineer & economist. He has served previously as Manager and Head of Investment Management Division of Plan & Finance Department, Head of Assets Operation Department and Head of Enterprise Investment Department of Baosteel Group Corporation, Vice Director of Assets Operation Department of Shanghai Baosteel Group Corporation, and currently as Vice Director of Assets Operation Department of Baosteel Group Corporation.

Appointment or concurrent-appointment in companies other than shareholders: Director of China Pacific Insurance (Group) Co., Ltd.

Mr. Li Renjie, Director, President

Bachelor degree, senior economist. He has served previously as Director of Planning Division of Fujian Branch of the People's Bank of China(PBOC), Executive Director and Deputy General Manager of Hong Kong Jiang Nan Finance Ltd., Chairman of Great Wall Securities Co., Ltd., Head of Preparatory Group and President of Industrial Bank's Shenzhen Branch, Vice President of Industrial Bank, and currently as Communist Party Committee Member and President of Industrial Bank.

He has no appointment or concurrent-appointment in companies other than shareholders.

Mr. Kang Yukun, Director, Vice President

Bachelor degree, senior economist. He has served previously as Deputy General Manager of Industrial Bank's Credit Department, Vice President of Industrial Bank's Putian Branch, Vice President and President of Industrial Bank's Fuzhou Branch, and currently as Communist Party Committee Member and Vice President of Industrial Bank.

He has no appointment or concurrent-appointment in companies other than shareholders.

Mr. Chen Dekang, Director, Vice President

Bachelor degree, senior economist. He has served previously as Vice President of Industrial Bank's Ningde Branch, Deputy General Manager and General Manager of Industrial Bank's Business Operation Department, Vice President (in charge of overall management) and President of Industrial Bank's Xiamen Branch, and currently as Communist Party Committee Member and Vice President of Industrial Bank.

He has no appointment or concurrent-appointment in companies other than shareholders.

Mr. Wang Guogang, Independent Director

PhD degree, research fellow. He has served previously as a teacher of Fujian Normal University, Professor of International Business School of Nanjing University, General Manager of Jiangsu Xingda Securities Investment Service Co., Ltd., Chairman of Jiangsu Xingda Certified Public Accountants Limited, Vice President of China Huaxia Securities Co., Ltd., Research Fellow of Chinese Academy of Social Sciences, and currently as Vice Director of Financial Research Institute of Chinese Academy of Social Sciences.

Appointment or concurrent-appointment in companies other than shareholders: Vice Director of Financial Research Institute of Chinese Academy of Social Sciences.

Mr. Ba Shusong, Independent Director

PhD degree, research fellow. He has served previously as Deputy Division Director of Development and Planning Department of Bank of China Head Office, Vice President of Bank of China's Hangzhou Branch, Senior Manager of Bank of China's Hong Kong-Macau Regional Administration Division, Assistant General Manager of Risk Management Department of Bank of China (Hong Kong) Ltd., Vice Director and Director of Development and Strategy Committee of Securities Association of China, Vice Director, Research Fellow and PhD Tutor of Financial Research Institute of Development and Research Center of the State Council, and currently as Director of Development and Reform Research Institute of Financial Research Center of China (Hainan).

Appointment or concurrent-appointment in companies other than shareholders: Director of Development and Reform Research Institute of Financial Research Center of China (Hainan), Independent Director and Chairman Director of Audit Committee of Huishang Bank, Independent Director of Baoying Fund Management Co., Ltd., Independent Director of Da'an Gene Co., Ltd. of Sun Yat-Sen University, and Independent Non-executive Director of China Chengtong Development Group Limited.

Mr. Deng Liping, Independent Director

PhD degree, PhD tutor. He has served previously as Professor of Economics Department of Canada Mount Allison University (tenure-track), Professor and PhD Tutor of Economics Department of Xiamen University, Director of International Trade Department of Xiamen University, Deputy Dean of Economics Department of Xiamen University, Dean of Online Education Department of Xiamen University, President Assistant and Vice President of Xiamen University, and currently as Dean of Xiamen National Accounting College, Professor and PhD Tutor of Xiamen University.

Appointment or concurrent-appointment in companies other than shareholders: Dean of Xiamen National Accounting College, Professor and PhD Tutor of Xiamen University.

I. DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT *continued*

iii. Major working experience of directors, supervisors and senior management, and their appointments or concurrent-appointments in companies other than shareholders *continued*

Mr. Xu Bin, Independent Director

PhD degree, senior economist. He has served previously as Director of PBOC Dandong Municipal Administration Office of Liaoning Province, Vice President of PBOC Dandong Municipal Branch, Vice President of PBOC Liaoning Provincial Branch, Vice Director of State Administration of Foreign Exchange, President and Chairman of China Everbright Bank, Vice Chairman of China Everbright (Group) Corporation, Vice Chairman of Hong Kong China Everbright Group Corporation Limited, Vice Chairman of Hong Kong-listed China Everbright Holding Company Limited, and currently as Chairman of Sun-life Everbright Life Insurance Co., Ltd.

Appointment or concurrent-appointment in companies other than shareholders: Chairman of Sun-life Everbright Life Insurance Co., Ltd.

Mr. Lim Peng Khoon, Independent Director

Member of UK Chartered Institute of Bankers, senior member of Malaysia Institute of Bankers. He has served previously as Director of Foreign Exchange Reserve Administration Department of Central Bank of Malaysia, Consultant of Market Supervision Department of Hong Kong Securities and Futures Commission, Consultant of Hong Kong/Malaysia HT Consulting Ltd, Consultant of Hong Kong Chinfosys Limited, Senior Consultant of Monetary Administration and Financial Infrastructure Department of Hong Kong Monetary Authority, and currently as Consultant of Business Restructuring of Malaysian Bison Group.

Appointment or concurrent-appointment in companies other than shareholders: Consultant of Business Restructuring of Malaysian Bison Group.

Ms. Bi Zhonghua, Chairwoman of the Board of Supervisors

Bachelor degree, senior economist. She has served previously as Head of Cadre Section of Human Resources Department, Head of Statistics Division of General Planning Department, Vice Director of Deposits and Remittances Department of Bank of China's Fuzhou Branch, Vice General Manager and General Manager of International Banking Department, President Assistant of Industrial Bank and General Manager of International Banking Department, General Manager of Business Operation Department, Communist Party Committee Member and Director and Vice President of Industrial Bank, and currently as Communist Party Committee Member and Chairwoman of the Board of Supervisors of Industrial Bank.

She has no appointment or concurrent-appointment in companies other than shareholders.

Ms. Wu Xiaohui, Supervisor

Master degree, senior accountant. She has served previously as Accountant and Vice General Manager of Planning & Finance Department of China National Cereals, Oils and Foodstuffs Import & Export Corporation, General Manager of Planning & Finance Department and Financial Controller of China National Cereals, Oils and Foodstuffs Import & Export Corporation, and currently as Chief Accountant of China National Cereals, Oils & Foodstuffs Corporation, Chairman of Aviva-Cofco Life Insurance Co., Ltd., Aon-Cofco Insurance Brokers Co., Ltd. and Cofco Finance Co., Ltd.

Appointment or concurrent-appointment in companies other than shareholders: Chairman of Aviva-Cofco Life Insurance Co., Ltd., Aon-Cofco Insurance Brokers Co., Ltd. and Cofco Finance Co., Ltd., Director of CITIC Securities Co., Ltd., and Independent Director of Guoyang New Energy Co., Ltd.

Ms. Chen Xiaohong, Supervisor

Bachelor degree, senior Accountant. She has served previously as Principal Staff of the Finance Bureau of Fujian Province, Principal Staff, Vice Director, Director of Fujian Tobacco Company, and currently as Director of Audit Department of Fujian Tobacco Company.

She has no appointment or concurrent-appointment in companies other than shareholders.

Mr. Deng Weili, Supervisor

PhD degree, associate professor. He has served previously as Lecturer and Vice General Secretary of Communist Party Committee of Management Science Department and Fiscal Department of Fudan University, Associate Professor of Fudan University, Vice Director of Human Resources Department of Fudan University, Vice General Manager of Shanghai Tiancheng Chuangye Investment Co., Ltd., and currently as General Manager of Shanghai Guoxin Investment & Development Co., Ltd.

He has no appointment or concurrent-appointment in companies other than shareholders.

Mr. Xie Kuixing, Supervisor

Master degree. He has served previously as Manager of R&D Department, General Manager of Shenzhen Nanyou Operational Department, Beijing Jianguo Road Operational Department, Investment Banking Department, R&D Center, Human Resources Department, Risk Management Department, Vice General Economist of CMB Securities Co., Ltd., and currently as Executive Director of China Merchants China Direct Investments Limited, and Director General Manager of China Merchants China Investment Management Limited.

Appointment or concurrent-appointment in companies other than shareholders: Executive Director of China Merchants China Direct Investments Limited, and Director General Manager of China Merchants China Investment Management Limited.

Mr. Lai Furong, Supervisor

Bachelor degree. He has served previously as Vice Head of Jin'an Sub-branch, Fuzhou Branch of Industrial Bank, Vice General Manager of Finance and Accounting Department of Industrial Bank, Vice President of Guangzhou Branch of Industrial Bank, Vice General Manager of Planning and Financial Department of Industrial Bank, and currently as General Manager of Audit Department of Industrial Bank.

He has no appointment or concurrent-appointment in companies other than shareholders.

I. DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT *continued*

iii. Major working experience of directors, supervisors and senior management, and their appointments or concurrent-appointments in companies other than shareholders *continued*

Mr. Hua Bing, Supervisor

Master degree. He has served previously as a teacher of Law Department of Anhui Finance and Trade College, Lawyer in Guangdong Lingnan Law Firm and Guangzhou Lide Law Firm, Deputy General Manager of Law Affairs Office of Industrial Bank, Deputy General Manager of Risk Management Department, Director of Legal Affairs Centre, and Deputy General Manager of Risk Management Department and Secretariat of Board of Directors of Industrial Bank, General Manager of Office of the Board of Supervisors and Deputy General Manager of Risk Management Department, Director of Law Affairs Center of Industrial Bank, and currently as General Manager of Legal and Compliance Department of Industrial Bank.

He has no appointment or concurrent-appointment in companies other than shareholders.

Mr. Li Shuang, External Supervisor

Master degree, PhD tutor. He has served previously as Professor, Director and Academic Dean of Accounting Department of Central University of Finance and Economics, Vice President of Central University of Finance and Economics, Deputy Secretary-general and Consultant of Chinese Institute of Certified Public Accountants, and currently as Professor and PhD Tutor of Central University of Finance and Economics.

Appointment or concurrent-appointment in companies other than shareholders: Professor and PhD Tutor of Central University of Finance and Economics, Independent Director of Chengde Xinxin Vanadium and Titanium Co., Ltd., Beijing Wangfujing Department Stores (Group) Co., Ltd. and Jiangsu Shuangdeng Group Co., Ltd..

Mr. Wu Shinong, External Supervisor

PhD degree, PhD tutor. He has served previously as Director of MBA Center, Dean of Industrial and Commercial Administration Department, Standing Deputy Dean of Management Department of Xiamen University, and currently as Vice President, Professor and PhD Tutor of Xiamen University.

Appointment or concurrent-appointment in companies other than shareholders: Vice President, Professor, PhD Tutor of Xiamen University, Vice Director of National MBA Education Guidance Commission, Member of Discipline Judgement Group of Educational Degree Commission of the State Council, Independent Director of C&D Co., Ltd, Xiamen Airport Group, and External Supervisor of Fuyao Glass Industry Group Co., Ltd.

Mr. Tang Bin, Secretary to the Board of Directors

Bachelor degree. He has served previously as Vice Director of Trade Statistics Division and Foreign Economic Statistics Division of Fujian Provincial Statistics Bureau, Vice Director of Overall Planning Division, Director of Assignment System Division of Fujian Provincial System Reform Committee, General Manager of the Office, Business Development Department, Corporate Finance Department of Industrial Bank, Head of Industrial Bank's Hangzhou Branch Preparatory Group, General Manager of Secretariat of the Board of Directors of Industrial Bank; and currently as Secretary to the Board of Directors and General Manager of the Office of Board of Directors of Industrial Bank.

He has no appointment or concurrent-appointment in companies other than shareholders.

iv. Changes of directors, supervisors and senior management during the reporting period

Fifteen directors of the sixth Board of Directors were elected at the Company's 2007 first extraordinary general shareholders' meeting on October 19, 2007. Among these directors, there were seven shareholder representative directors, namely, Gao Jianping, Liao Shizhong, Patrick K W Chan, Chua Phuay Hee, John Law, Li Xiaochun and Huang Kongwei; there were three senior-management directors, namely, Li Renjie, Kang Yukun, and Chen Dekang; there were five independent directors, namely, Wang Guogang, Ba Shusong, Deng Liping, Xu Bin and Lim Peng Khoon.

Six supervisors of the fourth Board of Supervisors were elected at the Company's 2007 first extraordinary general shareholders' meeting on October 19, 2007. Among these supervisors, there were four supervisors representing shareholders, namely, Wu Xiaohui, Chen Xiaohong, Xie Kuixing and Deng Weili, and there were two external supervisors, namely, Li Shuang and Wu Shinong.

Bi Zhonghua, Lai Furong and Hua Bing were elected as employee supervisors of the Company's fourth Board of Supervisors at the Company's Employee Representatives General Assembly held on October 19, 2007.

Gao Jianping was elected as Chairman of the sixth Board of Directors, Li Renjie was appointed as President, Kang Yukun and Chen Dekang were appointed as Vice President, and Tang Bin was appointed as Secretary to the Board of Directors at the first meeting of the Company's sixth Board of Directors held on October 19, 2007.

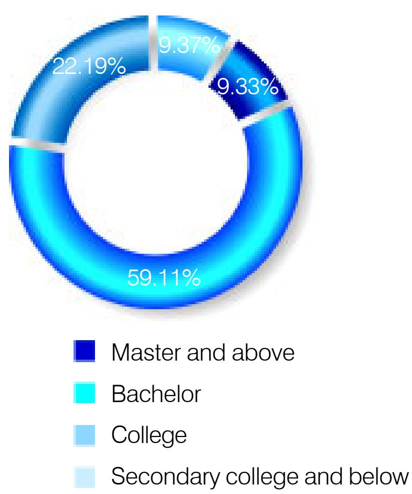
Bi Zhonghua was elected as Chairwoman of the fourth Board of Supervisors at the first meeting of the Company's fourth Board of Supervisors held on October 19, 2007.

The Company's Board of Supervisors received the written resign letter from supervisor Mr. Xie Kuixing on February 29, 2008. Mr. Xie Kuixing resigned as Supervisor of the Company due to a new appointment. In accordance with the Company's Articles of Association, Mr. Xie Kuixing hasn't acted as the Company's supervisor since March 1, 2008.

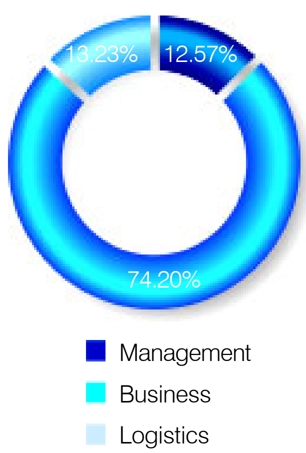
II. Employees

As at the end of the reporting period, the Company had a total of 11851 employees:

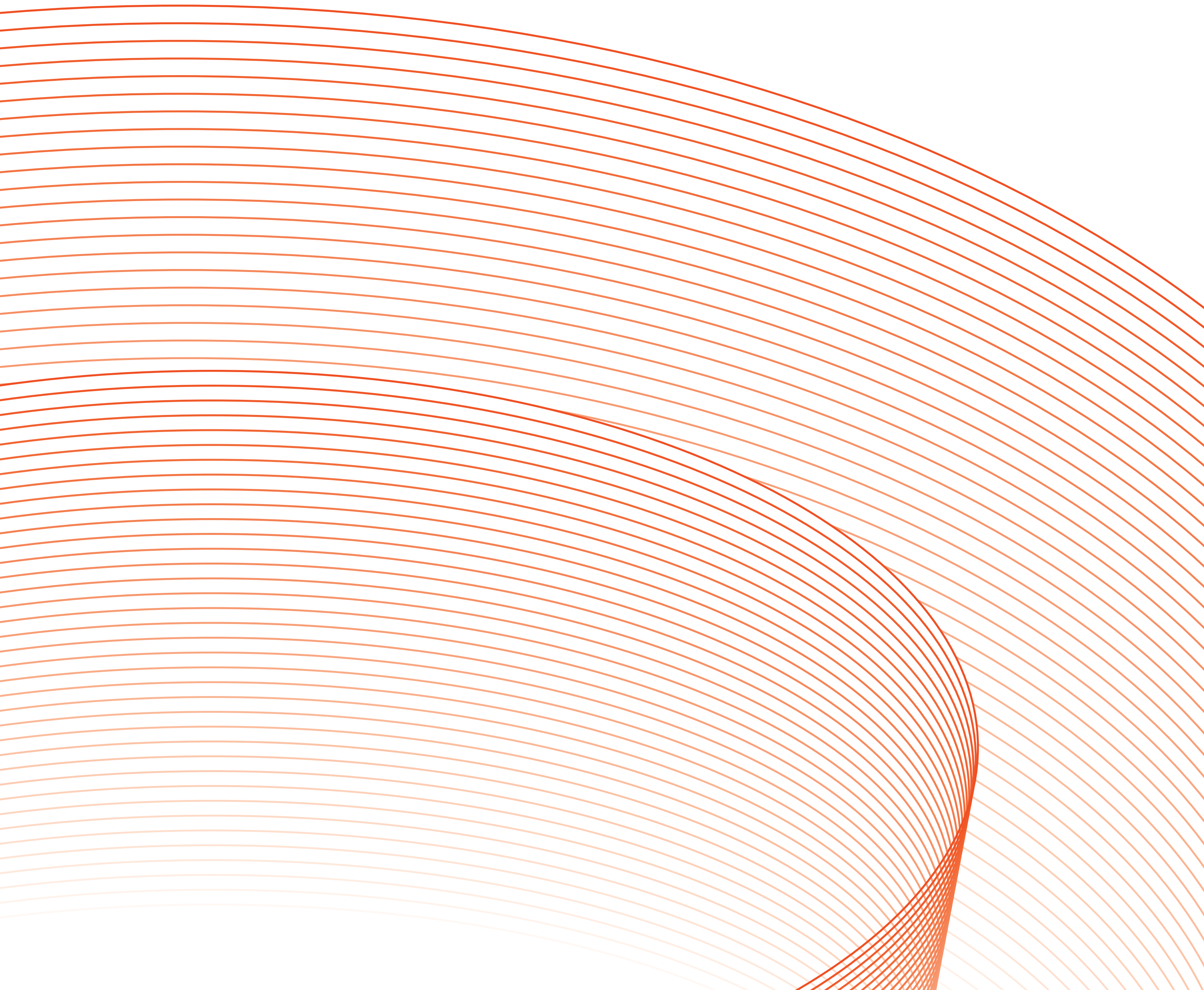
i. By educational degree



ii. By position



The Company had 122 retirees.



Corporate Governance Structure

I. CORPORATE GOVERNANCE OVERVIEW

In consideration of actual situation, the Company kept standardizing and improving basic systems of corporate governance, gradually established and perfected the transmission mechanism of corporate governance, and further clarified and enhanced each level's function of corporate governance in strict accordance with Corporate Law, Law of Commercial Banks, Code of Corporate Governance for Listed Companies, Regulations on Information Disclosure of Listed Companies, the Rules of Shanghai Stock Exchange on Listing of Stocks, Guidelines for the Performance of Board of Directors of Joint-stock Commercial Banks (Trial), Guidelines on Corporate Governance of Joint-stock Commercial Banks, and Guidelines on Rules of Independent Directors and External Supervisors of Joint-stock Commercial Banks.

i. Standardizing and perfecting fundamental systems of corporate governance

During the reporting period, in consideration of the expiration of office terms of the Board of Directors and the Board of Supervisors, the Company revised part of Articles of Association, worked out Regulations on Independent Director Allowance of Industrial Bank, Regulations on External Supervisor Allowance of Industrial Bank, Codes of Conduct for Supervisors of Industrial Bank, Rules of Supervisor Performance Evaluation of Industrial Bank. In conformity with relevant regulatory guidelines of CSRC, the Company revised the Regulations on Information Disclosure of Industrial Bank, shaped the Regulations on Shareholding and Relevant Changes by Directors, Supervisors and Senior Management. Meanwhile, in accordance with regulations promulgated by Ministry of Finance like new Enterprise Accounting Standards, Financial Rules for Financial Enterprises, the Company made overall revision on Basic Financial Systems of Industrial Bank. All the above rules and regulations provide system guarantee for standardized operation of the Company's corporate governance.

I. CORPORATE GOVERNANCE OVERVIEW *continued*

ii. Shareholders and general shareholders' meetings

1. Convention of general shareholders' meetings

During the reporting period, the Company convoked and held general shareholders' meetings in strict accordance with relevant laws, regulations and Articles of Association of the Company, to ensure all shareholders' right of knowing, participating and voting based on adequacy and equality. In 2007, the Company convened two general shareholders' meetings, which reviewed and approved 15 proposals including 2006 work report of the Board of Directors, 2006 work report of the Board of Supervisors, Annual Report 2006, election of directors and supervisors, alteration of Articles of Association, issuance of financial bonds, financial budget and final account, profit appropriation, etc, playing a significant role in protecting rights and interests of investors and other stakeholders. The two general shareholders' meetings were on-site witnessed by lawyers and issued with legal opinions.

2. Related party transactions

Standardizing related party transactions is part of the key content of optimizing corporate governance. During the reporting period, the Company continuously enhanced the management of related party transactions according to Articles of Association, the Regulations on Related Party Transactions between Industrial Bank and Insiders or Shareholders, and Detailed Rules for Implementing Regulations on Related Party Transactions between Industrial Bank and Insiders or Shareholders. The senior management, the Board of Directors and General Shareholders' Meeting administered, examined and approved related party transactions according to their own authorities; the Company periodically reported the situation of related party transactions to the Related Party Transactions Control Committee of the Board of Directors; the independent directors expressed independent opinions on significant related party transactions to the Board of Directors; the Board of Supervisors faithfully supervised the performance of the Board of Directors and senior management during the process of examining and approving related party transactions.

iii. Directors and the Board of Directors

1. Structure of the Board of Directors and its work

The Board of Directors consists of 15 directors, including 7 shareholder-representative directors, 3 senior management directors and 5 independent directors. Being responsible and diligent, all directors attended meetings, reviewed and approved proposals in real earnest, effectively assumed the function of decision-making, and protected the entire interests of shareholders and the Company. In 2007, 11 sessions of the Board of Directors (including 6 meetings held in the form of voting by correspondence) were convened by the Company, at which, the Board respectively reviewed and approved 52 proposals including the further confirmation of relevant issues on initial public offering, the nomination of director candidates of the sixth Board of Directors, self-inspection report and rectification plan regarding the special action of enhancing corporate governance, the revision of Articles of Association, issuance of financial bonds, financial budget and final account, profit appropriation, network development, and buying or constructing office buildings of several branches. The Board also periodically listened to reports on the business performance of the Company, ideas of business development in 2008, etc. These significant decisions played a great role in ensuring the process of IPO, promoting various management reforms, advancing business transformation and improving the market image of the Company.

2. Operation of special committees under the Board of Directors

Every special committee under the Board of Directors convened meetings in accordance with laws, regulations, Articles of Association and working rules of the Company. In 2007, effectively exerting their professional function, these special committees held a total of 15 meetings to review and listen to 43 proposals including business and finance authorization plan of 2007, establishment of branches, write-off of bad debts, status of risk evaluation, situation of related party transactions, report on internal audit, etc.

iv. Supervisors and the Board of Supervisors

1. Structure of the Board of Supervisors and its work

The Board of Supervisors consists of 9 supervisors, including 4 shareholder-representative supervisors, 3 staff-representative supervisors and 2 external supervisors. Being highly responsible for shareholders, all supervisors diligently supervised the performance of the Board of Directors and senior management, as well as the Company's financial position, to safeguard the sustainable and steady development of the Company. In 2007, the Board of Supervisors convened 8 meetings (including 3 meetings held in the form of voting by correspondence), respectively reviewed and approved 21 proposals including periodical reports, report on performance evaluation of supervisors, each audit and investigation report of the Board of Supervisors, the nomination of shareholder-representative supervisor candidates and external supervisor candidates of the fourth Board of Supervisors, relevant rules of the Board of Supervisors, etc, and periodically listened to reports on financial status and internal audit. In addition, four special investigations or inspections were also organized by the Board of Supervisors.

2. Operation of special committees under the Board of Supervisors

Every special committee under the Board of Supervisors convened meetings in accordance with laws, regulations, Articles of Association and working rules of the Company. In 2007, a total of 5 meetings were held by each committee to review proposals including financial statements and notes of 2006, report on performance evaluation of supervisors, the nomination of shareholder-representative supervisor candidates and external supervisor candidates of the fourth Board of Supervisors, etc.

I. CORPORATE GOVERNANCE OVERVIEW *continued*

v. Special action on corporate governance

According to the requirements of CSRC's Notice on Relevant Issues Regarding the Special Action of Enhancing the Corporate Governance of Listed Companies (ZJGSZ[2007]No.28), and Notice of Forwarding CSRC's Notice on Relevant Issues Regarding the Special Action of Enhancing the Corporate Governance of Listed Companies (MZJGSZ[2007]No.18), the Company attached great importance to establish a leading group of special action on corporate governance, and framed the Working Scheme of Special Action on Corporate Governance of Industrial Bank. In the phase of self-inspection, the Company fully surveyed each link of corporate governance in strict accordance with relevant laws, regulations and regulatory requirements, and worked out the Self-inspection Report and the Rectification Plan for Corporate Governance, which was reviewed, approved and proclaimed by the Board of Directors in May 2007. During the period, all directors, supervisors and senior management were organized to study relevant regulatory documents and basic rules. In the phase of public comments, the Company actively collected comments and suggestions, and held a locale communication meeting of special action regarding corporate governance in Xiamen on July 20. The progress made in corporate governance was reported to investors, and suggestions were extensively listened and collected through this meeting, which obtained anticipative effects. In the phase of rectification and improvement, the Company received on-site inspection and written test from Fujian Bureau of CSRC (testing scores were both above 90 points), strictly analyzed the existing problems and respectively carried out improving methods, according to the discovered problems through self-inspection, rectification plan, comments and suggestions from investors, and rectification suggestions proposed by Fujian Bureau of CSRC. The Company thus prepared Rectification Report of Special Action on Corporate Governance of Industrial Bank, which was reviewed, approved and proclaimed by the Board of Directors in early November 2007.

Through this special action on corporate governance, the Company's concept and capability of corporate governance was further strengthened, relevant regulations and rules were further improved, and the corporate governance consciousness of directors, supervisors, senior management and the staff was further enhanced. This is significant for ensuring the standardized operation and advancing the long-term development of the Company. Henceforth, with the principles of fairness, impartiality, compliance and transparency, the Company will continuously improve corporate governance with standardized operation and aspiring management, to safeguard its compliant, sustainable, steady and fast development.

II. INVESTOR RELATIONS MANAGEMENT AND INFORMATION DISCLOSURE

During the reporting period, the Company made an overall revision of Regulations on Information Disclosure of Industrial Bank, and framed associated Internal Reporting Rules of Information Disclosure, according to CSRC's Regulations on Information Disclosure of Listed Companies. By implementing the latest regulatory requirements, the Company standardized the process, fulfilled the responsibility, and ensured the normative operation of information disclosure. With the accurate understanding of regulatory policies, the Company completed the compilation and disclosure work of periodic reports, like Annual Report 2006, Interim Report 2007 and quarterly reports, through which the investment value of the Company was effectively delivered to market investors. The time prescription and secrecy discipline of information disclosure was well followed, and the disclosure job of provisional reports was well completed. During the reporting year, the disclosure of accumulative 61 provisional reports and relevant corporate governance documents was completed, including announcements of resolutions of general shareholders' meetings, the Board of Directors and the Board of Supervisors, and earnings pre-announcements, implementation of profit appropriation, openings of branches and sub-branches, self-inspection report of corporate governance. The quality of information disclosure was continuously improved, and investors' right to know and other legitimate interests were well protected.

Investor relationship was well managed through multiform activities, such as holding symposiums, visiting investors, and organizing special investigations, etc., which effectively helped to show the Company's investment value, and lead investors to the proper understanding of the Company. During the reporting year, 3 presentations of periodic reports and 1 special presentation on retail banking and treasury operation were successively carried out in Shanghai and Fuzhou, introducing operational results and business characteristics. Since the IPO, more than 200 person-time visitors of institutional investors and analysts had been received. The number of investor hotline and IRM email address were publicly announced, and daily phone calls and emails from investors and analysts were timely answered and replied. In addition, several influential capital markets conferences were also attended. During the course of communicating with investors, the basic principles of information disclosure were strictly obeyed, and the information about investment value of the Company was objectively introduced.

In 2007, based on the excellent operating results, fair and complete information disclosure, and the positive interaction with investors, the Company was honored "The Best IRM for IPO of 2007", and "The Golden Tripod Award for Fast-Growing Blue-Chip Company of 2007", and Mr. Tang Bin, Secretary to the Board of Directors, was also honored "The Most Respectable and Popular Award", in the election activity of listed companies sponsored by financial media like *China Securities Journal* and *Shanghai Securities News*.

III. PERFORMANCE OF INDEPENDENT DIRECTORS

The Board of Directors has 5 independent directors, who account for one third of the total directors. In Audit and Related Party Transaction Control Committee, Nomination Committee, and Remuneration and Evaluation Committee of the Board of Directors, independent directors take up the majority and assume the offices of chairman. During the reporting period, adhering to the principles of objectivity, independence and prudence, as well as the consideration of protecting the benefits of investors and other stakeholders, independent directors fully took advantage of their specialties, actively attended meetings of the Board of Directors and each special committee under the Board of Directors, faithfully performed their duties, and expressed independent opinions on events like the changes of directors, appointment or removal of senior management, profit appropriation plan and significant related party transactions, etc., playing a positive role in ensuring the Board of Directors to make scientific decisions and promoting the sustainable and healthy development of the Company's business.

III. PERFORMANCE OF INDEPENDENT DIRECTORS *continued*

i. Independent directors' attendance to the Board of Directors' meetings

Unit: time

Name	Meeting	Personal attendance	Entrusted attendance	Absence
Wang Guogang	11	10	1	0
Ba Shusong	11	9	2	0
Deng Liping	11	11	0	0
Xu Bin	4	4	0	0
Lim Peng Khoon	4	4	0	0

Notes: Mr. Wang Guogang entrusted Mr. Ba Shusong to perform his voting right on the 4th session of the 6th Board of Directors.

Mr. Ba Shusong entrusted Mr. Lin Jingyao to perform his voting right on the 23rd session of the 5th Board of Directors.

Mr. Ba Shusong entrusted Mr. Wang Guogang to perform his voting right on the 1st session of the 6th Board of Directors.

Mr. Xu Bin and Mr. Lim Peng Khoon were elected as independent directors of the Company since October 19, 2007.

ii. Independent directors of the Company did not take any exception against resolutions of the Board of Directors or other meetings of the Company.

IV. DECISION-MAKING MECHANISM OF THE COMPANY

General Shareholders' Meeting is the top power organ of the Company; the Board of Directors is the top decision-making organ, responsible for making decisions on significant affairs and setting annual business plan for the Company; the Board of Supervisors is the supervisory organ, responsible for supervising the Board of Directors and senior management; while the senior management is responsible for legal operation and management of the Company, under the guidance of the Board of Directors and the supervision of the Board of Supervisors. A clear division of responsibilities and a sound checks and balances mechanism have been formed upon the decision-making system centered by the Board of Directors, the execution system centered by the senior management, and the supervisory system centered by the Board of Supervisors.

Each internal decision made by the Company is independent of all shareholders including the first majority shareholder.

V. PERFORMANCE EVALUATION, INCENTIVE AND RESTRICTION MECHANISM FOR SENIOR MANAGEMENT

The senior management accepted evaluation and supervision by the Board of Directors. The Board of Directors reviewed and approved the Evaluation Measures on Operational Performance of Senior Management, and Regulations on Senior Management Remuneration. By setting appropriate and reasonable evaluation indicators, the Company has built up an effective evaluation mechanism linking the senior management's remuneration with their responsibilities, risk and performance, so as to encourage their subjective initiative. Meanwhile, adhering to the unification of incentive and restriction, the Company optimized the remuneration structure of senior management, encouraging and restricting senior management to perform in the interest of the Company.

General Shareholders' Meetings

In 2007, two general shareholders' meetings were held by the Company, with details as follows:

I. 2006 ANNUAL GENERAL SHAREHOLDERS' MEETING

Notice on Convening Industrial Bank 2006 Annual General Shareholders' Meeting was released on *China Securities Journal, Shanghai Securities News, Securities Times, Securities Daily* and Shanghai Stock Exchange website (www.sse.com.cn) on March 28, 2007.

The Company's 2006 annual shareholders' meeting was held in Fuzhou on April 28, 2007.

51 shareholders attended the meeting, representing a total of 3,013,600,609 voting shares, which accounted for 60.27% of the Company's total 5 billion shares. It was in compliance with Corporate Law of the People's Republic of China and Articles of Association of the Company.

The following proposals were reviewed and approved at this meeting through an open ballot voting: 2006 Work Report of the Board of Directors, 2006 Work Report of the Board of Supervisors, Report on Performance Evaluation of Directors for 2006, Report on Performance Evaluation of Supervisors for 2006, Annual Report 2006 (full text and abstract), 2006 Final Financial Report and 2007 Financial Budget Plan, 2006 Profit Appropriation Plan, Proposal on Engagement of Accounting Firms for 2007, Proposal on Appropriation Plan for Retained Earnings before IPO and Profit for the IPO Year, and Proposal on Amending the Regulations on Information Disclosure of Industrial Bank.

Grandall Legal Group (Shanghai) witnessed on-site the legitimacy and validity of the meeting's convocation procedures, present shareholders' qualification, proposal and voting procedures, and issued a legal opinion letter.

II. 2007 FIRST EXTRAORDINARY GENERAL SHAREHOLDERS' MEETING

Notice on Convening Industrial Bank 2007 First Extraordinary General Shareholders' Meeting was released on *China Securities Journal, Shanghai Securities News, Securities Times, Securities Daily* and Shanghai Stock Exchange website (www.sse.com.cn) on September 24, 2007.

The Company's 2007 first extraordinary shareholders' meeting was held in Fuzhou on October 19, 2007.

37 shareholders attended the meeting, representing a total of 3,250,294,909 voting shares, which accounted for 65.01% of the Company's total 5 billion shares. It was in compliance with Corporate Law of the People's Republic of China and Articles of Association of the Company.

The following proposals were reviewed and approved at this meeting through an open ballot voting: Proposal on Electing Directors of the Sixth Board of Directors, Proposal on Electing Supervisors of the Fourth Board of Supervisors, Proposal on Adjusting the Setup of Some Committees under the Board of Directors and Amending the Articles of Association, Proposal on Issuing Financial Bonds, and Proposal on Changing Registered Capital.

Grandall Legal Group (Shanghai) witnessed on-site the legitimacy and validity of the meeting's convocation procedures, present shareholders' qualification, proposal and voting procedures, and issued a legal opinion letter.

Report of the Board of Directors

I. MANAGEMENT DISCUSSION AND ANALYSIS

i. Review of operating status of the Company during the reporting period

1. General operating status of the Company

In 2007, following the objectives of "building a comprehensive bank with steady operation, standardized management, rapid growth, leading services, outstanding characteristics and remarkable returns", the Company strived to reinforce its capital base, promoted the management reform, and had achieved the annual objectives and tasks set by the Board of Directors, with every business line achieving sustainable, fast and healthy development.

(1) Every business line achieved sustainable, rapid and healthy development, with operating results doubling year on year. As at the end of 2007, the Company's total assets reached RMB851,335 million, up 37.88% over the year beginning; the balance of total deposits increased to RMB505,371 million, up 19.42% over the year beginning, and the balance of total loans rose to RMB400,143 million, up 23.26% over the year beginning. Non-performing loan balance stood at RMB4,583 million, a decrease of RMB396 million from the year beginning, and non-performing loan ratio dropped by 0.38 percentage points to 1.15%. Provision coverage ratio grew by 29.18 percentage points to 155.21%. Net profit for the year was RMB8,586 million, a year-on-year increase of 126.04%, and net profit after non-recurring gains and losses was RMB7,990 million, a year-on-year increase of 112.14%. The year-end net asset increased by RMB22,697 million to RMB38,897 million, up 140.11%. Net capital amounted to RMB47,859 million, an increase of RMB19,058 million over the year beginning, and the capital adequacy ratio reached 11.73%.

(2) Steady promotion of operational transformation, and further optimization of business structure. The divisional structure reform upon retailing banking has gained initial achievements, and some pilot branches have completed the adjustment and establishment of organizations within divisional structure. The Company's retail banking business developed rapidly, with the year-end retailing loan balance reaching RMB132,395 millon, at a growth rate of 104.89% over the beginning of the year. The newly increased retail loans of 2007 and total balance both ranked the second among the same type of domestic banks, and the proportion of retail loans reached 33.09% of the total loan balance of the whole bank. The Company reinforced the adjustment in institutional business structure, strengthened the development and expansion of core clients, and steadily promoted the pilot trial in the small and medium-sized enterprises. The energy efficiency finance program was effectively promoted, with the number of energy efficiency loans adding up to 38 by the end of the year. The projects financed by these loans could save 835.1 thousand tons of standard coal and reduce 2,639.5 thousand tons of CO_2 emission per year. The Bank-to-Bank Platform brand was rolled out, and the scale efficiency of cooperation between small and medium-sized banks began to emerge. The wealth management business expanded rapidly, and the total assets managed by the Company's Financial Markets reached RMB243,146 million, an increase of RMB73,574 million at a growth of rate of 43.39%.

(3) Sources of income were expanded through multi-channels, shaping more reasonable income structure. In 2007, the Company's net operating income reached RMB22,055 million. Net interest income increased to RMB20,846 million by 56.80% year-on-year, accounting for 94.52% of the net operating income. Interest income from bonds grew by 41.46% year-on-year to RMB5,822 million, accounting for 26.40% of the net operating income. Intermediary business grew by large margin, with the relevant income for the year increased by RMB1,277 million to RMB2,003 million, representing an increase of 175.94%. Income from new intermediary business lines, such as fund custody, agency, trade and consulting business grew by more than 200%, with a rapid increase of proportion in net operating income.

(4) The network coverage was further improved, and the service channels became more convenient. The Company has set up the Legal and Compliance Department and prepared to set up a Fund Management Company and a Futures Department to better fit its business demands and development trend of comprehensive operation. New branches were established in Dalian, Qingdao and Nanning, and Harbin Branch was set up in early February 2008 by merger and acquisition. As at the end of 2007, the Company had established branches in 39 economic central cities, with a total of 390 outlets. The service scope of Online CIB was further extended. The telephone banking, 95561, had introduced the system of second phase intensified the VIP services and initiative marketing. The mobile banking, Wireless CIB, was gradually developed with all-around service functions.

(5) Market position and brand image were enhanced greatly. By virtue of remarkable results, standardized management and continuous innovation, as well as the broad platform of capital market, the Company's market influence and brand awareness were enhanced greatly. In 2007, the Company was awarded "Runner-up of FT Sustainable Deal of the Year 2007" by the Financial Times and International Finance Corporation, and "The Best 10 Chinese Bank", "The Fourth Session of the Best Corporate Citizen in China of 2007" and "The Best Corporate Public Image of 2007" by the domestic authoritative media. According to the ranking of the Top 1000 World Banks released by the Banker in 2007, the Company ranked the 260th in terms of tier 1 capital, up 37 places over 2006; and the 145th in terms of total assets, up 19 places over 2006.

2. Composition of the Company's operating income and operating profit

During the reporting period, the Company's operating income was RMB22,055 million, and its operating profit was RMB10,849 million.

(1) Pursuant to the principle of importance and comparability, the Company was divided into eight regional divisions, including head office (including headquarters and its operating institutions), Fujian, Beijing, Shanghai, Guangdong, Zhejiang, Jiangsu and others.

Operating income and operating profit of different regional divisions were stated as follows:

in RMB'000

Region	Operating income	Operating profit
Head Office	1,522,810	(362,384)
Fujian	4,215,376	2,462,790
Beijing	1,924,363	1,128,057
Shanghai	2,898,594	1,865,144
Guangdong	2,734,259	1,265,893
Zhejiang	2,157,785	1,084,797
Jiangsu	934,580	522,179
Others	5,667,644	2,882,082
Total	22,055,411	10,848,558

I. MANAGEMENT DISCUSSION AND ANALYSIS *continued*

i. Review of operating status of the Company during the reporting period *continued*

2. Composition of the Company's operating income and operating profit *continued*

(2) Among business income, the amount, proportion and year-on-year change of loans, inter-bank placements, due from central bank, due from banks and other financial institutions, reverse repurchase agreements, bonds investment, fees and commission, and other items were as follows:

in RMB'000

Item	2007	Proportion in total business income (%)	Increase/ decrease over 2006 (%)
Loan income	28,174,065	67.53	48.85
Inter-bank placements income	464,124	1.11	139.20
Due from central bank income	1,057,568	2.54	83.87
Due from banks and other financial institutions income	590,016	1.41	56.80
Reverse repurchase agreements income	4,087,369	9.80	452.91
Bonds investment income	5,354,553	12.84	33.78
Fees and commission	1,829,160	4.38	201.14
Other income	161,515	0.39	182.55
Total	41,718,370	100.00	63.73

3. Financial position and operating results of the Company

(1) Changes in key financial indicators and reasons thereof

in RMB'000

Item	2007	Increase/decrease over 2006(%)	Brief reason
Total assets	851,335,270	37.88	Asset business grew rapidly.
Total liabilities	812,438,193	35.12	Liabilities business grew rapidly.
Shareholders' equity	38,897,077	140.11	Funds raised from IPO, and rapid growth of net profit for the year.
Net profit	8,585,767	126.04	Rapid growth of Interest-earning assets, effective cost control and tax policy adjustment.

(2)Items in financial statements with changes over 30%

in RMB'000

Item	2007	Increase/ decrease over 2006(%)	Brief reason
Due from banks and other financial institutions	42,289,887	280.04	Great increase of due from banks and other financial institutions due to more fund sources
Placements with banks and other financial institutions	4,016,673	(61.70)	Decrease of placements with banks and other financial institutions
Derivative financial assets	1,257,430	1080.27	Growth of derivative financial business
Reverse repurchase agreements	169,955,558	201.55	Great growth of reverse repurchase agreements due to great increase of short term liabilities sources
Available-for-sale financial assets	43,364,875	(38.39)	Decrease of available-for-sale financial assets
Investment in receivables	21,125,699	248.75	Increase of investment in the receivables
Due to banks and other financial institutions	191,122,772	80.71	Increase of due to banks and other financial institutions
Placements from banks and other financial institutions	991,402	38.44	Increase of placements from banks and other financial institutions
Derivative financial liabilities	1,341,872	1057.49	Increase of derivative financial business
Repurchase agreements	43,142,188	86.03	Growth of repurchase agreements
Bonds payable	59,962,608	46.25	Increase of issued financial bonds
Capital surplus	17,356,024	489.26	Proceeds from IPO were transferred into capital surplus
Interest income	40,197,648	61.18	Increase of income from loans and bonds
Interest expenses	19,351,656	66.19	Growth of liabilities scale and hike of interest rate
Fees and commission income	1,829,160	201.14	Increase of fees and commission income
Investment gains(losses)	(530,922)	204.50	Sale of some book loss bonds
Exchange gains	173,893	46.77	Increase of exchange gains
Operating tax and surcharges	1,471,154	50.04	Increase of operating income
Operating and administrative expenses	8,005,191	52.12	Increase of outlets, staff and business
Asset impairment loss	1,678,842	(30.12)	Fall of loan impairment loss
Income tax expenses	2,324,404	86.26	The increase of taxable income and some deferred tax assets were converted into income tax expenses due to the adjustment of legal tax rate.

I. MANAGEMENT DISCUSSION AND ANALYSIS *continued*

i. Review of operating status of the Company during the reporting period *continued*

4. Changes in the composition of assets

(1) The profit-making assets accounted for 98.77% of the total assets, up 0.08 percentage points over last year, of which, loans accounted for 47% of the total assets, down 5.53 percentage points compared with last year; investments accounted for 15.82% of the total assets, down 6.13 percentage points; and reverse repurchase agreements accounted for 19.96% of the total assets, up 10.84 percentage points over last year. The proportion of profit-making assets continued to increase, and the efficiency of treasury operations was improved. Meanwhile, the Company actively carried out the national macro-control policies, properly controlled the growth rate of loans, reduced the proportion of loans in the total assets, enhanced the utilization of short term inter-bank funds in line with liabilities sources and maturity structure, endeavored to increase the rate of return on assets within a certain risk tolerance, and properly adjusted bond investment structure according to the changes of macro economy and interest rate.

In accordance with the new accounting standards, the Company classifies its bond investments into four categories including trading investments, available-for-sale investments, held-to-maturity investments, and loans and receivables investments in line with the holding purpose in the process of initial recognition, and implements subsequent measurement by fair value method or amortized cost method. As at the end of the reporting period, the Company's bond investments balance was RMB134,609 million, of which, trading investments measured at fair value was RMB8,525 million, available-for-sale investments was RMB43,365 million, held-to-maturity investments measured at amortized cost was RMB61,593 million, and loans and receivables investments was RMB21,126 million.

(2) Operating expenses increased 52.12% compared with that of last year, mainly due to new establishment of seven branches (including branch upgrade) and thirty-nine business outlets. With the network expansion, personnel increase and business development, the operating expenses increased accordingly but at a growth rate far slower than that of profit.

5. Performance of corporate social responsibility

The year 2007 saw major progress made by the Company in performing its corporate social responsibility, which has been fully recognized by all sides, as reflected by the honors it won from domestic and foreign authoritative media, including "The Best 10 Chinese Banks", "The Fourth Session of the Best Corporate Citizen in China of 2007", "The Best Corporate Public Image of 2007" and "Runner-up of FT Sustainable Deal of the Year 2007". These achievements were made as a result of the top-down common understanding throughout the Company and the efforts it made to perform its corporate social responsibility in strategy, business and culture.

(1) Cultivate the awareness of social responsibility and clarify the deeper implication of social responsibility

Under the guidance of the Scientific Outlook on Development, a harmonious society and sustainable development have become the theme of the new period. Intensifying social responsibility is the mission that the age has assigned to the Chinese banking industry, an important initiative aimed to meet laws and regulatory requirements and a must for getting adapted to future market competition. The Company attaches great importance to the social responsibilities of banks and is deeply aware that it means much more than pure production and creation of profits and is not limited to charity, public welfare, donations for education and community activities. Instead, its deeper implication is in what manner and attitude a bank should provide services, create value and distribute and use profits. The social responsibility of banks is in essence to build up a relationship of mutual benefit and common prosperity among the society, the environment and other stakeholders, and to obtain reasonable profits on the basis of creating value for stakeholders by providing quality services and taking part in environmental protection so as to secure the existence and development of the Company, thus create a mode of sustainable operation.

In 2007, the Company continued to take the corporate social responsibility and sustainable finance as its core philosophy and value orientation, as well as the guidance over operation management and business activities. While continuously improving corporate governance structure and protecting shareholders' interests, the Company also gave due consideration to the interests of employees, customers and other stakeholders, laid stress on the harmonious relationship between its own development and the society and environment in general, promoted national economic construction and social development, committed itself to social public undertakings, such as supporting culture and education, poverty alleviation, disaster relief, energy saving, emission reduction and environmental protection, and implemented the Scientific Outlook on Development through actual actions to serve the building of a harmonious socialist society.

(2) Learn from advanced international experience and promote the development of sustainable finance

As an authoritative guideline for project finance with consideration upon environmental and social risk, Equator Principles have become a generally accepted standard of international financial industry, playing an important steering role in boosting sustainable finance development. In 2007, the Company launched preparations for adoption of the Equator Principles and gradually began the system-based performance of the social responsibility. Firstly, the leading group of the Company highly valued relevant work and draw on international experiences. On the basis of summing up the experiences in energy saving and emission reduction, the Company included environmental protection and sustainable finance into the agenda in time and invited experts from International Finance Corporation to give relevant lectures and guidance, stepping up exchanges with international counterparts. Secondly, the Company took environmental protection, energy saving and emission reduction as important objectives in its daily business management, drew up and began to implement marketing plans that suit customers' demand for green credit and green finance to obtain new development opportunities and new sources of profits while satisfying the financial needs of the society for sustainable development. Thirdly, the Company has brought sustainable development into its growth goal and corporate culture, and introduced social and environmental management factors into its business process and operations, guiding all employees to cultivate the awareness of social responsibility and take into account public interests, ecological environment and social progress in business activities at all time.

The Company also drew the attention of all social sectors to energy saving, emission reduction and environmental protection in the pursuit of practicing social responsibility and building a harmonious society. The Company offered a proposal to the listed companies in Fujian about performing corporate social responsibility, joined the competent state authorities and the Financial News in sponsoring the "2007 Energy Saving China Summit Forum and Green Credit Innovation Seminar", signed the "UNEP Statement by Financial Institutions on the Environment and Sustainable Development", and teamed up with the International Finance Corporation to hold the "Energy Efficiency Finance Program Guangzhou Roundtable", where Mr. Zoellick, President of the World Bank, was present to give guidance and spoke highly of the cooperation and relevant results achieved. The high profile of the Company in sustainable finance has captured widespread attention and recognition from related state departments, various social sectors and international media.

I. MANAGEMENT DISCUSSION AND ANALYSIS *continued*

i. Review of operating status of the Company during the reporting period *continued*

5. Performance of corporate social responsibility *continued*

(3) Commit itself to financial innovation and fulfill the social responsibility of banks in business expansion

In active response to the State macro-control and the industry development policies, the Company brought the leverage of credit into full play, advocates green credit and guided the credit supply to industries enjoying strong state support, including environmental protection, energy saving and emission reduction. The Company built a credit assets structure that was up to the requirements for environmental protection, stable in proceeds, safe in operation and excellent in both operational and social benefits, spurred enterprises to improve their fund utilization efficiency and business management, thereby promoting the rationality of social investment structure, optimizing the allocation of resources, maintaining the sustainable development of national economy and holding up the continuous social progress; took the opportunity of business transformation to adjust business structure by focusing developing retail banking and intermediary business, creating more social wealth for customers and the public; integrated the resources of small and medium-sized banks to launch the Bank-to-Bank Platform, so as to reduce the input of social resources and repetitious construction, and effectively enhanced the capability of banking services; accelerated the construction of e-banking and increased the number of self-service devices to shape a powerful service network with virtual-actual combination; optimized business process, improved service efficiency and popularized public financial education to ensure the security of funds, save transaction cost and enhance service quality.

In May 2006, in cooperation with International Finance Corporation, the Company launched the energy efficiency finance program as the pioneer in China, to help domestic enterprises carry out the alteration of energy-consuming equipments and projects of energy-saving and environmental protection, thereby propelling the social use of clean energy and reducing the emission of pollutants. The first phase of the project had achieved noticeable results and the second phase kicked off in February 2008. In the forthcoming three years, the Company plans to launch RMB10 billion of loans to support China's drive of energy saving and emission reduction, expecting to save about 60 million tons of standard coal and reduce emission of the CO_2 by nearly 200 million tons. Thanks to the above efforts, the Company was awarded the "Runner-up of FT Sustainable Deal of the Year 2007" by Financial Times, becoming the first Chinese commercial bank to have this honor.

(4) Safeguard the rights and interests of investors and build up the image of a responsible bank on the capital market

The Company strictly performed its responsibility of information disclosure, strengthened system construction, and improved operation mechanism; conducted annual audit in continuous compliance with international and domestic accounting standards and endeavored to standardize information disclosure in keeping up with international standards, so as to increase transparency and protect the rights and interests of investors; enthusiastically widened the channel of interaction with investors for smooth communications and more understanding in a bid to build up the image of a quality public company and form harmonious investor relations. In the year, the Company held 8 large presentation meetings, seminars and symposiums, which involved an audience of more than 400 persons; received more than 200 persons of institutional investors carrying out investigations; and participated in more than 20 seminars and symposiums sponsored by leading domestic and foreign securities brokers. The good interactions and adequate communications greatly increased investors' understanding of the Company. Based on the above-mentioned, the Company won "The Best IPO IRM Award of 2007" in the third session of "Best Investor Relations Management in China" held in August 2007 and "The Golden Tripod Award of the 3rd Annual Meeting of China's Securities Market" held in November.

(5) Focus on human-centered care to cultivate the corporate culture that can effectively carry the philosophy of corporate social responsibility

Always upholding the "human-centered" concept, the Company regarded employees as it's most important assets and did all it can to provide them with a good working environment, propelling them to grow hand in hand with the bank. The Company actively and steadily pushed on the reform of its systems of remuneration, welfare and insurance, improved the personnel mechanism of screening, employment and long-term motivation, gradually established and improved a talent evaluation system with scientific and standardized settings, and strived to foster an environment which enables all types of talents to show their competence and put them to the best use. Meanwhile, the Company provided employees with various forms of education and training in a multi-level and targeted way. In 2007, the Company held 30 training programs and 37 training classes, with the participation of nearly 8000 persons. The Company also set great store by guiding the staff to cultivate the awareness for social responsibility, build up a correct value judgment criterion and perfected the corporate culture based on social responsibility and sustainable development, thereby injecting endless power into the fulfillment of its corporate social responsibility.

(6) Show concern for disadvantaged groups and pursue social public welfare

The Company has always based its development on loving care, and exploited actual deeds to foster charity and public welfare initiatives by providing intellectual, physical and financial support for public service sectors like medical care, education and culture. It has also acted enthusiastically to repay the society through poverty alleviation, donations, blood contribution, care programs, beneficent education funds, student loans and subsidies given to art and forums. In June 2007, the Company donated RMB10 million to set up "Charity Scholarship of Industrial Bank", which helped poverty-stricken undergraduates fulfill their courses, boosted the development of education undertaking and aided the training of national talents. All branches have also made contributions to public undertaking like local education, poverty alleviation and social well-being in different ways, which is a full embodiment of the corporate spirit of "succoring those in distress, and helping those in peril with solidarity and mutual assistance", thus fostering a good image in social public and a good brand image.

6. Investments

(1) Use of funds raised from IPO

The Company issued 1,001 million shares of RMB-denominated shares during its IPO in 2007 at RMB15.98 per share. A total of RMB15,722 million was raised, and was funded in full on January 29. The proceeds had been used to reinforce its capital base and enhance its capital adequacy ratio, which greatly increased the Company's shareholders' equity, strengthened its risk resistance and laid a solid foundation for the Company's sustainable and steady development.

(2) Changes of projects using fund raised

During the reporting period, the Company didn't change projects using fund raised.

(3) Material non-fund raising investments

As at the end of the reporting period, the Company had a long term equity investment of RMB50,000 thousand. Upon approval of PBOC through its YF [2001] No. 234 Document concerning the Establishment of China Union Pay Co., Ltd., the Company invested RMB50,000 thousand in China Union Pay Co., Ltd., which accounted for 3.03% of China Union Pay Co., Ltd.'s registered capital.

I. MANAGEMENT DISCUSSION AND ANALYSIS *continued*

ii. Prospects of future development

1. Development trend of the industry and pattern of market competition

In 2008, the banking industry of China will face both a rare opportunity of development and grave challenges.

In a long-term perspective, the development prospect of the banking industry will remain upbeat. 2008 is the first year of carrying out the spirit of the 17th CPC National Congress and the year of the Olympic Games. National economy will maintain the sound momentum of steady and fast growth that revolves around the "better and faster" keynote. With the "3 Preventions" as the primary goal, the State will follow a prudent financial policy and a moderately tight monetary policy, strongly push the change of economic growth mode and make strategic adjustment to its economic structure. Focusing on energy saving and emission reduction, the State will intensify the regulation of industries that cause high energy consumption and high pollution. As the expected result of macro-regulation is to be achieved, the quality of the growth of national economy will receive substantial improvement. Therefore, the development environment of the banking industry will continue to look good.

On the other hand, because of some uncertainties in macro economy, the business management of commercial banks will face certain pressure. How the US sub-prime crisis will hit the confidence of global investors and consumers needs further observation; the appropriately tight policy of macro-regulation will continue and the lagging effect of the regulation measures already taken will emerge gradually; the regulatory authorities will take a variety of measures to control the scale and tempo of the new credits extended by commercial banks to mitigate the pressure caused by excessive liquidity and inflation; some small and medium-sized enterprises with weaker comprehensive strength and some industries under heavy pressure of cost hike may become exposed to risks due to the impact of tightened liquidity and the markup of production factors.

Competition in the banking industry will get even fiercer. After state-owned banks were transformed into joint stock ownership and got listed, the vigor of their system mechanism and existing competitive edges have been stimulated; the commercialization reform of policy banks is being quickened; joint stock commercial banks have continuously stepped up the changes in their internal management and witnessed a continuous enhancement of competitive edge; urban commercial banks have begun cross-regional business expansion; foreign banks are speeding the layout of their network and have started to show their advantages in the expansion of high-end customers.

A significant breakthrough is likely to be made in the comprehensive operations of the financial industry and there will be more opportunities for market-based merge and acquisition between financial institutions. Financial disintermediation will more strongly boost the innovations in capital market tools. The substitution effect of stock financing and bond tools on loans has intensified. The increasingly diversified investment tools, including monetary market funds, shares and insurance, are encroaching more and more upon the savings of commercial banks. To address the challenges against traditional asset-liability business, getting help from the improving investment tools and the capital market, the banking industry will hasten the steps of comprehensive business operations.

2. Problems and difficulties existing in the Company's operations and countermeasures

During the reporting period, the major problems and difficulties existing in the business operations of the Company include: firstly, business development was not balanced enough, the growth of core liabilities was relatively slow, and asset-liability term maturity structure needed futher optimization; secondly, the worsening of US sub-prime crisis has led to a slowdown in the world economy, stronger domestic macro-control, higher pressure confronting the operations of domestic enterprises and increased credit risk of loan projects; thirdly, the tightened control over monetary policy has resulted in drastic fluctuations in market funds and prices, and there was pressure on the management of interest rate risk and liquidity risk.

To address the above problems and difficulties, the Company will take the following countermeasures:

(1) Implement the spirit of macro-control policy, intensify the expansion of core liabilities and the restructuring of credit assets, expedite asset-liability coordination, continuously tamp the foundation of business operations, take precautions against risks and enhance the capability of core earnings. The newly-increased credit scale will continue to support the development of retail credit business and, at the same time, focus on supporting small and medium-sized customers, enterprises in resources monopolizing industries and energy-saving projects of environmental protection;

(2) Promote overall risk management, intensify scientific and effective management, and keep on improving asset quality and internal control of risks. In credit risk management, strengthen the guidance for credit orientation and management of credit asset portfolio, continuously optimize the structure of the credit assets of the Company; in market risk management, strengthen the matching between assets and liabilities and take forceful measures to prevent liquidity risk; in operational risk management, establish and improve the policy system for operational risk management and set up the matrix reporting mechanism for operational risk; in compliance risk management, continue to establish and improve compliance risk management system.

(3) Identify the development focus of different business lines, boost the transformation of operations and strive to increase the integrated benefits of business development. Use product innovation and service upgrading as the cornerstone to continuously push the development of institutional business to a higher level. Promote the organic integration between indirect financing and direct financing, and accelerate the shift from providing customers with simple services of savings and loans to providing them with integrated financial service solutions. Increase the priority-based allocation of resources, focus on the three key businesses including liability business, intermediary business and retail assets centering on personal mortgage, strengthen third party deposit business and wealth management business, and expand the group of high-quality customers. Grasp market opportunities, pay close attention to the policy trend of regulatory authorities in comprehensive operations and take action in comprehensive operations and institutional merge and acquisition,

(4) Strengthen basic management in an all-round way to enhance operation management level and strengthen the core competitiveness of the Company. Steadily push ahead the changes in organizational system, explore the establishment of management headquarters for business divisions including corporate finance and wealth management, and further intensify the unified management of business lines. Promote the reform of the retail banking division management in branches and gradually improve the retail banking management system of the whole bank. Continue the reengineering of business process in an orderly way. Further improve channel construction, speed up the construction of outlets in key cities, and increase the input of resources on electronic channel to improve relevant service functions.

I. MANAGEMENT DISCUSSION AND ANALYSIS *continued*

ii. Prospects of future development *continued*

3. Operation goals for 2008

-Total assets will reach RMB1,020 billion, an increase of 20%;

-General deposits in domestic and foreign currencies will amount to RMB607 billion, an increase of 20%;

-Loans in domestic and foreign currencies will rise to RMB476 billion, an increase of 19%;

-Excluding the impact of non-recurring gains and losses, net profit will increase not less than 20% year-on-year;

-Based on five-category classification, the year-end non-performing loan ratio will be controlled within 1.11%.

4. Demand for funds needed to implement future development plan, fund use plan and sources of funds

According to its established strategy and business development strategy, the Company will reinforce the integrated management of assets and liabilities to rationally arrange the sources and utilization of funds by taking into account the types, term and prices of assets and liabilities; implement the State macro-control policies, rationally manage the aggregate volume and speed of credit extension, strictly control medium and long-term asset allocations, continuously optimize asset structure, continue to enhance the support over the loans for small and medium-sized enterprises and retail loans, intensify the operations of various bond investments, step up the utilization of inter-bank funds and actively develop new varieties of asset business; promote the expansion of core liabilities, strengthen the resources allocation and performance examination for expansion of liability business, and highlight the expansion of saving deposits, corporate deposits (excluding agreement deposits) and customer accounts of third party deposit to expand the sources of the core liabilities of the Company; continue to actively get more inter-bank funds including settlement funds of securities transactions, absorb large-amount agreement deposits and issue financial bonds in due time with the comprehensive considerations to the level of market interest rate and the needs for asset-liabilities matching, and, develop new liability tools like negotiable certificate of deposit, and broaden the sources of liabilities.

5. Analysis of risks facing the Company and countermeasures

The risks confronting the Company mainly include credit risk, liquidity risk, market risk, operational risk and IT risk. During the report period, the Company actively promoted overall risk management, improved risk management mechanism, bettered its risk management technology, and continuously enhanced risk management capability, providing support for the sustainable business development. During the reporting period, there was no occurrence of risk that can significantly affect the business operations of the Company.

In 2008, the State will continue to exercise macro-control and implement a moderately tight monetary policy and a prudent fiscal policy. On the other hand, high inflation, high real estate prices and the fluctuations on overseas and domestic capital markets have brought many uncertainties to macro-economic operations. The impact they may produce on the Company finds expression on different levels of risks.

In the management of credit risk, the Company has carefully analyzed the effect of the macro-economic situation and regulatory policies on different industries and enterprises. Especially, the Company intends to carry out full-range pressure test and structural optimization in the real estate industry with a high concentration of loans and scrutinize new real estate assets to exercise strict control over risks. At the same time, it will strengthen the guidance for credit orientation, implement a strategy that ensures the support for some industries and cut down the support for some other industries, strictly enforce credit access standard as required by the State macro-control policies, optimize the structure of credit assets, exits in advance from those industries greatly affected by macro-control, and avoid the negative influence on loans resulting from the adjustment of industrial policies and the cyclic fluctuations of industries; further promote the trial of vertical examination of branches, unify and standardize the operation mode of retail credit centers, strengthen centralized, standardized and professional operations, explore the risk management of emerging business, and improve the decision-making mechanism for emerging business and the access mechanism for new products.

In the management of liquidity risk, to address the short-term imbalance between market supply and demand that may be caused by changes in the supply-demand pattern and the fluctuations on the capital market, the Company lifts the development of core liability business to a strategic height, strongly expands general deposits, strives to keep inter-bank deposits, and issues medium and long-term financing tools, such as financial bonds. The Company also makes sufficient preparations for short-term fluctuations in market funds in case of emergency may happen. In mechanism, the Company has formulated policies and procedures for the management of liquidity risk featured with a clear division of work and well-defined rights and responsibilities. Through information systems including the asset-liability management system, the Company places liquidity risk under dynamic monitoring and control, strengthens the daily operation management of liquidity risk, and has drawn up initiating conditions and detailed implementation plan of liquidity emergency to prevent and control any potential liquidity risk and payment crisis.

In the management of market risk, the fluctuations on the capital market, interest rate and exchange rate can cause a huge impact on the pricing of standardized products and the gains or losses of off-balance-sheet activities and financial derivative business. The Company has stepped up macro-economic researches and predictions to accurately follow the direction of macro-control and market yield curve. Meanwhile, in its market operation department, the Company has strengthened the interconnection between the risk middle and front desks as well as the real-time monitoring of market transactions. In mechanism, the Company has set up a basic system for management of market risk, a fairly complete internal control and audit system, a sound quota system for market risk and a sound risk reporting system. Through FTP management, interest rate risks are centralized under the unified management of head office, which helps improve the efficiency of management and control of interest rate risk position. Treasury business of different characteristics have been put under quantified risk management in line with the contained market risk elements (exchange rate and interest rate risk), so as to ensure t he comprehensive, complete, effective and operable management of market risk.

In the management of operational risk, the Company has established rules and process system with scientific classification and the coverage of all links of business management, thus realizing the mutual supervision and constraint between upper and lower processes, and different departments and posts; started the building of a overall compliance management system, which sorts out and breaks down the rules to define control measures and requirements and clarify the duties of various activities; reinforced supervision to escalate after-event punishment by implementing internal audit and responsibility investigation; intensified the building of a compliance culture to promote honest and upright occupational ethics and values and enhance the compliance awareness of all the employees.

In the management of IT risk, the Company boosts the formulation of IT rules and continuously improves IT standards; constantly launches information security projects to enhance the risk-resisting capability of IT; intensifies the control and management of software quality and improves the quality of software R&D; enhances data security management to ward off the risk in data operations; keeps on doing well the internal security inspection and protection to reinforce risk prevention and control capability; intensifies IT risk audit and improve the mechanism of internal control and monitoring; implements graded protection of information security by setting up the graded information protection system.

I. MANAGEMENT DISCUSSION AND ANALYSIS *continued*

iii. Reasons and impact of changes in accounting policies, accounting estimates or correction of material accounting errors

1. Change in income tax rate

In March 2007, the Enterprise Income Tax Law of the People's Republic of China ("New Enterprise Income Tax Law") was approved by the 5th Session of the 10th National People's Congress and took effect on January 1, 2008. The New Enterprise Income Tax Law introduces a series of changes including unifying the enterprise income tax rates for both domestic and foreign enterprises into 25%. The change of deferred income tax assets and liabilities due to the change in enterprise income tax rate has been measured and recognized in the income tax expenses of the current period, resulting in an increase of income tax expenses of RMB143,141 thousand.

2. Approval of performance-related salary system

The Company received the Notice of the Ministry of Finance and the State Administration of Taxation on Relevant Issues Concerning Verification and Approval of Standards of Taxable Salary Deduction Before Tax of Industrial Bank Co., Ltd. (CS [2007] No. 111) in August 2008, on which the application for taxable salary deduction before tax was approved. Therefore, the adjustment on accounting estimates change brought a decrease of income tax expense of RMB539,016 thousand in 2007.

3. Initial implementation of enterprise accounting standards

In accordance with the Notice of the Ministry of Finance on Printing and Distributing the 38 Specific Standards of the Enterprise Accounting Standards No. 1-Inventory (CK [2006] No. 3), the Company had implemented the Enterprise Accounting Standards ("new enterprise accounting standards") promulgated by the Ministry of Finance in 2006 since January 1, 2007. In line with regulations such as the Enterprise Accounting Standards No. 38 - Initial Implementation of Enterprise Accounting Standards and the Questions and Answers on the Standards for Information Disclosure by Companies that Offer Securities to the Public No. 7 - Preparation and Disclosure of Comparative Financial Accounting Information during the Transitional Period of Old and New Accounting Standards, the Company made retroactive adjustment on relevant items that were required to be adjusted retroactively in the relevant fiscal year, and restated its financial statements, which had zero influence on the net profit for 2006 and retained earnings as at the end of 2006.

II. INFORMATION OF BANKING BUSINESS

i. Network information (ended December 31, 2007)

<table>
<tr><th>Name of institution</th><th>Business address</th><th>Number of outlets</th><th>Number of employees</th><th>Asset scale (in RMB'000)</th></tr>
<tr><td>Headquarters</td><td>154 Hudong Road, Fuzhou</td><td rowspan="5">-</td><td rowspan="5">1568</td><td>88,435,948</td></tr>
<tr><td>Financial Markets</td><td>168 Jiangning Road, Shanghai</td><td>243,145,826</td></tr>
<tr><td>Credit Card Center</td><td>14 Floor, Dongchen Building, 60 Mudan Road, Pudong New District, Shanghai</td><td>2,856,008</td></tr>
<tr><td>Asset Custody Department</td><td>168 Jiangning Road, Shanghai</td><td>9,374,513</td></tr>
<tr><td>Investment Banking Department</td><td>9 Chegongzhuang Street, Xicheng District, Beijing</td><td>16,173</td></tr>
</table>

Name of institution	Business address	Number of outlets	Number of employees	Asset scale (in RMB'000)
Beijing Branch	11, 3rd Block, Anzhen Xili, Chaoyang District, Beijing	27	665	80,505,388
Tianjin Branch	Senmiao Commerce Plaza, Wujiayao Street, Hexi District, Tianjin	10	264	15,663,631
Taiyuan Branch	209 Fudong Street, Taiyuan	3	119	13,122,777
Shenyang Branch	36 Shiyiwei Road, Heping District, Shenyang	9	250	18,529,259
Dalian Branch	136 Zhongshan Road, Zhongshan District, Dalian	1	97	4,371,395
Shanghai Branch	168 Jiangning Road, Shanghai	27	725	131,900,070
Nanjing Branch	63 Zhujiang Road, Nanjing	11	327	42,207,621
Wuxi Branch	99 Xianqianxi Street, Wuxi	6	142	
Hangzhou Branch	40 Qingchun Road, Hangzhou	12	410	43,075,588
Wenzhou Branch	1 Shifu Road, Wenzhou	7	127	
Yiwu Branch	158 Binwang Road, Yiwu	5	118	
Taizhou Branch	308 Shifu Road, Jiaojiang District, Taizhou	4	101	
Ningbo Branch	676 Zhongxing Road, Ningbo	8	297	16,602,415
Hefei Branch	319 Changjiang Middle Road, Hefei	2	91	7,456,798
Fuzhou Branch	32 Wuyi Middle Road, Fuzhou	32	654	44,946,145
Xiamen Branch	78 Hubin North Road, Xiamen	24	431	21,356,730
Putian Branch	22 Xueyuan South Road, Chengxiang District, Putian	6	131	4,004,937
Sanming Branch	1 Liedong Street, Meilie District, Sanming	7	164	3,106,962
Quanzhou Branch	Xingye Building, Fengze Street, Quanzhou	25	635	22,827,363
Zhangzhou Branch	27 Shengli West Road, Zhangzhou	11	218	6,902,192
Nanping Branch	399 Binjiang Middle Road, Nanping	8	174	2,677,932
Longyan Branch	46 Jiuyi South Road, Longyan	6	164	4,201,280
Ningde Branch	11 Jiaocheng South Road, Ningde	6	156	2,982,838
Nanchang Branch	119 Dieshan Road, Nanchang	2	84	4,458,394
Ji'nan Branch	71 Jingshi Road, Ji'nan	8	361	15,844,730
Qingdao Branch	7 Jia, Shangdong Road, Shinan District, Qingdao	1	59	3,310,992
Zhengzhou Branch	22 Nongye Road, Zhengzhou	6	229	13,902,803
Wuhan Branch	156 Zhongbei Road, Wuchang District, Wuhan	10	304	18,677,030
Changsha Branch	521 Laodong West Road, Changsha	11	343	20,734,758
Guangzhou Branch	15 Tianhe Road, Guangzhou	21	493	56,169,919
Foshan Branch	45 Jihuawu Road, Chancheng District, Foshan	17	264	
Dongguan Branch	31 Huangcun Section, Guantai Road, Dongguan	4	107	
Shenzhen Branch	4013 Shennan Road, Futian District, Shenzhen	19	532	47,327,320
Nanning Branch	115 Minzu Road, Nanning	1	69	567,692
Chongqing Branch	108 Minzu Road, Yuzhong District, Chongqing	14	342	24,869,804
Chengdu Branch	206 Shuncheng Street, Chengdu	7	242	31,901,431
Kunming Branch	138 Tuodong Road, Kunming	3	85	10,700,172
Xi'an Branch	258 Dongxin Street, Xincheng District, Xi'an	6	208	20,875,173
Urumqi Branch	37 Renmin Road, Urumqi	2	101	4,862,176
	Netting and summation adjustment within the system			(253,136,913)
	Total	390	11851	851,335,270

Note: Harbin Branch has been opened for business since February 3, 2008.

II. INFORMATION OF BANKING BUSINESS *continued*

ii. Loan distribution

1. Distribution to major industries

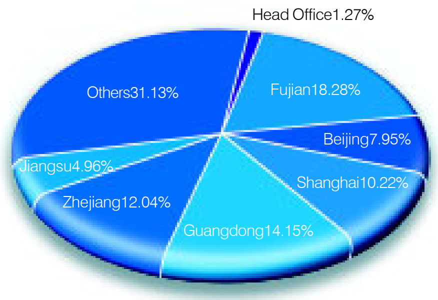
As at the end of the reporting period, the top five industries to which the Company granted loans were personal loans, manufacturing, real estate, wholesale and retails, transportation, storage and postal industry. Details were as follows:

in RMB'000

Industry	Balance	%
Agriculture, forestry, animal husbandry, fishery	861,494	0.22
Mining	7,450,059	1.86
Manufacturing	67,998,261	16.99
Electricity, gas and water production and supply	15,612,454	3.90
Construction	11,378,158	2.84
Transport, storage and postal service	23,547,311	5.88
Telecommunications, computer and software services	2,932,115	0.73
Wholesale and retails	29,006,275	7.25
Hotels and catering	852,199	0.21
Finance	762,525	0.19
Real estate	56,057,566	14.01
Lease and commercial service	17,374,907	4.34
Scientific research, technical services and geologic prospecting	712,136	0.18
Hydro-engineering, environmental and public facilities administration	17,578,024	4.39
Residential services and other services	666,970	0.17
Education	2,200,955	0.55
Health, social security and other community services	1,154,082	0.29
Culture, sporting and entertainment	1,367,737	0.34
Public administration and social organizations	2,987,035	0.75
Personal loans	132,395,244	33.09
Discount	7,247,270	1.82
Total	400,142,777	100.00

2. Distribution to geographical regions

in RMB'000



Region	Balance	%
Head Office	5,109,017	1.27
Fujian	73,141,571	18.28
Beijing	31,835,441	7.95
Shanghai	40,876,392	10.22
Guangdong	56,603,615	14.15
Zhejiang	48,160,205	12.04
Jiangsu	19,836,641	4.96
Others	124,579,895	31.13
Total	400,142,777	100.00

3. Classified by guarantee types

in RMB'000

Item	Balance	%
Unsecured loans	63,181,131	15.79
Guaranteed loans	103,191,946	25.79
Hypothecated Loans	187,639,239	46.89
Pledge Loans	38,883,191	9.71
Discount	7,247,270	1.82
Total	400,142,777	100.00

iii. Loans to top ten borrowers

As at the end of the reporting period, top ten borrowers of the Company were as follows: Hangzhou Municipal Construction Investment Group Co., Ltd., Beijing Automobile City Investment & Management Co., Ltd., COFCO Limited, Shenzhen Yitian Holiday World Real Estate Co., Ltd., Shangdong Jihe Expressway Co., Ltd., Weiyuan Steel Co., Ltd., Guangzhou Mingsheng Real Estate Co., Ltd., Fujian Electric Power Company Limited, Liaoning Provincial Department of Communications, Fuzhou Beijing-Fuzhou Expressway Co., Ltd. The balance of outstanding loans to the above borrowers amounted to RMB10,023 million, accounting for 2.50% of the Company's outstanding loan balance at the end of the period.

iv. As at the end of the reporting period, the Company offered no discount loans accounting for over 20%(inclusive) of the total loans.

v. Risk management of credit business for group customers

In accordance with CBRC's Guidelines for Risk Management of Credit Business for Group Customers of Commercial Banks, the Company has formulated risk management measures for the credit business for group customers to exercise centralized credit extension management for group customers, and included the group customers and their related affiliates into the risk exposure under overall control; rationally set the total credit lines of group customers according to their degree of risks and their own risk-bearing capability to prevent over concentration of risks; focused on selecting enterprises with material assets and projects with a stable cash flow; made rational arrangement of the variety mix of credit business on the basis of the business situation and fund demand of group customers; gathered internal and external information related to risks, issued early warning and notices in time, and leveraged credit management system to control the processing authority of related business.

II. INFORMATION OF BANKING BUSINESS *continued*

vi. Five-category loan classification and loan loss provision

1. Detailed five-category loan classification and charge of loan loss provision

in RMB'000

Item	2007 year-end	%
Pass	384,403,895	96.06
Special mentioned	11,155,510	2.79
Substandard	2,406,540	0.60
Doubtful	1,677,013	0.42
Loss	499,819	0.13
Total	400,142,777	100.00

The amount of the Company's loan loss provision was in compliance with regulatory requirements. As at the end of the reporting period, the Company's loan loss provision balance was RMB7,114 million, and the provision coverage ratio reached 155.21%.

2. Changes of non-performing loans during the reporting period

in RMB'000

Item	2006 year-end		Changes during the period		2007 year-end	
	Balance	%	Balance	%	Balance	%
Substandard	2,119,555	0.65	286,985	Down 0.05 percentage points	2,406,540	0.60
Doubtful	2,399,835	0.74	(722,822)	Down 0.32 percentage points	1,677,013	0.42
Loss	460,285	0.14	39,534	Down 0.01 percentage points	499,819	0.13
Total	4,979,675	1.53	(396,303)	Down 0.38 percentage points	4,583,372	1.15

3. Non-performing loans and countermeasures

As at the end of the reporting period, the Company's non-performing loans was RMB4,583 million, a decrease of RMB396 million compared with the beginning of the period, and non-performing loan ratio was 1.15%, down 0.38 percentage points.

During the reporting period, the Company took the following measures to improve the asset quality: 1) developed the risk management and capital allocation system to improve the risk management system and increase the capital allocation efficiency; 2) revised classification standards for credit assets risk and further defined relevant classification work in accordance with the Guidelines on the Classification of Loan Risks (YJF [2007] No. 54) by the CBRC to reflect prudentially and objectively the real quality status of loans and make provision in full to settle gains and losses; 3) followed the macro-control policies and strictly controlled credit extension, carried out self-inspection on the inventory business and found out potential risks in time combining with the unified arrangement of the regulatory departments, and took active and flexible credit exit mechanism to effectively avoid the hidden risks; 4)further promoted the professional operation of non-performing assets to get rid of questionable assets and improve the professional service capability of special assets operation personnel; 5) seized the opportunity of fast-growing national macro economy and rapid price hike of various assets to strengthen the collection of non-performing assets, actively explored new ideas and measures non-performing assets' disposal, and adopted diversified disposal methods such as risk agency, debt for equity swap for flexible disposal of non-performing loans; 6)strengthened the accountability mechanism, formulated regulations of due diligence on the implementation of credit granting and disposal of non-performing assets, and conducted responsibility investigation for personnel violating relevant regulations to observe discipline and standardize management.

vii. Outstanding balance of restructured loans at year-end and overdue loans thereof

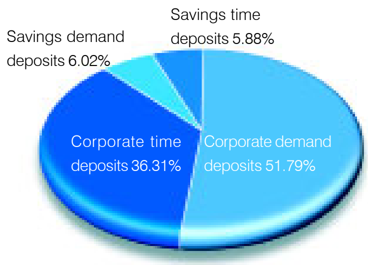
As at the end of the reporting period, the outstanding balance of restructured loans (including rollover loans and refinancing loans) was RMB5,758 million, of which, RMB1,161 million was overdue for over 90 days.

viii. Debt repayment assets and impairment provision

in RMB'000

Item	2007 year-end	2006 year-end
Debt repayment assets	554,615	609,224
of which:		
Properties and buildings	453,881	501,154
Land use rights	92,404	92,404
Others	8,330	15,666
less: impairment provision	(108,565)	(131,761)
Net debt repayment assets	446,050	477,463

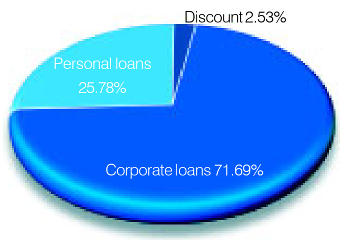
ix. Major deposit types, monthly average balance and annual average interest rate on deposits



in RMB'000

Item	Average balance	Annual interest rate(%)
Corporate demand deposits	193,067,820	1.03
Corporate time deposits	135,362,669	3.03
Savings demand deposits	22,446,705	0.72
Savings time deposits	21,911,309	2.11

x. Major loan types, monthly average balance and annual average interest rate on loans



in RMB'000

Item	Amount
Average loan balance	374,509,388
Corporate loans	268,477,574
Personal loans	96,551,313
Discount	9,480,501
Average interest rate on loans(%)	6.61

II. INFORMATION OF BANKING BUSINESS *continued*

xi. Trading financial assets

in RMB'000

Item	2007 year-end	2006 year-end
Government bonds	3,099,830	3,957,292
Central bank notes and financial bonds	4,580,657	2,880,806
Other bonds	767,010	2,326,942
Fund investments	77,570	21,278
Total	8,525,067	9,186,318

xii. Top five government bonds held at year-end (including central bank notes)

in RMB'000

Bond type	Par value	Maturity date	Interest rate(%)
04 Treasury Bond 03	7,092,090	2009-04-20	4.42
99 Treasury Bond 2	4,574,900	2009-04-29	4.72
04 Treasury Bond 08	4,068,330	2009-10-20	4.30
07 Central Bank Note 100	4,000,000	2010-09-07	3.71
07 Central Bank Note 21	4,000,000	2010-03-09	3.07
Total	23,735,320		

xiii. Top five financial bonds held at year-end

in RMB'000

Bond type	Par value	Maturity date	Interest rate(%)
07 CDB 08	6,070,000	2017-05-29	One-year time deposit interest rate+0.6
07 ADBC 06	1,640,000	2014-05-18	One-year time deposit interest rate+0.6
00 CDB 05	1,630,000	2010-06-12	One-year time deposit interest rate+0.608
04 CMBC 01	1,020,000	2014-11-02	5.1
00 CDB 01	941,900	2010-04-04	One-year time deposit interest rate+0.855
Total	11,301,900		

xiv. Changes of on-balance-sheet and off-balance-sheet interest receivable

in RMB'000

Item	2007 year-end	2006 year-end
On-balance-sheet interest receivable	2,919,898	1,968,143
Off-balance-sheet interest receivable	1,337,616	1,356,015

xv. Charge of loss provision for other receivables

in RMB'000

Item	2007 year-end	2006 year-end	Loss provision	Charge methods
Other receivables	544,640	435,481	97,219	Both individual and collective tests were carried out upon other receivables at the end of the accounting period, and loss provision was drawn accordingly based on aging analysis of account.

xvi. Overdue liabilities at the end of the reporting period

The Company had no overdue liabilities at the end of the reporting period.

xvii. Balance of off-balance-sheet items that may have significant impact on financial position and operating results of the Company

in RMB'000

Item	2007 year-end	2006 year-end
Issued letters of credit	8,805,468	7,612,824
Issued bank guarantees	5,188,248	3,936,644
Bills of acceptance	86,717,367	85,954,096
Irrevocable loan commitments	640,000	31,200
Unused credit card commitments	18,845,160	6,285,534

xviii. Balance of off-balance-sheet items that may have significant impact on financial position and operating results of the Company

The Company consistently enforces internal control measures, strengthens internal control mechanism, and effectively implements internal control regulations. Its internal control system can meet the requirements for present management and needs for development, and ensure the operation and overall implementation of development strategies and complete achievement of operation objectives; it can ensure the truthfulness, legitimacy and integrity of the accounting information of the Company, the safety and integrity of all of the Company's assets; it can accomplish authentic, accurate, timely and complete information disclosure to ensure open, fair and just treatment to all investors and protect the interests of various parties.

--Regarding the internal control environment, the Company has established a corporate governance structure with clear division of rights and responsibilities, effective checks and balances, authority with corresponding responsibility, and effective accountability, cored by the General Shareholders' Meeting, Board of Directors, Board of Supervisors and senior management, and has introduced independent directors and external supervisors. Internal Control Committee has been set up at the managerial level to implement internal control requirements set by the Board of Directors. The Company clearly divides the duties among the head office, branches, relevant departments, posts, superior and inferior institutions in organization settings, implements examination separated from lending and graded examination and approval, and has established a market-oriented human resources management system based on the post performance and a reasonable grading structure of human resources.

II. INFORMATION OF BANKING BUSINESS *continued*

xviii. Statement of completeness, rationality and effectiveness of the Company's internal control system *continued*

--Regarding the risk assessment, the Company has set up special departments or personnel to identify and deal with the potential changes of important influencing factors like operational risk, environmental risk and financial risk, and adopted approaches such as customer credit ratings, risk degree calculation, classification of credit assets risk for quantitative risk identification and evaluation management. During the reporting period, the Company carried out a special stress test on real estate loans, and gathered certain experiences for further stress testing.

--Regarding the control activities, the Company has set up and perfected various regulations and process systems for credit extension business, treasury business, intermediary business, accounting business, computer information system, control, supervision and correction mechanism and compliance system construction, etc. The Company amended and issued accountability system upon credit responsibility, and included the evaluation system of internal control into the branches' annual comprehensive appraisal scope. In compliance with Provisional Regulations on Financial Instruments Recognition and Measurement (trial) issued by the Ministry of Finance, the Company carries out case-after-case examination on loans of significant amount, applies individual or collective test to assess the depreciation loss for loans not of significant amount, and implements strict internal classification management on the bonds investments in accordance with the holding purposes.

--Regarding the supervision and correction of internal control, the Company strengthens the control of the operating management, internal control system, audit and supervision system at different levels, carries out investigation on the infringement of rules and regulations and bad behaviors of staff discovered in audit and daily supervision, hands problems to relevant departments for responsibility recognition and investigation, reports the issues discovered in examination or supervision in a timely manner to the Board of Directors and senior management, and reports to the Audit Committee under the Board of Directors periodically for timely correction.

xix. The Board of Directors' self assessment report on internal control and auditing agency's verification and appraisal opinions

1. Self assessment report

On the principles of comprehensiveness, prudence, effectiveness and independence, the Company commits itself to strengthen internal control measures and improve internal control mechanisms in the internal control environment, credit extension business, treasury business, intermediary business, accounting business, computer information system control, supervision and correction mechanism and compliance system construction, and has established an effective internal control mechanism with a clear structure. For the full text of the Self Assessment Report on Internal Control by the Board of Directors, please refer to Appendix III.

2. Auditing agency's verification and appraisal opinions

福建华兴有限责任会计师事务所

Fujian Huaxing Certified Public Accountants Ltd.

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Add: 7-9/F Block B,152 Hudong Road,Fuzhou,Fujian,China Http://www.fjhxcpa.com 邮政编码(Postcode):350003

Appraisal Opinions Concerning the "Self Assessment Report on Internal Control of Industrial Bank Co.,Ltd."

(MHXS (2008) SHZ No.G-003)

To the Board of Directors of Industrial Bank Co.,Ltd.,

As authorized, we have audited the financial statements of Industrial Bank Co.,Ltd. ("the Company"), including the balance sheet as at December 31, 2007, and the income statement, the statement of changes in equity, cash flow statement for the year then ended, and the notes to the financial statements. We issued a standard unqualified auditors' report on March 18, 2008. It is the responsibility of the management of the Company to prepare its financial statements in accordance with the Enterprise Accounting Standards, while our responsibility is to express an auditor's opinion on these financial statements based on our audit.

In the process of audit, as required by the "Auditing Standards for CPAs of China No. 1211-Understanding the Audited Companies and Environment Thereof and Assessing the Risks of Material Misstatement", we found out about the internal control of the Company related to the audit of its financial statements to assess the risks of material misstatement in the financial statements and design the nature, time and scope of further audit. Meanwhile, as a part of implementing audit procedure, we also conducted control tests on the internal control links related to the preparation of financial statements in accordance with the requirements for control tests in the "Auditing Standards for CPAs of China No.1231-Procedures in Response to Assessed Risks of Material Misstatement". In the above process of understanding internal control and control tests, combining with the actual conditions of the Company, we implemented the inspection procedures we believed necessary, including inquiry, observation, examination, tracking the processing of transactions in the financial report information system and renewed implementation.

The responsibility for establishing and improving an internal control system rests with the management of the Company. The procedures of understanding internal control and conducting control tests that we implemented were based on the requirements of the above auditing standards for CPAs of China and aimed at auditing the financial statements. They did not constitute a special audit of internal control and were not implemented specially to find the defects, fraud and cheating in the internal control. Therefore, we cannot possibly find all the existing deficiencies and this report should not be deemed a special audit opinion concerning the internal control of the Company. Besides, since any internal control is subject to inherent restrictions and may have misstatement in the financial statements that is caused by errors or fraud, but remains undiscovered. Therefore, our audit report should not be counted on to reveal all material errors and misconduct. Also, it would be risky to an extent to speculate the effectiveness of future internal control from the results of internal control appraisal, for the changes in situation may cause the internal control to become improper or be in reduced compliance with control policies and procedures. Thus, that an internal control is effective in the current period is no guarantee that it is bound to be effective in the future.

As required by CSRC, the Company prepared the Self Assessment Report on Internal Control of Industrial Bank Co.,Ltd. Based on our study and appraisal thereof, we did not find any inconsistency in any material aspect between the internal control of the Company related to the preparation of the 2007 financial statements and the self assessment of internal control in the Self Assessment Report on Internal Control of Industrial Bank Co.,Ltd attached hereto.

This report is to be used only by the Industrial Bank for submission of its annual report to CSRC and the stock exchange, and shall not be used for any other purpose.

Fujian Huaxing Certified Public Accountants Limited

CPA: Tong Yigong, Lin Xia

March 18, 2008

III. ROUTINE WORK OF THE BOARD OF DIRECTORS DURING THE REPORTING PERIOD

i. Meetings of the Board of Directors

The Company's Board of Directors held 11 meetings during the reporting period, with details as follows:

The 19th session of the Company's fifth Board of Directors was held in Fuzhou on March 26, 2007. The following 9 proposals were reviewed, approved and became resolutions at the meeting: 2006 Profit Appropriation, Engagement of Accounting Firms for 2007, Amendment of Regulations on Information Disclosure, 2006 Work Report of the Board of Directors, 2006 Work Report of President, Annual Report 2006, Duty Performance of Directors, 2006 Final Financial Report and 2007 Financial Budget Plan, and Convention of 2006 Annual General Shareholders' Meeting.

The 21st session of the Company's fifth Board of Directors was held in Nanjing on May 19, 2007. The following 10 proposals were reviewed, approved and became resolutions at the meeting: Rules of Director Nomination and Election of the Sixth Board of Directors, 2007 Bad Debts Write-off Budget, Self Inspection Report and Rectification Plan of Special Action on Corporate Governance, Related Issues Concerning Purchasing Xingye Building in Beijing, Adjusting Investment Budget of Shanghai Business Operation Center Project, 2006 Work Report of Executive Committee, Risk Management Committee, Audit Committee, Related Party Transaction Control Committee, Nomination, Remuneration & Evaluation Committee under the Board of Directors.

The 23rd session of the Company's fifth Board of Directors was held in Fuzhou on September 20, 2007. The following 6 proposals were reviewed, approved and became resolutions at the meeting: Proposal on Nominating Director Candidates of the Sixth Board of Directors, Proposal on Adjusting the Setup of Some Committees under the Board of Directors and Amendment of Articles of Association, Proposal on Changing Registered Capital, 2007-2008 Network Development Plan, Proposal on Stipulating Regulations on Shareholding and Relevant Changes by Directors, Supervisors and Senior Management and Proposal on Convening 2007 First Extraordinary General Shareholders' Meeting. Rectification Report Concerning CBRC's 2006 Regulatory Circular was also heard at the meeting.

The Company's fifth Board of Directors held its 17th, 18th, 20th and 22nd meetings in the form of voting by correspondence respectively during January 4-5, January 29-February 2, April 20-25, and August 10-16, 2007. The following proposals were reviewed, approved and became resolutions at the meetings: 2006 Annual Results Preannouncement, Q1 Report 2007, Interim Report 2007, Appropriation Plan for Retained Earnings before IPO and Profit for the IPO Year, Proposal on Further Confirmation of Relevant Issues Concerning Initial Public Offering, Shareholding Changes, Issuance of Financial Bonds, Issuing Credit Asset Backed Securities, Setting up New Branches, Joint Venture Fund Management Company, and Credit Extension to Related Parties.

The Company's sixth Board of Directors held its first meeting in Fuzhou on October 19, 2007. The following 6 proposals were reviewed, approved and became resolutions at the meeting: Proposal on Electing Chairman, Proposal on Setup of Committees under the Board of Directors, Proposals on Appointing President, Vice President and Secretary to the Board of Directors, and Proposal on Stipulating Regulations on Independent Director Allowance.

The Company's sixth Board of Directors held its fourth session in Guangzhou on December 18, 2007. The Proposal on Amending Basic Financial Systems was reviewed, approved and became resolution at the meeting. The Board also listened to Comprehensive Operation Plan Outline (Draft), Report on Business Operation during January-November 2007, and ideas of business development in 2008.

The Company's sixth Board of Directors held its second and third session in the form of voting by correspondence respectively during October 22-26 and November 1-6, 2007. Proposals on Q3 Report 2007 and Rectification Report of Special Action on Corporate Governance were reviewed, approved and became resolutions at the meetings.

ii. Implementation of resolutions of general shareholders' meetings by the Board of Directors

1. Implementation of the Company's 2006 profit appropriation plan

The Company's 2006 annual general shareholders' meeting reviewed and approved Proposal on 2006 Profit Appropriation Plan. The Company's Board of Directors implemented the appropriation plan, and completed dividend payout and income tax withholding on May 25, 2007, with details as follows: 10% of the net profit for 2006, amounting to RMB379,825,586.20, was appropriated to statutory surplus reserve. General reserve was RMB1,226,864,668.38 in accordance with Regulations on Financial Enterprise Bad Debt Provision Charge (CJ [2005] No. 49) issued by the Ministry of Finance. Based on the total share capital of 5 billion shares after A-share offering in 2007, the Company declared a cash dividend (including tax) of RMB2.6 for every 10 shares, with total cash dividend amounting to RMB1.3 billion. The retained earnings of RMB2,922,286,909.85 were carried forward to the next year.

2. Implementation of resolutions of the general shareholders' meetings and authorization by the Board of Directors

The Company's 2003 annual general shareholders' meeting reviewed and approved the Proposal on Initial Public Offering. In line with the resolution, the Board of Directors successfully carried out and completed the Company's A-share IPO application and offering affairs. Approved by CSRC with the Document ZJF [2007] No. 10, the Company issued 1,001,000,000 shares at RMB15.98 per share by means of strategic investors allotment, offline price enquiry placement and online fund subscription offering, and raised RMB15,995,980,000 in total. The Company was listed on Shanghai Stock Exchange on February 5, 2007 as approved by Shanghai Stock Exchange with the Document SZ [2007] No. 26. Its stock abbreviation is "Industrial Bank" and stock code is 601166. After the A-share IPO, the Company's total share capital reached 5,000,000,000 shares.

The Company's 2005 annual general shareholders' meeting reviewed and approved the Proposal on Amending Articles of Association. In line with the resolution, the Board of Directors amended some articles of its Articles of Association in accordance with regulatory departments' requirements and A-share IPO results, and submitted the amended version to CBRC for approval. The amended Articles of Association was approved by CBRC with the Document YJF [2007] No. 363 and took effect on August 28, 2007.

The Company's 2006 annual general shareholders' meeting reviewed and approved the Proposal on Engagement of Accounting Firms for 2007. In line with the resolution, the Board of Directors continued to engage Fujian Huaxing Certified Public Accountants Limited and Ernst & Young as its auditors for 2007.

In accordance with the resolution of 2005 general shareholders' meeting, the Company issued RMB19 billion financial bonds in way of book-keeping in inter-bank bond market. RMB7 billion of these bonds were three-year bonds with fixed interest rate, RMB7 billion were five-year bonds with fixed interest rate, and RMB5 billion were five-year bonds with floating interest rate.

In accordance with the resolution of 2007 first extraordinary general shareholders' meeting, the Company changed its registered capital on January 16, 2008, changing its registered capital from RMB3.999 billion to RMB5 billion.

III. ROUTINE WORK OF THE BOARD OF DIRECTORS DURING THE REPORTING PERIOD *continued*

iii. System of independent directors' participation in annual report preparation and implementation thereof

To fully leverage the functions of independent directors, further improve corporate governance and standardize the preparation and disclosure of periodic reports, the Company reviewed and approved the "Working Rules of Independent Directors in Annual Report Preparation of Industrial Bank" at the 6th meeting of its sixth Board of Directors, which clarified the duties of independent directors in the audit and preparation of annual reports. For details, see the announcement of the Company dated February 5, 2008.

On February 2, 2008, the Company submitted the Plan for Auditing Annual Report 2007 and financial statements 2007 in written to all independent directors. The Company arranged its auditors to meet three independent directors, namely, Wang Guogang, Ba Shusong, Xu Bin on February 24 and the other two independent directors, namely, Deng Liping and Lim Peng Khoon on March 2. The independent directors listened to the report on operating results and progress of significant events in 2007 made by the Company's management, as well as reports on 2007 annual audit made by two accounting firms. The independent directors made sufficient communication with the Company's management and accountants responsible for annual audit. In particular, they discussed the questions raised by the two accounting firms during the audit and put forward some requirements for improvement.

iv. Summary report on duty performance of Audit and Related Party Transaction Control Committee

In line with the resolution adopted at the 2007 first extraordinary general shareholders' meeting concerning merging the Audit Committee with the Related Party Transaction Control Committee under the Board of Directors, the Company reviewed and approved the Proposal on Amending the Working Rules of the Committees under the Board of Directors at the 7th session of the sixth Board of Directors, merging the duties of the former Audit Committee with those of Related Party Transaction Control Committee and further clarifying the new Audit and Related Party Transaction Control Committee's responsibilities in the preparation, audit and disclosure of annual reports and other periodic reports.

On February 2, 2008, the Company submitted in written the Plan for Auditing Annual Report 2007 and the unaudited financial statements to the Audit and Related Party Transaction Control Committee of the sixth Board of Directors. On March 2, the second meeting of the Audit and Related Party Transaction Control Committee of the 6th Board of Directors was held in Beijing. At the meeting, the committee members listened to the Report on the Progress of 2007 Annual Audit and Statement on Independence of Audit made by the public certified accountants for the Company's annual audit, and had adequate communication with the accountants. On March 17, the third meeting of the Audit and Related Party Transaction Control Committee of the 6th Board of Directors was held in Fuzhou. The Committee reviewed and approved the 2007 Annual Financial Accounting Report and the Proposal on Engagement of Accounting Firms for 2008. The Committee also listened to the Report on the Progress of 2007 Annual Audit delivered by Ernst & Young and Fujian Huaxing Certified Public Accountants Ltd, and agreed to submit it to the Board of Directors. The Committee held that the two firms had worked diligently in the 2007 annual audit, had maintained the independence of audit, and had completed the tasks assigned by the Company. The Committee suggested the Company continue to engage the two firms as its external auditors in 2008.

v. Summary report on duty performance of Remuneration and Evaluation Committee

The Remuneration and Evaluation Committee under the Board of Directors of the Company could hold meetings in accordance with laws, regulations, Articles of Association and relevant working rules of the Company. In 2007, effectively exerting its professional functions, the Remuneration and Evaluation Committee held meetings to review or listened to proposals including Report on the Performance Evaluation of Directors for 2006, Suggestions on Remuneration Distribution to the Senior Management for 2006, Nomination of Director Candidates of the Sixth Board of Directors, Work Report of the Remuneration and Evaluation Committee, etc.

IV. THE COMPANY'S PROFIT APPROPRIATION PROPOSAL

i. Number of shares participating the Company's 2007 profit appropriation

Since the Company has completed its initial public offering and listing of shares in early 2007, its total share capital has increased to 5 billion shares. In accordance with the Appropriation Plan for Retained Earnings before IPO and Profit for the IPO Year agreed by the Board of Directors and 2/3 of the Company's Pre-IPO shareholders, the Company's retained earnings before IPO should be shared by both new and old shareholders. Therefore, the number of shares participating the Company's 2007 profit appropriation is 5 billion shares.

ii. 2007 profit appropriation proposal

The Company's net profit for 2007 was RMB8,585,766,746.36. The profit appropriation proposal is as follows:

(1) 10 % of net profit for 2007 will be appropriated to statutory reserve surplus, amounting to RMB858,576,674.64.

(2) RMB1,147,002,820.08 will be appropriated to general reserve.

(3) Based on 5 billion shares, a cash dividend of RMB3.2 (before tax) will be paid for every 10 shares.

After the implementation of the profit appropriation plan, the retained earnings will be carried forward to the next year.

The above profit appropriation plan is to be implemented within two months after it is approved at the Company's 2007 annual general shareholders' meeting.

Report of the Board of Supervisors

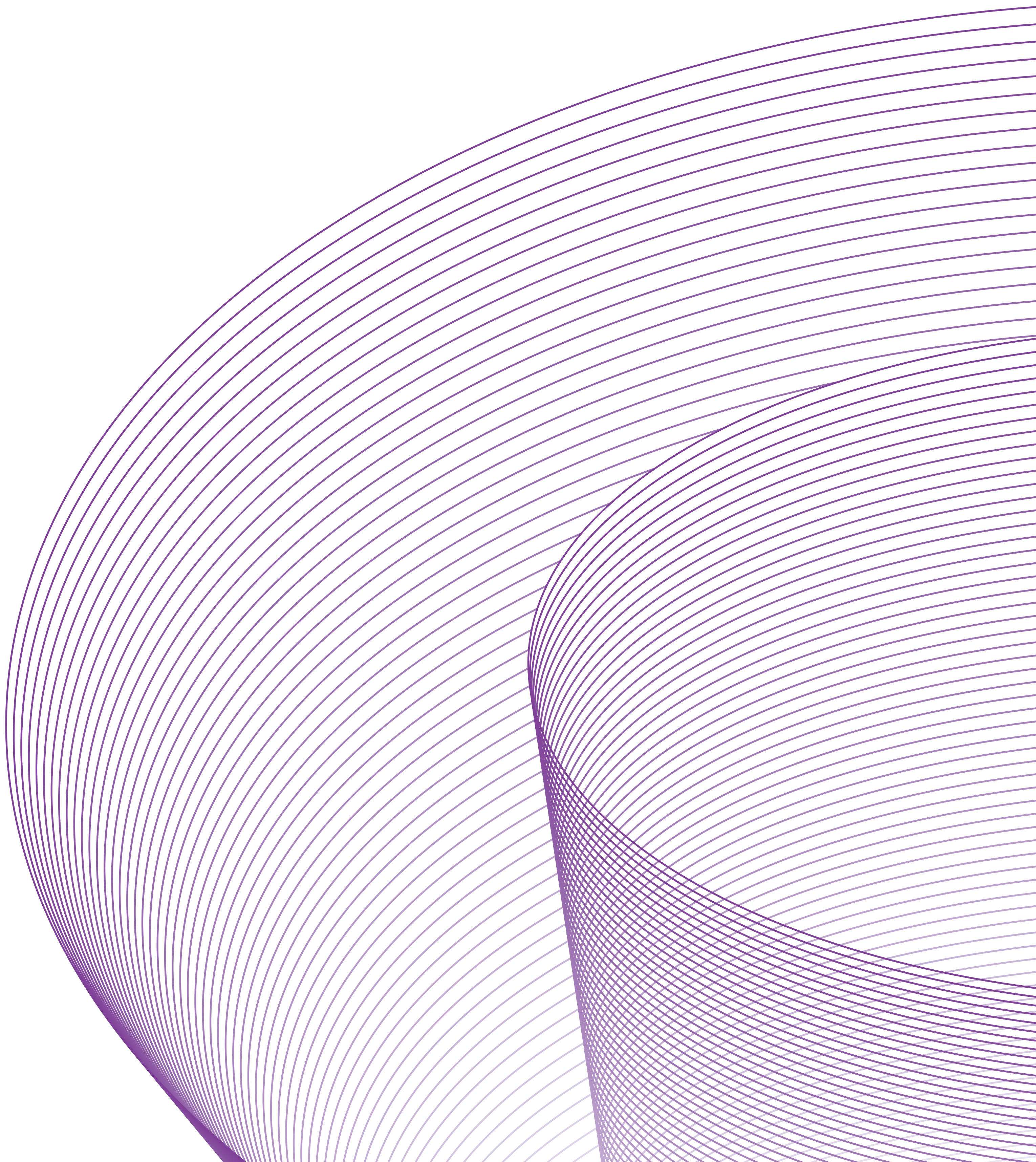
I. MEETINGS OF THE BOARD OF SUPERVISORS DURING THE REPORTING PERIOD

The Company's Board of Supervisors held eight meetings during the reporting period, with details as follows:

The 13th session of the Company's third Board of Supervisors was held in Fuzhou on March 26, 2007. The following 7 proposals were reviewed and approved at this meeting: 2006 Work Report of the Board of Supervisors, Report on Performance Evaluation of Supervisors for 2006, 2006 Work Report of the Supervisory Committee under the Board of Supervisors, 2006 Work Report of Nomination, Remuneration & Evaluation Committee under the Board of Supervisors, Annual Report 2006, 2006 Operating Results and Final Financial Report, 2007 Work Plan for the Board of Supervisors. The Board of Supervisors also listened to the Statement on 2006 Annual Audit made by Fujian Huaxing Certified Public Accountants Ltd at the meeting.

The 15th session of the third Board of Supervisors was held in Nanjing on May 19, 2007. Rules of Supervisor Nomination and Election of the Fourth Board of Supervisors was reviewed and approved at the meeting. The meeting also listened to the Report on Financial Position for the First Quarter of 2007.

The 17th session of the third Board of Supervisors was held in Fuzhou on September 3, 2007. The following 3 proposals were reviewed and approved at the meeting: Proposal on Nominating Supervisor Candidates of the Fourth Board of Supervisors, Audit and Investigation Report on Wealth Management Business, and Proposal on Stipulating Provisional Rules of Information Communication and Situation Briefing of the Board of Supervisors of Industrial Bank. The Board of Supervisors also listened to the Internal Audit Report and Report on Financial Position for the First Half of 2007 at the meeting.



I. MEETINGS OF THE BOARD OF SUPERVISORS DURING THE REPORTING PERIOD *continued*

The 1st session of the fourth Board of Supervisors was held in Fuzhou on October 19, 2007. The following 5 proposals were reviewed and approved at the meeting: Proposal on Electing Chairperson of the Fourth Board of Supervisors, Proposal on the Setup of Special Committees under the Fourth Board of Supervisors, Proposal on Stipulating Regulations on External Supervisor Allowance of Industrial Bank, Audit and Investigation Report on Operational Risk in Accounting and Settlement.

The 3rd session of the fourth Board of Supervisors was held in Kunming on December 6, 2007. The following 3 proposals were reviewed and approved at the meeting: Proposal on Stipulating Codes of Conduct for Supervisors of Industrial Bank, Proposal on Stipulating Rules of Supervisor Performance Evaluation of Industrial Bank, and Investigation Report on Retail Banking Management System. The Board of Supervisors also listened to the Rectification Report Concerning CBRC's 2006 Regulatory Circular to the Company.

The Company's Board of Supervisors held three meetings in the form of voting by correspondence respectively on April 20, August 10, and October 22, 2007. The three meetings respectively reviewed and approved the Q1 Report 2007, Interim Report 2007 and Q3 Report 2007.

II. SPECIAL INSPECTION CARRIED OUT BY THE BOARD OF SUPERVISORS

During the reporting period, the Board of Supervisors carried out four special investigation or inspection to promote the compliant operation and internal control of the Company, with details as follows:

From April to September in 2007, the Board of Supervisors organized a special investigation on the Company's retail banking business management system. By means of questionnaire investigation and on-site interviews, the Board of Supervisors investigated the implementation of retail banking management system reform in some pilot branches, mainly focused on the progress of retail banking divisional structure reform and major problems in the reform process, and put forward management suggestions on discovered problems to the senior management.

In May 2007, the Board of Supervisors carried out a bank-wide auditing investigation on the Company's wealth management business. The investigation mainly focused on business development, risk management and team building of wealth management business, and put forward management suggestions on further standardizing the operation and management, and exploring development direction and innovation of wealth management business.

In July 2007, supported by the Audit Department, the Board of Supervisors carried out a bank-wide auditing investigation on the operational risk of accounting and settlement. The investigation mainly focused on accounting and settlement management system, staff management, system construction, procedure setting, and systematic functions, investigated the operational risk management status of accounting and settlement, analyzed major reason of operational risk, and put forward relevant management suggestions.

In October 2007, supported by the Audit Department, the Board of Supervisors carried out a special audit on group customer credit extension business. The audit mainly focused on the system construction, procedure control, business development and risk management status of group customer credit extension business, and put forward audit suggestions on discovered problems.

III. INDEPENDENT OPINION OF THE BOARD OF SUPERVISORS ON RELEVANT MATTERS

The Company's supervisors attended the general shareholders' meetings and the Board of Directors meetings as non-voting delegates to carry out supervision on the performance of directors and senior management.

i. Legitimate business operation

During the reporting period, the Company achieved steady operation and progressive development, its decision making procedures were legitimate, its operating results were objective and true, and had fulfilled the annual operating plan set by the Board of Directors.

ii. Inspection on financial statements

During the reporting period, the Company's annual financial statements gave a true, impartial and complete view of the Company's financial position and operating results. Fujian Huaxing Certified Public Accountants Ltd. and Ernst & Young have audited the annual financial statements respectively in accordance with domestic and international auditing standards, and both have issued standard and unqualified auditors' reports.

iii. Acquisition and disposal of assets

During the reporting period, the Company had no material acquisition, disposal of assets, takeover or merger.

iv. Use of proceeds

The Company issued 1,001 million shares of RMB-denominated A shares at RMB15.98 per share in its initial public offering on January 29, 2007. The Company raised RMB15,722 million, which was used to reinforce the Company's capital base and enhance its capital adequacy ratio. The actual use of proceeds was in conformity with the commitment made in the A-Share Initial Public Offering Prospectus.

v. Related party transactions

The related party transactions of the Company mainly refer to the business of deposits and loans.

During the reporting period, the Company strictly observed relevant rules and regulations in the management of related party transactions. The process of related party transactions was fair and impartial, and result was fair. No insider transaction or act infringing the interests of the Company and its shareholders was found.

vi. Internal control system

During the reporting period, the Company's risk management and internal control system were sound and rational.

vii. Implementation of resolutions of general shareholders' meetings

During the reporting period, the Company's supervisors legitimately attended the general shareholders' meetings, and did not object to any proposal submitted to the general shareholders' meetings. After supervising the implementation of relevant resolutions of the two general shareholders' meetings held this year, the Board of Supervisors believed that the Board of Directors had conscientiously implemented the resolutions of general shareholders' meetings.

Significant Events

I. MATERIAL LAWSUITS AND ARBITRATION

As at the end of the reporting period, there was one pending legal proceedings case against the Company and its branches involving claims amounting to over RMB10 million (inclusive). In this case, the amount in dispute was RMB20 million. The Company considered that the pending lawsuit would not impose any significant negative impact on its financial position and operating results.

II. ACQUISITION AND DISPOSAL OF ASSETS, TAKEOVER AND MERGER

During the reporting period, the Company had no material acquisition, disposal of assets, takeover or merger.

III. MATERIAL RELATED PARTY TRANSACTIONS

The related parties of the Company mainly include: shareholders holding over 5% (inclusive) of the Company's shares and their controlling shareholders; legal persons or other organizations that are directly, indirectly or jointly controlled or may be greatly influenced by the shareholders holding over 5%(inclusive) of the Company's shares; directors, supervisors, senior management and their close relatives; legal persons or other organizations that are directly, indirectly or jointly controlled or may be greatly influenced by the directors, supervisors, senior management and their close relatives.

During the reporting period, related party transactions involving over RMB30 million were as follows:

1. Loans: The Company issued RMB1 billion of loans to one supervisor company (China National Cereals, Oils & Foodstuffs (Group) Co., Ltd).

2. Call loans to banks: The Company provided RMB146 million of loans at call for the affiliate (Hang Seng Bank (China) Limited) of a shareholder holding 5% or more of its shares.

3. Deposits: The two shareholders that hold more than 5% of the shares of the Company had RMB7,501 million of deposits in the Company, while one related legal person having a major impact on the supervisors of the Company had RMB159 million of deposits in the Company.

4. Reverse repurchase agreements: The Company carried out reverse repurchase transactions, involving an amount of RMB194 million, with the affiliate of the shareholders holding 5% or more of the shares of the Company (Hang Seng Bank (China) Limited).

All the above related party transactions arose out of the needs of normal business activities under conditions and interest rate which were subject to the general rules of the Company for business management.

IV. MATERIAL CONTRACTS AND THE PERFORMANCE THEREOF

i. Material custody, lease or contracting

The Company had no significant events concerning custody, lease or contracting during the reporting period.

ii. Significant guarantee

During the reporting period, except the normal financial guarantee business as approved in the scope of business, the Company had no other significant guarantee that needed to be disclosed.

iii. Events of entrusting others with cash asset management

During the reporting period, the Company didn't entrust its cash assets to others for management.

iv. Other material contracts

During the reporting period, all contracts of the Company had been normally performed, and no significant contract dispute occurred.

V. SPECIAL STATEMENT AND INDEPENDENT OPINIONS OF INDEPENDENT DIRECTORS ABOUT THE GUARANTEE BUSINESS OF THE COMPANY

In accordance with the related regulations of CSRC, the independent directors of the Company carefully examined the Company's guarantee business in 2007 under the principles of openness, fairness and objectivity, and believe that the Company carries out the guarantee business as one of the regular businesses of the Company with the approval of PBOC and CBRC. As at the end of 2007, the balance of the guarantee business of the Company was RMB5,188,248 thousand, up from the beginning of the year by RMB1,251,604 thousand at a growth rate of 31.79%. No advance occurred under the guarantee business of the Company, and no non-compliant guarantee besides the normal guarantee business was discovered.

The Company always followed the principle of prudence when providing guarantee for external entities, and intensified the risk monitoring and management of off-balance-sheet business. The Company resorted to on-site and off-site inspections to discover hidden risks as early as possible, warned in time against risks and took precautions accordingly. During the year, with the effective supervision and management by the Board of Directors, the Company's guarantee business ran normally, and its overall risks were controllable.

VI. SIGNIFICANT COMMITMENT AND FULFILLMENT OF THE COMPANY OR ITS SHAREHOLDERS HOLING MORE THAN 5% OF THE COMPANY'S SHARES

The Finance Bureau of Fujian Province, the Company's largest shareholder, undertook that within 36 months of the Company's A-share listing on Shanghai Stock Exchange, it would not transfer the Company's shares held by itself or entrust others to manage the shares, nor would it allow the Company to repurchase these shares. To date, the Finance Bureau of Fujian Province has been strictly fulfilling the commitment.

VII. ENGAGEMENT OR DISENGAGEMENT OF CERTIFIED PUBLIC ACCOUNTANTS FIRMS

During the reporting period, the Company engaged Fujian Huaxing Certified Public Accountants Ltd and Ernst & Young to audit the Company's statutory and supplementary financial statements for 2007. RMB2.5 million and RMB3 million of audit fees were paid respectively to Fujian Huaxing Certified Public Accountants Ltd and Ernst & Young.

As at the end of the reporting period, Fujian Huaxing Certified Public Accountants Ltd has provided audit services to the Company for seven consecutive years, while Ernst & Young eight consecutive years.

VIII. PENALTY IMPOSED ON DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT PERSONNEL

During the reporting period, none of the directors, supervisors or senior management personnel of the Company was subject to any severe punishment from the State regulatory authorities.

IX. OTHER SIGNIFICANT EVENTS

i. The Company didn't hold securities issued by other listed companies or securities investment.

ii. Shares of unlisted financial enterprises and to-be-listed companies held by the Company

in RMB'000

Company name	Initial investment cost	Shares held(share)	Proportion of the total shares(%)	Book value at period end
Industrial Securities Co., Ltd.	59,054.56	92,800,000	6.23	51,274.56
Sun Securities Co., Ltd.	175,400.00	26,310,000	2.50	35,520.00
Total	234,454.56	-	-	86,794.56

The above shares were held passively by the Company for a certain period due to relevant borrowers made repayment with assets or converted their debts into equity.

X. INFORMATION DISCLOSURE INDEX DURING THE REPORTING PERIOD

Item	Disclosure date
Abstract of Letter of Intent Prospectus for A-Share Initial Public Offering	2007-01-15
Appendix to Letter of Intent Prospectus for A-Share Initial Public Offering	2007-01-15
Letter of Intent Prospectus for A-Share Initial Public Offering	2007-01-15
A-Share Initial Public Offering Arrangements and Initial Price Enquiry Announcement	2007-01-15
A-Share Initial Public Offering Online Road Show Announcement	2007-01-19
A-Share Initial Public Offering Offline Placement Announcement	2007-01-22
A-Share Initial Public Offering Online Fund Subscription Placement Announcement	2007-01-22
A-Share Initial Public Offering Initial Price Enquiry Result and Offering Price Range Announcement	2007-01-22
A-Share Initial Public Offering Price Fixing, Offline Placement Result and Online Lot Winning Rate Announcement	2007-01-26
A-Share Initial Public Offering Online Fund Subscription Placement Lot Winning Result Announcement	2007-01-29
A-Share Initial Public Offering Prospectus	2007-02-02
A-Share Initial Public Offering Listing Particulars	2007-02-02
2006 Annual Results Pre-announcement	2007-02-06
Announcement on Issuing Financial Bonds	2007-03-22
Announcement on Obtaining Approval to Set up Qingdao Branch and Dalian Branch	2007-03-27
Annual Report 2006 and Abstract	2007-03-28
Announcement on Resolutions Approved at the 19th Session of the Fifth Board of Directors	2007-03-28
Announcement on Resolutions Approved at the 13th Session of the Third Board of Supervisors	2007-03-28
Announcement on Convening 2006 Annual General Shareholders' Meeting	2007-03-28
2006 Annual General Shareholders' Meeting Materials	2007-04-18
Reminding Announcement on the Unfreezing of Shares Placed Offline with A Lock-up Period of Three Months	2007-04-25
Q1 Report 2007	2007-04-27
Regulations on Information Disclosure	2007-05-08
Announcement on Resolutions Approved at 2006 Annual General Shareholders' Meeting	2007-05-08
Legal Opinion Letter on 2006 Annual General Shareholders' Meeting	2007-05-08
Announcement on Implementation of 2006 Annual Profit Appropriation Plan	2007-05-15
Announcement on Resolutions Approved at the 21st Session of the Fifth Board of Directors	2007-05-22
Announcement on Resolutions Approved at the 15th Session of the Third Board of Supervisors	2007-05-22

Item	Disclosure date
Announcement on Sponsor Institution's Change of Sponsor Representative	2007-05-25
Reminding Announcement on Collecting Supervisor Candidate Applications for the Fourth Board of Supervisors	2007-06-01
Reminding Announcement on Collecting Director Candidate Applications for the Sixth Board of Directors	2007-06-01
Announcement on Publishing Corporate Governance Self Inspection Report and Rectification Plan and Setting up A Public Appraisal Platform	2007-07-03
Self Inspection Report on Corporate Governance and Rectification Plan	2007-07-03
Announcement on Estimated 2007 Interim Results Growth	2007-07-13
Announcement on Corporate Governance Appraisal Questionnaire and Holding A Locale Meeting on Corporate Governance	2007-07-14
Announcement on Obtaining Approval to Open Dalian Branch for Business	2007-08-02
Announcement on Obtaining Approval to Open Qingdao Branch for Business	2007-08-06
Announcement on Pre-tax Deduction of Taxable Salary	2007-08-17
Announcement on Related Party Transactions	2007-08-20
Announcement on Resolutions Approved at the 22nd Session of the Fifth Board of Directors	2007-08-20
Interim Report 2007 and Abstract	2007-08-20
Announcement on Resolutions Approved at the 17th Session of the Third Board of Supervisors	2007-09-05
Announcement on Resolutions Approved at the 23rd Session of the Fifth Board of Directors	2007-09-24
Announcement on Convening 2007 First Extraordinary General Shareholders' Meeting	2007-09-24
Regulations on Shareholding and Relevant Changes by Directors, Supervisors and Senior Management	2007-09-24
2007 First Extraordinary General Shareholders' Meeting Materials	2007-10-09
Articles of Association (as amended in 2007)	2007-10-09
Announcement on Obtaining Approval to Acquire Xingtong City Credit Cooperative of Tonghe County, Harbin and Set up Harbin Branch	2007-10-11
Announcement on Elected Employee Supervisors of the Fourth Board of Supervisors	2007-10-22
Announcement on Obtaining Approval to Set up Nanning Branch	2007-10-22
Legal Opinion Letter on 2007 First Extraordinary General Shareholders' Meeting	2007-10-22
Announcement on Resolutions Approved at 2007 First Extraordinary General Shareholders' Meeting	2007-10-22
Announcement on Resolutions Approved at the First Session of the Sixth Board of Directors	2007-10-23
Announcement on Resolutions Approved at the First Session of the Fourth Board of Supervisors	2007-10-23
Q3 Report 2007	2007-10-29
Rectification Report of Special Action on Corporate Governance	2007-11-07
Announcement on Resolutions Approved at the Third Session of the Fourth Board of Supervisors	2007-12-08
Announcement on Resolutions Approved at the Fourth Session of the Sixth Board of Directors	2007-12-20
Announcement on Continuing to Appoint Zhao Jie as Representative of Securities Affairs	2007-12-20
Announcement on Obtaining Approval to Open Nanning Branch for Business	2007-12-21

The above announcements, reports and relevant materials were disclosed in the Company's selected newspapers for information disclosure (*China Securities Journal, Shanghai Securities News, Securities Times*, and *Securities Daily*), Shanghai Stock Exchange website(www.sse.com.cn) and the Company's website (www.cib.com.cn), and could be searched in Shanghai Stock Exchange website by entering the Company's A-share stock code "601166" and relevant release date, or in the Investor Relations column of the Company's website.

Financial Statements

The Company's financial statements for 2007 have been audited by Fujian Huaxing Certified Public Accountants Ltd. and signed off by Mr. Tong Yigong and Ms. Lin Xia, two certified public accountants from the above accounting firm, who have issued a standard and unqualified auditors' report with "FJHXCPA (2008) SZ NO. G-016". Ernst & Young audited the Company's financial statements for 2007 in accordance with International Financial Reporting Standards and has issued a standard and unqualified auditors' report. (For full text of the financial statements, please refer to the appendix.)

Documents Available for Inspection

I. Financial statements bearing the signatures of the Company's Legal Representative, President and Financial Director.

II. Original auditors' reports bearing the seal of the accounting firms and personally signed and sealed by the certified public accountants.

III. Original annual report bearing the signature of the Company's Chairman.

IV. Original documents and announcements publicly disclosed by the Company during the reporting period.

V. Articles of Association of Industrial Bank Co.,Ltd.

Appendix

I. Domestic Auditors' Report

II. International Auditors' Report

III. The Company's Self Assessment Report on Internal Control

Chairman: Gao Jianping

The Board of Directors of Industrial Bank Co.,Ltd.

March 18, 2008

Written Affirmative Opinion of Directors and Senior Management of Industrial Bank Co.,Ltd. on Annual Report 2007

In accordance with related provisions and requirements of Securities Law of the People's Republic of China and Guideline No. 2 Concerning the Content and Format of the Information Disclosure by Public Companies-Content and Format of Annual Report (as amended in 2007), after a full understanding and review of the Company's Annual Report 2007 and its abstract, we, as directors and senior management of the Company, hereby consider that:

1. The Company has operated in strict compliance with the Enterprise Accounting Standard, the Accounting Regulations for Business Enterprises and the Accounting Regulations for Financial Enterprises. Annual Report 2007 gives a fair view of the financial position and operating results of the Company during the reporting period.

2. The financial statements 2007 of the Company have been audited by Fujian Huaxing Certified Public Accountants Ltd. and Ernst & Young respectively in accordance with domestic and international auditing standards, and both have issued standard and unqualified auditors' reports.

We hereby guarantee that the information disclosed in the Company's Annual Report 2007 and its abstract is true, accurate, complete, and free of any false representation, misleading statement or major omission. We assume joint and several liabilities for the truthfulness, accuracy and completeness of the contents thereof.

Signatures of directors and senior management members

Gao Jianping

Liao Shizhong

Patrick K W Chan

Chua Phuay Hee

John Law

Li Xiaochun

Huang Kongwei

Li Renjie

Kang Yukun

Chen Dekang

Wang Guogang

Ba Shusong

Deng Liping

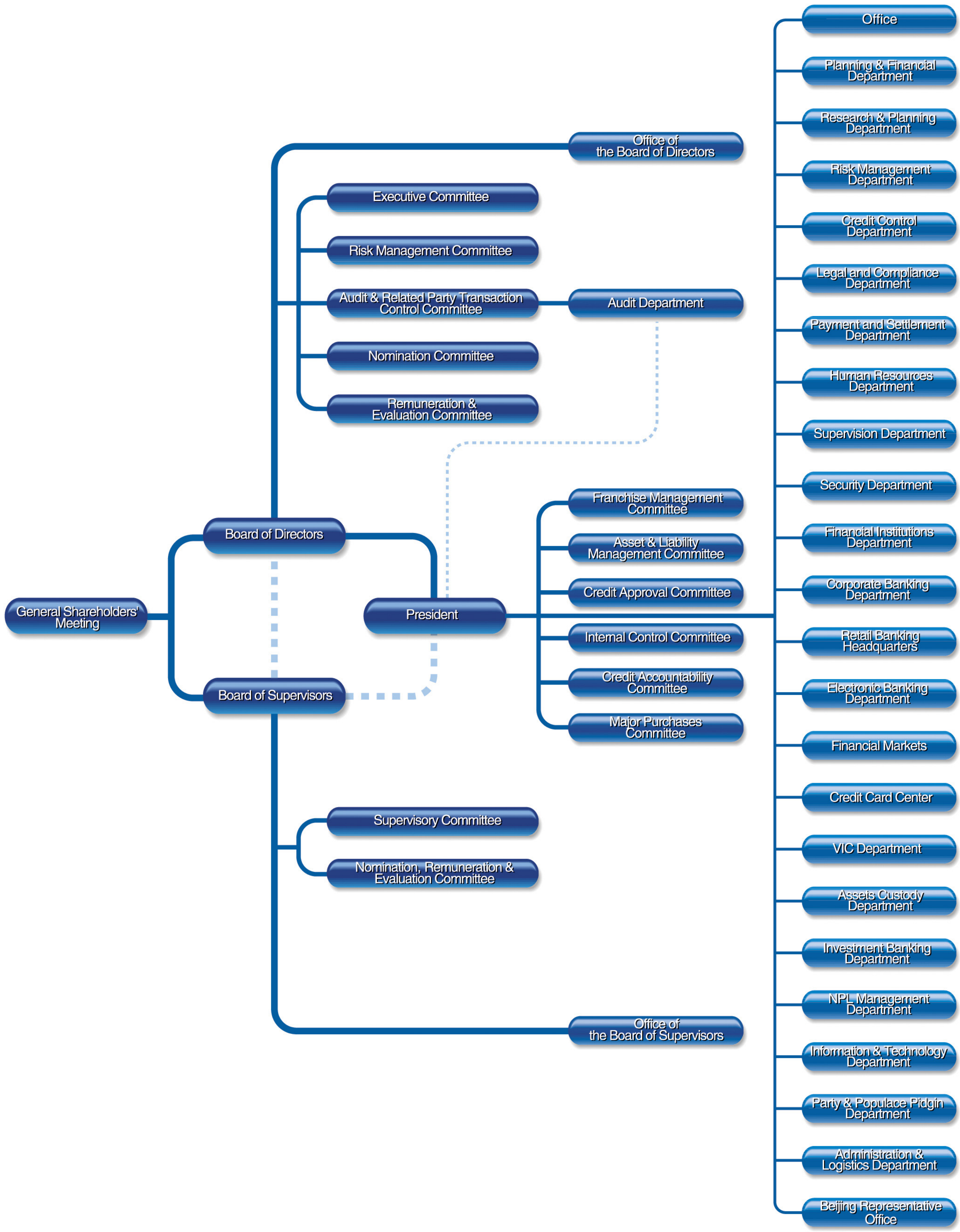
Xu Bin

Lim Peng Khoon

Tang Bin

March 18, 2008

Organizational Structure



Appendix I: Domestic Auditors' Report

CONTENTS

福建华兴有限责任会计师事务所
Fujian Huaxing Certified Public Accountants Ltd.

地址：福建省福州市湖东路152号中山大厦B座七-九楼 电话(Tel): 0591-87852574 传真(Fax): 0591-87840354
Add: 7-9/F Block B,152 Hudong Road,Fuzhou,Fujian,China Http://www.fjhxcpa.com 邮政编码(Postcode):350003

INDEPENDENT AUDITORS' REPORT

FJHXCPA (2008) S NO. G-016

To the Shareholders of Industrial Bank Co., Ltd.

We have audited the accompanying financial statements of Industrial Bank Co., Ltd. (the 'Company'), which comprise the balance sheet as at December 31, 2007, and the income statement, the statements of changes in equity, cash flow statement for the year then ended, and notes to these financial statements.

I. Management's Responsibility for the Financial Statements

Management is responsible for the preparation of these financial statements in accordance with the Accounting Standards for Enterprises. This responsibility includes: (1) designing, implementing and maintaining internal control relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error; (2) selecting and applying appropriate accounting policies; (3) making accounting estimates that are reasonable in the circumstances.

II. Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the Independent Auditing Standards of China. These standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amount and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, 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 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 policies used and reasonableness of accounting estimates made by management, 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.

III. Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Industrial Bank Co., Ltd. as of December 31, 2007, and of its financial performance and its cash flows for the year then ended in accordance with the Accounting Standards for Business Enterprises.

Fujian Huaxing Certified Public Accountants Ltd.

Fuzhou, People's Republic of China

March 18, 2008

Certified Public Accountant:

Certified Public Accountant:

BALANCE SHEET

Industrial Bank Co.,Ltd. December 31, 2007 Unit: RMB Yuan

Item	Notes	2007-12-31	2006-12-31
Assets			
Cash and due from the central bank	VI.1	93,863,209,182.01	76,478,740,657.27
Due from banks and other financial institutions	VI.2	42,289,887,194.31	11,127,751,524.64
Precious metals	VI.3	1,817,949,900.01	1,203,703,509.69
Placements with banks and other financial institutions	VI.4	4,016,672,530.42	10,486,118,467.18
Financial assets at fair value through profit or loss	VI.5	8,525,067,249.80	9,186,317,681.99
Derivative financial assets	VI.6	1,257,429,896.15	106,537,898.58
Reverse repurchase agreements	VI.7	169,955,557,750.57	56,360,611,126.48
Interest receivables	VI.8	2,919,898,911.73	1,968,143,432.32
Loans and advances to customers	VI.9	393,028,777,201.10	318,101,164,064.54
Available-for-sale financial assets	VI.10	43,364,874,642.36	70,390,614,257.61
Receivables	VI.11	21,125,699,252.00	6,057,501,877.81
Held-to-maturity investments	VI.12	61,592,678,620.20	49,833,661,172.82
Long term equity investments	VI.13	50,000,000.00	50,000,000.00
Investment property		-	-
Fixed assets	VI.14	2,995,167,475.72	2,650,341,854.93
Construction in progress	VI.15	1,122,199,553.66	707,459,274.51
Intangible assets	VI.16	420,976,770.76	457,254,246.99
Deferred tax assets	VI.17	1,049,501,385.40	1,026,452,312.56
Other assets	VI.18	1,939,722,440.82	1,268,022,274.55
Total Assets		851,335,269,957.02	617,460,395,634.47
Liabilities			
Amounts due to the central bank		-	-
Due to banks and other financial institutions	VI.19	191,122,772,439.56	105,764,196,669.63
Placements from banks and other financial institutions	VI.20	991,402,400.00	716,100,000.00
Financial liabilities at fair value through profit or loss		-	-
Derivative financial liabilities	VI.6	1,341,872,213.05	115,929,537.94
Repurchase agreements	VI.21	43,142,187,684.09	23,191,142,972.29
Customer deposits	VI.22	505,370,855,588.74	423,196,710,938.60
Salaries and staff welfare payables	VI.23	3,114,188,867.06	1,780,454,645.39
Tax payable	VI.24	1,814,738,749.73	893,573,160.68
Interest payable	VI.25	3,355,365,420.03	2,063,511,077.07
Accrued liability		-	-
Bonds payable	VI.26	59,962,608,128.10	41,000,000,000.00
Deferred taxes liabilities	VI.17	19,379,267.31	53,977,699.91
Other liabilities	VI.27	2,202,822,277.06	2,485,131,804.13
Total Liabilities		812,438,193,034.73	601,260,728,505.64
Shareholders' Equity			
Paid-in capital	VI.28	5,000,000,000.00	3,999,000,000.00
Capital reserves	VI.29	17,356,024,027.43	2,945,380,980.33
Less: Treasury stock		-	-
Surplus reserves	VI.30	2,264,711,244.91	1,406,134,570.27
General risk provisions	VI.31	4,773,867,488.46	3,626,864,668.38
Retained earnings	VI.32	9,502,474,161.49	4,222,286,909.85
Total equity		38,897,076,922.29	16,199,667,128.83
Total Liabilities and Equity		851,335,269,957.02	617,460,395,634.47

Legal Representative: 高建平 President: 李仁杰 Financial Director: 李健

The accompanying notes form an integral part of the financial statements

INCOME STATEMENT

Industrial Bank Co.,Ltd. 2007 Unit: RMB Yuan

Item	Notes	2007	2006
1. Operating revenue		22,055,410,765.54	13,660,824,497.80
Net interest income	VI.33	20,845,992,027.40	13,294,660,715.65
Interest income		40,197,647,792.35	24,939,024,998.99
Interest expense		(19,351,655,764.95)	(11,644,364,283.34)
Net fee and commission income	VI.34	1,517,855,186.35	432,606,808.47
Fee and commission income		1,829,159,751.53	607,406,249.87
Fee and commission expense		(311,304,565.18)	(174,799,441.40)
Investment income	VI.35	(530,921,890.10)	(174,358,177.77)
Gains or losses from changes in fair value	VI.36	(49,646,487.63)	(89,576,835.06)
Foreign currency translation gains and losses		173,892,601.57	118,482,102.57
Other operating income		98,239,327.95	79,009,883.94
2. Expenses		(11,206,852,978.98)	(8,656,462,356.78)
Business tax and surcharges	VI.37	(1,471,154,161.94)	(980,538,151.26)
General and administrative expenses	VI.38	(8,005,191,352.65)	(5,262,265,189.06)
Assets impairment loss	VI.39	(1,678,841,929.53)	(2,402,417,015.48)
Other operating expenses		(51,665,534.86)	(11,242,000.98)
3. Net operating revenue		10,848,557,786.56	5,004,362,141.02
Add: Non operating income	VI.40	88,582,337.52	64,676,773.72
Less: Non operating expense	VI.41	(26,969,076.23)	(22,837,424.34)
4. Total operating revenue		10,910,171,047.85	5,046,201,490.40
Less: Income tax	VI.42	(2,324,404,301.49)	(1,247,945,628.45)
5. Net profit		8,585,766,746.36	3,798,255,861.95
6. Earnings per share			
Basic	XVIII. 2	1.75	0.95
Diluted	XVIII. 2	1.75	0.95

Legal Representative: President: Financial Director:

The accompanying notes form an integral part of the financial statements

STATEMENT OF CHANGES IN EQUITY

Industrial Bank Co.,Ltd. | 2007 | Unit: RMB Yuan

Item	Paid-in capital	Capital reserves	Less:Treasury stock	Surplus reserves	General risk provisions	Retained earnings	Total equity
1. Balance as at 31/12/2006	3,999,000,000.00	2,945,380,980.33	-	1,406,134,570.27	3,626,864,668.38	4,222,286,909.85	16,199,667,128.83
Add: Changes in accounting policies, accounting estimates and errors	-	-	-	-	-	-	-
Corrections of prior period errors	-	-	-	-	-	-	-
2. Balance as at 01/01/2007	3,999,000,000.00	2,945,380,980.33	-	1,406,134,570.27	3,626,864,668.38	4,222,286,909.85	16,199,667,128.83
3. Changes of current year	1,001,000,000.00	14,410,643,047.10	-	858,576,674.64	1,147,002,820.08	5,280,187,251.64	22,697,409,793.46
1) Net profit	-	-	-	-	-	8,585,766,746.36	8,585,766,746.36
2) Gains and losses directly attributed to shareholders' equtiy	-	(310,316,162.90)	-	-	-	-	(310,316,162.90)
A. Net fair value change of available-for-sale financial assets	-	(430,334,747.72)	-	-	-	-	(430,334,747.72)
(a) Amount attributed to shareholders' equtiy	-	(520,621,478.63)	-	-	-	-	(520,621,478.63)
(b) Amount brought forward to current profit and loss	-	90,286,730.91	-	-	-	-	90,286,730.91
B. Net fair value change of cash-flow hedging instrument	-	-	-	-	-	-	-
(a) Amount attributed to shareholders' equtiy	-	-	-	-	-	-	-
(b) Amount brought forward to current profit and loss	-	-	-	-	-	-	-
(c) Amount attributed to hedged items initial recongnition	-	-	-	-	-	-	-
C. Impact from change of other shareholders' equity of invested unit under equity method	-	-	-	-	-	-	-
D. Impact of income tax related to shareholders' equity	-	120,018,584.82	-	-	-	-	120,018,584.82
E. Others	-	-	-	-	-	-	-
Subtotal of 1) and 2)	-	(310,316,162.90)	-	-	-	8,585,766,746.36	8,275,450,583.46
3) Capital invested and capital decreased by the shareholders	1,001,000,000.00	14,720,959,210.00	-	-	-	-	15,721,959,210.00
A. Captial invested by the shareholders	1,001,000,000.00	14,720,959,210.00	-	-	-	-	15,721,959,210.00
B. Capital decreased by the shareholders	-	-	-	-	-	-	-
C. Others	-	-	-	-	-	-	-
4) Profit distribution	-	-	-	858,576,674.64	1,147,002,820.08	(3,305,579,494.72)	(1,300,000,000.00)
A. Appropriation of surplus reserves	-	-	-	858,576,674.64	-	(858,576,674.64)	-
B. Appropriation of general risk provisions	-	-	-	-	1,147,002,820.08	(1,147,002,820.08)	-
C. Distribution to shareholders	-	-	-	-	-	(1,300,000,000.00)	(1,300,000,000.00)
D. Others	-	-	-	-	-	-	-
5) Internal transfers within shareholders' equity	-	-	-	-	-	-	-
A. Capital reserves transferred to share capital	-	-	-	-	-	-	-
B. Surplus reserves transferred to share capital	-	-	-	-	-	-	-
C. Loss covered by surplus reserves	-	-	-	-	-	-	-
D. Loss covered by general risk provisions	-	-	-	-	-	-	-
E. Others	-	-	-	-	-	-	-
4. Balance as at 31/12/2007	5,000,000,000.00	17,356,024,027.43	-	2,264,711,244.91	4,773,867,488.46	9,502,474,161.49	38,897,076,922.29

Legal Representative: President: Financial Director:

The accompanying notes form an integral part of the financial statements

STATEMENT OF CHANGES IN EQUITY

Industrial Bank Co.,Ltd. | 2006 | Unit: RMB Yuan

Item	Paid-in capital	Capital reserves	Less:Treasury stock	Surplus reserves	General risk provisions	Retained earnings	Total equity
1. Balance as at 31/12/2005	3,999,000,000.00	3,329,354,769.47	-	1,026,308,984.07	2,400,000,000.00	2,030,721,302.48	12,785,385,056.02
Add: Changes in accounting policies, accounting estimates and errors	-	-	-	-	-	-	-
Corrections of prior period errors	-	-	-	-	-	-	-
2. Balance as at 01/01/2006	3,999,000,000.00	3,329,354,769.47	-	1,026,308,984.07	2,400,000,000.00	2,030,721,302.48	12,785,385,056.02
3. Changes of current year	-	(383,973,789.14)	-	379,825,586.20	1,226,864,668.38	2,191,565,607.37	3,414,282,072.81
1) Net profit	-	-	-	-	-	3,798,255,861.95	3,798,255,861.95
2) Gains and losses directly attributed to shareholders' equtiy	-	(383,973,789.14)	-	-	-	-	(383,973,789.14)
A. Net fair value change of available-for-sale financial assets	-	(573,865,031.36)	-	-	-	-	(573,865,031.36)
(a) Amount attributed to shareholders' equtiy	-	134,537,980.61	-	-	-	-	134,537,980.61
(b) Amount brought forward to current profit and loss	-	(708,403,011.97)	-	-	-	-	(708,403,011.97)
B. Net fair value change of cash-flow hedging instrument	-	-	-	-	-	-	-
(a) Amount attributed to shareholders' equtiy	-	-	-	-	-	-	-
(b) Amount brought forward to current profit and loss	-	-	-	-	-	-	-
(c) Amount attributed to hedged items initial recongnition	-	-	-	-	-	-	-
C. Impact from change of other shareholders' equity of invested unit under equity method	-	-	-	-	-	-	-
D. Impact of income tax related to shareholders' equity	-	189,891,242.22	-	-	-	-	189,891,242.22
E. Others	-	-	-	-	-	-	-
Subtotal of 1) and 2)	-	(383,973,789.14)	-	-	-	3,798,255,861.95	3,414,282,072.81
3) Capital invested and capital decreased by the shareholders	-	-	-	-	-	-	-
A. Captial invested by the shareholders	-	-	-	-	-	-	-
B. Capital decreased by the shareholders	-	-	-	-	-	-	-
C. Others	-	-	-	-	-	-	-
4) Profit distribution	-	-	-	379,825,586.20	1,226,864,668.38	(1,606,690,254.58)	-
A. Appropriation of surplus reserves	-	-	-	379,825,586.20	-	(379,825,586.20)	-
B. Appropriation of general risk provisions	-	-	-	-	1,226,864,668.38	(1,226,864,668.38)	-
C. Distribution to shareholders	-	-	-	-	-	-	-
D. Others	-	-	-	-	-	-	-
5) Internal transfers within shareholders' equity	-	-	-	-	-	-	-
A. Capital reserves transferred to share capital	-	-	-	-	-	-	-
B. Surplus reserves transferred to share capital	-	-	-	-	-	-	-
C. Loss covered by surplus reserves	-	-	-	-	-	-	-
D. Loss covered by general risk provisions	-	-	-	-	-	-	-
E. Others	-	-	-	-	-	-	-
4. Balance as at 31/12/2006	3,999,000,000.00	2,945,380,980.33	-	1,406,134,570.27	3,626,864,668.38	4,222,286,909.85	16,199,667,128.83

Legal Representative: President: Financial Director:

The accompanying notes form an integral part of the financial statements

CASH FLOW STATEMENT

Industrial Bank Co.,Ltd. 2007 Unit: RMB Yuan

Item	Notes	2007	2006
1. Cash flow from operating activities			
Cash received from customer deposits and due to banks and other financial institutions		167,532,720,420.07	108,312,834,031.43
Cash received from due to the central bank		-	-
Cash received from placement from banks and other financial institutions		20,388,786,728.98	4,394,861,500.74
Cash received from interest, fees and commission		35,518,165,568.58	21,564,817,958.08
Cash received from other operating income		556,954,618.83	492,249,463.15
Subtotal of cash inflow		223,996,627,336.46	134,764,762,953.40
Cash paid for loans and advances to customers		(76,503,958,552.70)	(83,027,368,283.85)
Cash paid for statutory deposit with the central bank and due to banks		(40,369,774,832.27)	(6,388,942,121.10)
Cash paid for placement with other financial institutions		(54,703,910,044.24)	(17,081,180,726.53)
Cash paid for interest, fees and commission		(17,087,764,476.25)	(11,501,832,508.19)
Cash paid to and for staff		(2,415,680,356.37)	(1,741,157,127.13)
Cash paid for income tax and other tax associate charges		(2,873,555,396.82)	(2,311,885,047.52)
Cash paid for other operating income		(4,780,435,191.26)	(1,757,919,679.73)
Subtotal of cash outflow		(198,735,078,849.91)	(123,810,285,494.05)
Net cash flow from operating activities	VI.43	25,261,548,486.55	10,954,477,459.35
2. Cash flow from investing activities			
Cash received from recovery of investments		681,062,935,955.13	328,778,599,170.69
Cash received from investment income		4,645,195,915.25	4,740,508,501.55
Cash received from other investing activities		109,343,977.70	101,588,616.70
Subtotal of cash inflow		685,817,475,848.08	333,620,696,288.94
Cash paid for investments		(686,060,324,459.21)	(351,410,655,662.14)
Cash paid for acquiring fixed assets, intangible assets and other long term assets		(1,212,880,486.05)	(1,062,337,761.31)
Cash paid for other investing activities		-	-
Subtotal of cash outflow		(687,273,204,945.26)	(352,472,993,423.45)
Net cash flow from investing activities		(1,455,729,097.18)	(18,852,297,134.51)

CASH FLOW STATEMENT *continued*

Industrial Bank Co.,Ltd. | 2007 | Unit: RMB Yuan

Item	Notes	2007	2006
3. Cash flow from financing activities			
Cash received from equity invesments		15,721,959,210.00	-
Cash received from issuing bonds		19,000,000,000.00	25,000,000,000.00
Cash received from other financing activities		-	-
Subtotal of cash inflow		34,721,959,210.00	25,000,000,000.00
Cash paid for repayment of debts		-	-
Cash paid for distribution of dividends, profits, or interest expense		(2,737,375,261.52)	(531,366,485.23)
Cash paid for other financing activities		(45,600,000.00)	-
Subtotal of cash outflow		(2,782,975,261.52)	(531,366,485.23)
Net cash flow from financing activities		31,938,983,948.48	24,468,633,514.77
4. Effect of changes on exchage rate		(218,554,147.18)	(140,909,579.56)
5. Net increase in cash and cash equivalents	VI.43	55,526,249,190.67	16,429,904,260.05
Add: Opening balance of cash and cash equivalents	VI.43	107,100,957,388.37	90,671,053,128.32
6. Closing balance of cash and cash equivalents	VI.43	162,627,206,579.04	107,100,957,388.37

Legal Representative: President: Financial Director:

The accompanying notes form an integral part of the financial statements

NOTES TO FINANCIAL STATEMENTS

(Unless otherwise specified, all the currency units herein are RMB in thousands)

I. BRIEF INTRODUCTION

1. Background

Industrial Bank Co., Ltd. (hereinafter referred to as "the Company") which was called Fujian Industrial Bank Co., Ltd. previously, is a joint-stock commercial bank approved by the People's Bank of China (PBOC), with the document YF [1988] No. 347 issued on July 20, 1988, in accordance with the Application by Fujian Province for Deepening Reform and Opening and Accelerating the Development of Export-oriented Economy (GH [1988] No.58) approved by the State Council.

The Company issued 1,001,000,000 "A" shares with par value of RMB1.00 for each share in January 2007 with the approval of China Securities Regulatory Commission (CSRC). The issue price for each share was RMB15.98, which increased the Company's registered capital and share capital by RMB1,001,000,000. After the issuance, the Company's registered capital has increased to RMB5,000,000,000, which has been verified by Fujian Huaxing Certified Public Accountants Ltd with a capital verification report referenced "MHXS (2007) YZ NO.G-002". Approved by Shanghai Stock Exchange with the approval document SZSZ [2007] No. 26, shares issued by the Company started trading on Shanghai Stock Exchange on February 5, 2007 with the stock code 601166.

The Company has obtained its license for carrying out financial activities from China Banking Regulatory Commission with the license number of B0013H135010001. The Company's business license was approved by Fujian Provincial Administration of Industry and Commerce with the registration number of 350000100009440, the registered address is 154 Hudong Road, Fuzhou, Fujian Province. The legal representative of the Company is Gao Jianping.

2. The industry in which the Company operates and the scope of its business

The industry in which the Company operates: financing.

The principal activity of the Company is commercial banking business. The scope of the banking business as listed on its business license includes: customer deposit-taking; provision of short term, medium term and long term loans; provision of payment and settlement services; provision of bill acceptance and bill discounts; provision of services in the bond underwriting; provision of agency services in the underwriting, sale and cashing of government bonds; trading of government bonds and debentures; dealings of derivative products of financial institutions (excluding derivatives transactions in respect of equity and commodity); trust of securities investment funds and State social security funds; inter-bank placements and borrowings; purchase and sale of foreign currencies either on its own behalf or on behalf of clients; provision of exchange settlement and sales service; provision of bank card business; provision of letter of credit-related services and guarantee facilities; agency collection and payment services; agency sales services for insurance; provision of safe deposit box services; and other services approved by the PBOC.

I. BRIEF INTRODUCTION *continued*

3. Corporate structure

As at December 31, 2007, apart from the headquarters, the Company has set up 39 branches and 390 sub-branches in cities of Fuzhou, Xiamen, Ningde, Putian, Quanzhou, Zhangzhou, Longyan, Sanming, Nanping, Shanghai, Shenzhen, Changsha, Beijing, Hangzhou, Guangzhou, Nanjing, Ningbo, Chongqing, Jinan, Wuhan, Shenyang, Chengdu, Tianjin, Xi'an, Zhengzhou, Foshan, Taiyuan, Kunming, Dongguan, Nanchang, Hefei, Urumqi, Dalian, Qingdao, Nanning, Wuxi, Yiwu, Taizhou and Wenzhou respectively as well as other headquarters' operating departments such as Financial Markets, Credit Card Centre, Assets Custody Department and Investment Banking Department in Shanghai and Beijing.

II. BASIS OF PRESENTATION

The financial statement for the year 2007 was prepared in accordance with Accounting Standard for Business Enterprises and its application guidance issued by Ministry of Finance in 2006 (The "New CAS") as well as other applicable regulations.

The Company applies the New CAS from January 1, 2007. According to the Accounting Standard for Business Enterprises No. 38 "Initial Implementation of Accounting Standards for Enterprises" and other applicable regulations, the retroactive adjustments have been made for items which required to be adjusted in relative fiscal year, and the financial statements have been restated accordingly.

The financial statement was presented on the basis that the Company is on a going concern.

III. THE DECLARATION ON COMPLIANCE WITH THE ACCOUNTING STANDARDS FOR ENTERPRISES

The financial statement is in accordance with the requirements of the Accounting Standards for Business Enterprises, fairly presents the financial position of the Company as of December 31, 2007, and of its financial performance and its cash flows for the year then ended.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

1. The financial year of the Company

The financial year of the Company runs from January 1 to December 31 of each calendar year.

2. Reporting currency

Renminbi (RMB) is adopted by the Company as reporting currency.

3. Reporting basis and accounting principle

The Company's books and ledgers are kept on accrual basis.

When financial assets and liabilities are recognized initially, they are measured at fair value. After initial recognition, financial assets and liabilities at fair value through profit or loss, available-for-sale financial assets are measured at fair value; other financial and non financial assets and liabilities are measured at their historical cost.

4. Accounting for foreign currency transactions

The separate books and records are kept for foreign currency transactions in original currencies.

At the time of initial recognition of a foreign currency transaction, the amount in the foreign currency shall be translated into the amount in the functional currency at the spot exchange rate of the transaction date. On the balance sheet date, the foreign currency monetary items shall be translated at the spot exchange rate. The balance of exchange arising from the difference between the spot exchange rate on the balance sheet date and the spot exchange rate at the time of initial recognition or prior to the balance sheet date shall be recorded into the profits and losses at the current period. The foreign currency non-monetary items measured at the historical cost shall still be translated at the spot exchange rate on the transaction date. The foreign currency non-monetary items measured at fair value shall be translated at the spot exchange rate on the date when the fair value has been determined, and the difference is treated as change in fair value and is included in the owner's equity or the profits and losses at the current period.

5. Financial instruments

The Company classifies its financial assets into four categories: financial assets at fair value through profit or loss; held-to-maturity investments; loans and receivables; and available-for-sale financial assets. When financial assets are recognized initially, they are measured at fair value. For financial assets at fair value through profit or loss, any transaction costs are recognized in P/L accounts; for other financial assets which are not measured at fair value through profit or loss, any transaction costs that are directly attributable to the acquisition of the financial assets can be recognized.

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

Financial assets at fair value through profit or loss include transactional financial assets and the financial assets which are measured at their fair values and of which the variation is included in the current profits and losses;

Financial assets at fair value through profit or loss include financial asset held for the purpose of selling it at fair value in the near term; or it is part of a portfolio of identified financial instruments that are managed for short term profit-taking. Derivative financial instruments are also classified as held for trading unless: they are designated as effective hedging instruments; they belong to financial guarantee contracts or they are linked to and must be settled by delivery of an unquoted equity instrument whose fair value cannot be reliably measured.

Besides the transactional financial assets, only the financial assets meeting any of the following requirements can be designated, when they are initially recognized, as financial assets as measured at its fair value and of which the variation is included in the current profits and losses:

(i) The designation is able to eliminate or obviously reduce the discrepancies in the recognition or measurement of relevant gains or losses arising from the different basis of measurement of the financial assets or financial liabilities;

(ii) The official written documents on risk management or investment strategies of the Company concerned have recorded that the combination of said financial assets, the combination of said financial liabilities, or the combination of said financial assets and financial liabilities will be managed and evaluated on the basis of their fair values and be reported to the key management personnel.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES *continued*

5. Financial instruments *continued*

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

(iii) Related to financial instruments that combine a single or many embedded derivatives, which cause the cash flow of the financial instruments to be modified and shall be separated from the host contract.

After initial recognition, these financial assets are measured at fair value. All related realized and unrealized gains or losses are included in the income statement.

(2) Held-to-maturity investment

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Company has the positive intention and ability to hold to maturity. These investments are carried at amortized cost using the effective interest method, less provision for impairment in value. Gains and losses are recognized in the income statement when the held-to-maturity investments are derecognized or impaired as well as through the amortization process.

The Company shall reclassify any remaining held-to-maturity investments as available-for-sale within the current accounting year and the following two successive accounting years if it has, during the current period, sold or reclassified more than an insignificant amount of held-to-maturity investments before maturity. Unless:

(i) The date of sale or re-classification is quite close to the maturity date or the successive date of the said investment (e.g., within 3 months prior to maturity) that any change of the market interest rate will produce little impact upon the fair value of the said investment;

(ii) After almost all the initial principal of the investment has been drawn back by way of repayment at fixed intervals or repayment ahead of schedule according to the provisions of the contract, the remaining part of the investment will be sold or re-classified;

(iii) The sale or re-classification is caused by any independent event that the Company cannot control, is pre-dicted not to occur again and is hard to be reasonably predicted.

(3) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortized cost using the effective interest method, less provision for impairment in value. The cumulative gains or losses are recognized in the income statement when the financial asset is derecognized or impaired as well as through the amortization process.

(4) 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 in any of the three previous categories. After initial recognition, available-for-sale financial assets are measured at fair value. Fair value changes of available-for-sale financial assets are reported as a separate component of equity until the financial asset is derecognized or the financial asset is determined to be impaired at which time the cumulative gains or losses previously reported in equity are included in the income statement.

When following situations occur, available-for-sale financial assets which measured at fair value become inadequate, these financial assets will be carried at amortized cost using the effective interest method: factors such as intention and ability to hold has changed; the fair value of these financial assets cannot be measured reliably or the time of holding has exceeded prohibit period as stated on IV 5 (2) of the notes to the financial statement (two complete successive accounting periods). On the reclassification date, the carrying amount of the financial asset is reported as its amortized cost.

Premiums and discounts on available-for-sale financial assets which are previously recognized in equity will be treated under different situations:

(i) If the available-for-sale financial asset has fixed terms, gains or losses of the financial asset are amortized using the effective interest method and included in the income statement. The difference between its maturity value and the amortized cost is amortized using the effective interest method during the remaining term of the financial asset and included in the income statement. If the financial asset is determined to be impaired after the reclassification, gains or losses which are previously reported in equity are included in the income statement.

(ii) If the available-for-sale financial asset does not have fixed terms, gains or losses of the financial asset are remained as equity, until it is derecognized or impaired during the following accounting periods, at which time the cumulative gains or losses previously recognized in equity is recognized in the income statement.

6. Impairment of financial assets

The Company carries out an inspection, on the balance sheet day, on the carrying amount of the financial assets other than those measured at their fair values and of which the variation is recorded into the profits and losses of the current period to determine whether there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event'). The loss event (or events) refers to actually incurred events which, after the financial asset is initially recognized, have an impact on the predicted future cash flow of the said financial asset that can be reliably measured by the Company.

(1) Financial assets carried at amortized cost

If there is objective evidence that an impairment loss on investments carried at amortized cost has been incurred, 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 financial asset's original effective interest rate. The carrying amount of the asset is reduced to the present value of estimated future cash flows (excluding future credit losses that have not been incurred). The reduced amount is recognized through the use of an impairment provision account and is recognized in the income statement. The present value of estimated future cash flows is discounted at the financial asset's original effective interest rate, considering the value of related collaterals (minus any cost incurred in the acquisition and sale).

The Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is then included in a group of financial assets with similar credit risk characteristics and that group of financial assets is to be collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not to be assessed collectively for impairment.

Contractual cash flows and historical loss experience provide the basis for estimating expected cash flows. Historical loss rates are adjusted on the basis of relevant observable data that reflect current economic conditions. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES *continued*

6. Impairment of financial assets *continued*

(1) Financial assets carried at amortized cost *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 recognized, the previously recognized impairment loss shall be reversed and be recorded into the profits and losses of the current period. The reversal shall not result in a carrying amount of the financial asset that exceeds what the amortized cost would have been had the impairment not been recognized at the date the impairment is reversed.

(2) Financial assets carried at cost

If there is objective evidence that an impairment loss has been incurred, the amount of the 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. Such impairment losses shall not be reversed.

(3) Available-for-sale financial assets

Where an available-for-sale financial asset is impaired, any accumulative losses arising from the decrease of the fair value of the owner's equity which was directly included shall be transferred out and recorded into the profits and losses of the current period. The accumulative losses that are transferred out shall be the balance obtained from the initial costs of the sold financial asset after deducting the principals as taken back, the current fair value and the impairment-related losses as was recorded into the profits and losses of the current period.

As for the available-for-sale debt instruments whose impairment-related losses have been recognized, if, within the accounting period thereafter, the fair value has risen and are objectively related to the subsequent events that occur after the originally impairment-related losses were recognized, the originally recognized impairment-related losses shall be reversed and be recorded into the profits and losses of the current period. Impairment losses recognized in profit or loss for an investment in an equity instrument classified as available for sale shall not be reversed through profit or loss.

7. Financial liabilities

Financial liabilities are classified as either financial liabilities at fair value through profit or loss, or other financial liabilities.

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

Financial liabilities at fair value through profit or loss include transactional financial liabilities and the designated financial liabilities which are measured at their fair values.

Transactional financial liabilities include financial liabilities that the purpose to acquire is mainly for selling or repurchase of them in the near future and derivatives other than those designated as effective hedged items.

Besides the transactional financial liabilities, other financial liabilities can be designated, when they are initially recognized, as financial liabilities as measured at its fair value and of which the variation is included in the current profits and losses if financial liabilities meet the requirements 1, 2 or 3 mentioned at Notes to the financial statement IV 5 (1) .

After initial recognition, these financial liabilities are measured at fair value. All related realized and unrealized gains or losses are included in the income statement.

(2) Other financial liabilities

The Company makes subsequent measurement on its financial liabilities on the basis of the post-amortization costs by adopting the effective interest method, with the exception of financial liabilities at fair value through profit or loss.

8. Derecognition of a financial asset and financial liabilities

(1) Derecognition of a financial asset

Where a financial asset satisfies any of the following requirements, the recognition of it shall be terminated:

(i) Where the contractual rights for collecting the cash flow of the said financial asset are terminated; or

(ii)Where the said financial asset has been transferred and meets the following conditions for recognizing the termination of financial assets.

Where the Company has transferred substantially all the risks and rewards of ownership of the financial asset, it shall derecognize the financial asset. If the Company retained substantially all the risks and rewards of ownership of the financial asset, the Company shall not derecognize the financial asset.

If the Company neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset, the entity shall determine whether it has retained control of the financial asset. In this case:

(i) If the Company has not retained control, it shall derecognise the financial asset.

(ii) If the Company has retained control, it shall, according to the extent of its continuous involvement in the transferred financial asset, recognize the related financial asset and recognize the relevant liability accordingly.

(2) Derecognition of a financial liabilities

An entity shall remove a financial liability from its balance sheet when, and only when the obligation specified in the contract is discharged or cancelled or expires. An exchange between an existing borrower and lender of debt instruments with substantially different terms shall be accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. Similarly, a substantial modification of the terms of an existing financial liability shall be accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The difference between the carrying amount of a financial liability extinguished or transferred to another party and the consideration paid shall be recognised in profit or loss.

9. Asset securitization

As one of the Company's operation, the Company securitizes some financial assets and sells them to special purpose entities. Asset-backed securities are then issued by these entities and sold to investors. Some or all financial assets that the Company has transferred to transferee for the purpose of asset securitization may meet the criteria of derecognization of financial assets (refer to the above accounting policies for the details of criteria of derecognization). The main reward that the Company retains is secondary asset-backed security, any gain or loss is recorded in the profit and loss account of the current year. Gains and losses are recognized as the difference between (i) book value of derecognized asset and its fair value on the date of transfer; (ii) book value of retained asset and its fair value on the date of transfer.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES *continued*

10. Derivative financial instruments

Financial derivative instruments are recognized initially based on the fair value on the very day when the derivative transaction contact is executed and afterwards are measured based on their fair value. In case the current fair value is positive, the derivative financial products are used as assets; in case the fair value is negative, the derivative financial products are used as liabilities.

Derivatives which embedded in other financial instruments are separated from the host contract and accounted for as derivatives when their economic characteristics and risks are not closely related to those of the host contract and the host contract is not a derivative contract. Embedded derivatives are measured at fair value with changes in fair value recognised in the income statement.

11. Reverse repurchase agreements and repurchase agreements

The assets involved in the Company's reverse repurchase agreement and repurchase agreement include securities, bills and credit assets. Reverse repurchase agreement is a purchase of assets with an agreement to resell them at a specific future date. Repurchase agreement is a sale of assets with an agreement to repurchase them at a specific future date. For purchased assets for future reverse repurchase, the purchase cost will be used as collateral to offer amounts and purchased assets will be used as collateral for offered amounts. For sold assets for future repurchase, such assets will continue to be reflected on the Company's balance sheet and accounted in accordance with related accounting policies. Amounts received from selling such assets will be recognized as liabilities.

Interest revenue from reverse repurchase agreements and interest expenditure for repurchase agreements are recognized on a time proportion basis.

12. Fixed assets and construction in progress

(1) Fixed assets

(i) Recognition criteria of fixed assets

Fixed assets are defined as tangible assets that:

(a) Are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes;

(b) Have useful life of more than one year.

(ii) Accounting for fixed assets and provisions for impairment thereof

(a) The initial measurement of fixed assets upon acquisition is made at their actual cost or amount determined otherwise. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its present working condition and location for its intended use.

(b) Expenditure incurred after the asset has been put into operation is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the asset, the expenditure is capitalized as an additional cost of the asset. However, the carrying amounts of property and equipment should not be recorded in excess of their recoverable amounts.

(c) At the end of each year and interim reporting period, recoverable amount of fixed assets is examined on an individual item basis. If the recoverable amount is lower than book value due to such reasons as continuous drop of market price, or obsolete technology, damage and prolonged idling, the difference by which the recoverable amount is lower than the carrying amount of the fixed assets should be provided for. The impairment loss should be recognized in the income statement for the current period. The provision for impairment of fixed assets is made on an individual item basis. Once any loss of asset impairment is recognized, it shall not be reversed in the future accounting periods.

(iii) Depreciation method of fixed assets

Depreciation is calculated, using the straight-line method over the estimated useful life and zero residual value of the property and equipment at the following rates.

	Estimated useful life(years)	Depreciation rate(%)
Properties and buildings	20-30	3.33-5.00
Fixed assets improvements	5	20.00
Office equipments and computers	5-10	10.00-20.00
Motor vehicles	6-8	12.50-16.67

(2) Construction in progress

(i) The actual construction expenditures incurred are charged to the construction in progress account. When the fixed asset being acquired or constructed has reached its expected usable condition, the total construction cost in that account is capitalized as fixed assets.

(ii) At the end of each fiscal year, the recoverable amount of all the constructions in progress is reviewed for impairment purposes on individual basis. In case that constructions are suspended for an extended period of time and are not expected to resume in the next 3 years, or the construction in progress is outdated in terms of performance and technology which results in the uncertainty in obtaining future economic benefits, or other circumstances arise which adequately prove value impairment of constructions in progress, provision should be made as the difference by which the recoverable amount is lower than the carrying amount of individual construction and reflected in the profit and loss account of the reporting period. The provision for impairment of construction in progress is made on an individual item basis. Once any impairment loss is recognized, it shall not be reversed in the future accounting periods.

13. Intangible assets

(1) Pricing method for intangible assets

Intangible assets should be recorded at the actual purchase price paid.

(2) Impairment of assets

The Company reviews the carrying amount of its intangible assets at the end of each year for the future economic benefits associated therewith that will flow to the Company. The difference by which the recoverable amount is lower than the carrying amount of the intangible assets should be provided for and recognized in the income statement for the current period. The provision for impairment of intangible assets is made on an individual item basis. Once any impairment loss is recognized, it shall not be reversed in the future accounting periods.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES *continued*

13. Intangible assets *continued*

(3) Amortization of intangible assets

(i) Land use right is amortized on a straight-line basis over its grant life starting from the month in which they were acquired.

(ii) The seat charge of the stock exchange is amortized on a straight-line basis over 10 years starting from the month when the seat is obtained.

(iii) Computer software is amortized on a straight-line basis over 5 years starting in the month in which they were acquired.

(iv) Other intangible assets are amortized on a straight-line basis over 10 years from the month when they are obtained.

14. Debt asset

Debt asset is initially measured at its fair value. The difference by which the recoverable amount is lower than the carrying amount of the assets should be provided for and recognized in the income statement for the current period.

15. Revenue and expenditure recognition

(1) Interest income and expense

Interest income and expense are recognized in the income statement using the effective interest method. 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 asset. When calculating the effective interest rate, the Company estimates cash flows considering all contractual terms of the financial instrument 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. When a single or a group of similar financial assets has impaired, interest will be recognised using the rate of interest used to discount future cash flows.

(2) Fee and commission income

Fee and commission income is recognised in the income statement when the corresponding service is provided and the amount can be reasonably estimated.

16. Income tax

The income tax of the Company comprises current income tax and deferred income tax. Income tax is 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.

Tax assets and liabilities that result from current period and previous years are recognized as the amount expected tax payable to, or refundable from Tax Bureau.

The balance sheet liability method is adopted by the Company. Income tax is recognised by temporary differences which are differences between the tax base of an asset or liability and its carrying amount in the balance sheet at rates applicable during the period of recovering the assets or repaying the liabilities.

Except for the deferred income tax liabilities arising from the following transactions, the Company recognizes the deferred income tax liabilities arising from all taxable temporary differences:

(i) The initial recognition of goodwill; or the initial recognition of assets or liabilities arising from the following transactions which are simultaneously featured by the following:

(a) The transaction is not business combination; and

(b) At the time of transaction, the accounting profits will not be affected, nor will the taxable amount be affected.

(ii) In case that the deferred income tax liabilities arising from the taxable temporary differences related to the investments of subsidiary companies, associated enterprises and contractual enterprises, the investing enterprise can control the time of the reverse of temporary differences; and the temporary differences are unlikely to be reversed in the expected future.

The Company shall recognize the deferred income tax liabilities arising from a deductible temporary difference to the extent of the amount of the taxable income which it is most likely to obtain and which can be deducted from the deductible temporary difference. However, the deferred income tax assets, which are arising from the initial recognition of assets or liabilities during a transaction which is simultaneously featured by the following, shall not be recognized:

(i) This transaction is not business combination; and

(ii) At the time of transaction, the accounting profits will not be affected, nor will the taxable amount (or the deductible loss) be affected.

Where the deductible temporary difference related to the investments of the subsidiary companies, associated enterprises and joint enterprises can meet the following requirements simultaneously, the Company recognizes the corresponding deferred income tax assets:

(i) The temporary differences are likely to be reversed in the expected future; and

(ii) It is likely to acquire any amount of taxable income tax that may be used for making up the deductible temporary differences.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered. In the case that it is probable that sufficient taxable profit will be available, the reduced amount will be recovered.

17. Employee retirement benefit scheme

(1) Defined contribution plans

According to the statutory requirements of the PRC, the Company is required to provide certain staff retirement and pension benefits. The Company is obligated to contribute a fixed percentage of staff salaries to a fixed contribution employee retirement benefits scheme, governed by the relevant government authorities. The contributions are charged to the income statement.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES *continued*

17. Employee retirement benefit scheme *continued*

(2) Supplemental retirement benefits

The Company has set up a pension plan for employees to supplement the retirement benefit. The defined benefit is calculated by the amount of benefit that an employee is entitled to receive from the Company upon retirement. The Company is required to contribute a certain percentage of basic salary of employees to the pension plan and the plan is considered as the defined benefit plan. The Company is using the Projected Unit Credit Method to determine the cost and the amount recognised as defined benefit liability at the balance sheet date. In measuring its defined benefit liability, the Company recognises a portion of its actuarial gains and losses as income or expense if the net cumulative unrecognised gains and losses at the end of the previous balance sheet date exceeded the greater of the followings, and the excess is recognised in the profit and loss account over the participant's estimate remaining service terms. Otherwise, the amount is not recognised.

(i) 10% of the present value of the obligation at the balance sheet date

(ii) 10% of the fair value of the plan assets at the balance sheet date

Past-service costs are recognized immediately in the income statement. However, if the retirement benefit plan specifies the employee service period as a condition, past service cost is recognised on a straight-line basis over the average period until the benefits become vested.

18. Cash and cash equivalents

Cash and cash equivalents of the Company consist of cash, non-restricted balances with central banks, due from banks (exclude overdues and fixed term deposits with maturity of more than three months), placements with banks and other financial institutions (exclude overdues and balances with original contract term of more than three months), financial assets under repurchase agreements with an original maturity of less than three months, and highly liquid investments that are readily convertible to known amounts of cash and subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

19. Operating Leases

Leases where substantially all the risks and rewards incidental to the ownership of the assets remain with the lessors are accounted for as operating leases. Lease rentals are charged to the income statement on a straight-line basis over the lease term.

20. Acceptance

Acceptance is made up of undertakings by the Company to pay bills of exchange drawn on customers. The Company expects most acceptances to be settled simultaneously with the reimbursement from the customers. Acceptances are accounted for as off-balance sheet transactions.

21. Fiduciary Activities

The Company acts in a fiduciary capacity as a custodian, trustee or an agent for customers. Assets held by the Company and the related undertakings to return such assets to customers are excluded from the financial statements.

Entrusted lending is the business where the Company enters into entrusted loan agreements with customers, In this regard, the Company grants loans to borrowers, as an intermediary, at the direction of third-party lenders, who fund these loans. The Company has been contracted by these third-party lenders to manage the administration and collection of these loans on their behalf. The third-party lenders determine both the underwriting criteria for and all terms of the entrusted loans, including their purpose, amounts, interest rates, and repayment schedule. The Company charges a commission related to its activities in connection with the entrusted loans, but the risk of loss is borne by the third-party lenders. Entrusted loans are not recognized in the financial statements of the Company, and no impairment assessments are made for these entrusted loans.

22. Contingent liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Company. It can also be a present obligation arising from past events that is not recognized because it is not probable that an outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognized as a provision but is disclosed in the notes to the financial statements. The obligation pertinent to a contingency shall be recognized as an estimated debt when the following conditions are satisfied simultaneously:

(i) That obligation is a current obligation of the Company;

(ii) It is likely to cause any economic benefit out flow of the Company as a result of performance of the obligation; and

(iii) The amount of the obligation can be measured reliably.

23. Related parties

Parties are considered to be related if one party has the ability, directly, indirectly or jointly, to control the other party or exercise significant influence over the other party in making financial and operational decisions. Parties are also considered to be related if they are subject to common control, joint control or common significant influence.

24. Critical accounting estimates and judgments

(1) Judgments

In the process of applying the Company's accounting policies, management has made the following judgments, apart from those involving estimations, which have significant effect on the financial statements:

(i) Classification of financial assets

The management of the Company needs to make significant judgment as to the classification of the financial assets. Different classifications of investments result in different accounting treatments and hence different financial positions of the Company.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES *continued*

24. Critical accounting estimates and judgments *continued*

(2) Estimation uncertainties

The key assumptions and uncertainties on significant estimations made by the Company's management at the year end may have significant risks resulting in a material adjustment to the assets and liabilities in the next accounting year as are stated below:

(i) Impairment losses of loans

The Company determines periodically whether there is any objective evidence that an impairment loss on loans and advances has been incurred. If any such evidence exists, the Company assesses the amount of the impairment loss. The amount of impairment losses are measured as the difference between the carrying amount and the present value of estimated future cash flows. In assessing the amount of impairment losses, significant judgments are required as to whether objective evidence for impairment exists and also significant estimates on the present value of expected future cash flows.

(ii) Income taxes

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered. Therefore, significant judgment needs to be made for the tax treatment by taking into account all relevant tax legislations as well as the probability of future taxable profits will allow the deferred tax assets to be recovered.

(iii) Fair value of financial instruments

With respect to the financial assets or financial liabilities with an active market, the quoted prices in the active market shall be used to determine the fair values thereof. The fair values of financial instruments that are not quoted in active markets are determined by using valuation techniques. The valuation techniques mainly include the prices adopted by the parties, who are familiar with the condition, in the latest market transaction upon their own free will, the current fair value obtained by referring to other financial instruments of the same essential nature, the cash flow capitalization method and the option pricing model, etc. whenever it is feasible, the market parameters should be used in pricing financial instruments. In case of lacking market parameters, areas such as credit risk (both own and counterparty's), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect reported fair value of financial instruments.

25. Taxation

The major taxes and surcharges applicable are as follows:

Category	Tax rate(%)	Calculation basis
Business tax	5	Taxable operating revenue
Income tax	15	Taxable income (Shenzhen city)
	33	Taxable income (excluding Shenzhen city)
City maintenance and construction tax	1	Business tax (Shenzhen city)
	7	Business tax (excluding Shenzhen city)
Educational surcharge	3	Business tax

In 2007, the Company's headquarters and branches except those in Xiamen, Shenzhen and Nanning cities collectively pay the yearly business income tax in Fuzhou. The branches make advance payment of 30% of the yearly income tax payable in the local places.

V. CHANGES IN ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

1. Change in income tax rate

Adopted at the Fifth Session of the Tenth National People's Congress on March 2007, The Law of the People's Republic of China on Enterprise Income Tax (the New Tax Law) will come into effect as of January 1, 2008. A series of changes have been introduced by the New Tax Law include using 25% income tax rate for all enterprises including foreign investment and domestic-funded enterprise.

According to Notice of State Council of Taxation about Preferential Policies on Transition of Enterprise Income Tax (GF [2007] No.39), the income tax rate for Shenzhen branch will transit to 25% gradually within five years from 2008 to 2012. Changes in deferred assets and liabilities due to the change of income tax rate have been recognized in the income tax expense of the current period, the income tax expense has been adjusted for additional 143,141 thousand.

2. Approval of performance-related salary system

In receiving the Notice of the Ministry of Finance and State Administration of Taxation on the Confirmation of Pre-tax Deduction Rates of Tax Salaries and Wages of the Industrial Bank Co., Ltd (CS [2007] No. 111), the application of the Company for pre-tax deduction of taxable salaries and wages has been approved. Accordingly, the Company has deducted tax expense for taxable adjustment amounting to RMB539,016 thousand for the year 2007.

3. Initial implementation of the new accounting standards for enterprises

According to the Circular on issue of Accounting Standards for Business Enterprises No.1 - Inventories, etc, 38 specific accounting standards (CK [2006] No. 3) issued by the Ministry of Finance, the Company has implemented the Accounting Standards for Business Enterprises (the New CAS) since January 1, 2007. Retroactive adjustments have been made in accordance with the requirements of Accounting Standards for Business Enterprises No.38 "Initial Implementation of Accounting Standards for Enterprises" and "Circular on Issuing the No.7 Questions and Responses of Information Disclosure Standards of Public Companies - Compilation and Disclosure of the Comparative Financial Accounting Information during the Transition Period between the New and Old Accounting Standards have been modificated retroactively in relevant accounting years and the financial statement of the Company has been restated. The effect of above matter on the Company's net profit for the year 2006 and retained earnings for the end of 2006 was zero.

(In RMB'000)

VI. NOTES TO THE FINANCIAL STATEMENTS

1. Cash and due from the central bank

	2007-12-31	2006-12-31
Cash	2,162,185	1,466,960
Due from the central bank:		
Statutory deposit reserves	58,149,353	29,030,568
Surplus deposit reserve	33,456,362	45,808,872
Fiscal deposit	95,309	172,341
Subtotal of due from the central bank	91,701,024	75,011,781
Total	**93,863,209**	**76,478,741**

The Company is required to place a RMB statutory deposit reserve, a foreign currency statutory deposit reserve and a fiscal deposit with the PBOC. On 31 December 2007, the required reserve ratio for customer deposits denominated in RMB was 14.5% (2006: 9%); the required reserve ratio for customer deposits denominated in foreign currencies is 5% (2006: 4%). The fiscal deposits are transferred to the PBOC in full. The foreign currency deposit reserve and fiscal deposits placed with the PBOC are non-interest bearing.

2. Due from banks and other financial institutions

	2007-12-31	2006-12-31
Analyzed by geographical location:		
Banks and other financial institutions in mainland China	40,526,464	9,743,565
Banks and other financial institutions outside mainland China	1,785,963	1,406,727
Subtotal	42,312,427	11,150,292
Less: Provisions for impairment	(22,540)	(22,540)
Net	42,289,887	11,127,752
Analyzed by counterparty:		
Banks	37,369,949	10,502,130
Non-bank financial institutions	4,942,478	648,162
Subtotal	42,312,427	11,150,292
Less: Provisions for impairment	(22,540)	(22,540)
Net	42,289,887	11,127,752

(1) As at 31 December 2007, the overdue balance of due from domestic banks and financial institutions amounted to RMB22,540 thousand (2006: RMB22,540 thousand).

(2) Movements of provisions for impairment

	2007-12-31	2006-12-31
Opening balance	22,540	26,008
Charge for the year	-	-
Transfer in (out) for the year	-	-
Write-offs	-	(3,468)
Closing balance	22,540	22,540

The RMB22,540 thousand of provision for impairment is made on the basis of the present value of estimated future cash flow for all the RMB6,167 thousand overdue deposits in the financial centers in various places and all the RMB16,373 thousand of overdue deposits in the financial company of Shenzhen Saige Group.

3. Precious metals

	2007-12-31	2006-12-31
Gold	1,817,950	1,203,704
Cost	1,740,433	1,197,249
Changes in fair value	77,517	6,455

4. Due from and placements with banks and other financial institutions

	2007-12-31	2006-12-31
Analyzed by geographical location:		
Banks and other financial institutions in mainland China	4,136,374	10,611,253
Banks and other financial institutions outside mainland China	-	-
Subtotal	4,136,374	10,611,253
Less: Provisions for impairment	(119,701)	(125,135)
Net	4,016,673	10,486,118
Analyzed by counterparty:		
Banks	3,765,784	9,887,229
Non-bank financial institutions	370,590	724,024
Subtotal	4,136,374	10,611,253
Less: Provisions for impairment	(119,701)	(125,135)
Net	4,016,673	10,486,118

(1) As at 31 December 2007, the overdue amount of due from and placements with banks and other financial institutions is RMB119,701 thousand (2006: RMB125,135 thousand).

(2) Movements of provisions for impairment

	2007	2006
Opening balance	125,135	131,135
Charge for the year	-	-
Transfer in (out) for the year	(5,434)	(6,000)
Write-offs	-	-
Closing balance	119,701	125,135

The RMB119,701 thousand of provision for impairment is made on the basis of the present value of estimated future cash flow for the overdue placements of RMB40, 000 thousand with Hainan Development Bank, RMB9,111 thousand with Hainan Financing Center and RMB70,590 thousand with Fujian Minfa Securities Co., Ltd.

(In RMB'000)

VI. NOTES TO THE FINANCIAL STATEMENTS *continued*

5. Transactional financial assets

	2007-12-31	2006-12-31
Treasury Bond	3,099,830	3,957,292
Instruments of the Central Bank and Financial Bond	4,580,657	2,880,806
Other Bonds	767,010	2,326,942
Fund Investment	77,570	21,278
Total	8,525,067	9,186,318

6. Derivative financial instrument

(1) Derivative transactions relate to sales activities.

Sales activities of the Company include the structuring and marketing of derivative products to customers to enable them to take, transfer, modify or reduce current or expected risks. In order to reduce the market risk associates with the transactions, the Company has signed a back to back contract to a third party to effectively transfer the contract risk. Meanwhile, the Company entered into derivative instrument transactions for asset-liability management.

When the interest rate of asset does not match with the interest rate of liability (For example, the Company has purchased an asset with fixed rate of interest, however, the fund utilized to purchase the asset is subjected to a floating rate), in order to minimize the effect caused by the change of interest rate, the Company will enter into a interest rate swap contract to change the fixed rate to a floating rate.

The notional amount of a derivative represents the amount of the underlying asset upon which the value of the derivatives is based. It provides an indication of the volume of business transacted by the Company, but does not provide any measures of risk.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable and willing parties in an arm's length transaction.

(2) The notional amount and fair value of the Company's derivative financial instruments are shown below:

	2007-12-31		
	Notional amount	Fair value	
		Assets	Liabilities
Exchange rate derivative contracts	63,574,516	940,964	942,503
Interest rate derivative contracts	68,918,114	297,199	381,396
Credit derivative contracts	547,845	2,158	15,413
Bond derivative contracts	942,195	4,939	2,560
Precious metal derivative contracts	3,153,535	12,170	-
Total	137,136,205	1,257,430	1,341,872

	2006-12-31		
	Notional amount	Fair value	
		Assets	Liabilities
Exchange rate derivative contracts	20,232,715	40,676	50,843
Interest rate derivative contracts	3,375,420	59,987	58,724
Credit derivative contracts	312,348	4,507	-
Bond derivative contracts	790,000	710	6,363
Precious metal derivative contracts	1,303,465	658	-
Total	26,013,948	106,538	115,930

7. Reverse repurchase financial asset

	2007-12-31	2006-12-31
Securities	85,478,100	22,179,281
Bill	58,028,983	24,557,446
Credit asset	26,448,475	9,623,884
Total	169,955,558	56,360,611

The Company is entitled to sell part of pledged assets without the default of the counterparty, or the Company can transfer the pledge right in other transactions. As at 31 December 2007, fair value of the saleable or transferable pledged assets is RMB47,478,108 thousand (2006: RMB17,716,327 thousand). Also, as at 31 December 2007, RMB29,578,223 thousand reverse repurchase financial assets have been used in repurchase agreement (2006: RMB4,832,607 thousand).

8. Interest receivable

	2007-12-31	2006-12-31
Bond	2,013,805	1,450,304
Loans and advances to customers	639,284	442,631
Due from the central bank and financial institutions	154,750	22,345
Inter bank placement	11,802	3,528
Reverse repurchase financial assets	73,409	40,674
Others	26,848	8,661
Total	2,919,898	1,968,143

(In RMB'000)

VI. NOTES TO THE FINANCIAL STATEMENTS *continued*

9. Loans and advances to customers

(1) Product types of corporate and personal loans

	2007-12-31	2006-12-31
Loans and advances to individuals	132,395,244	64,618,425
-Credit card	2,876,188	838,083
-Residential and business mortgage loans	110,206,632	49,709,848
-Others	19,312,424	14,070,494
Loans and advances to enterprises	267,747,533	259,758,406
-Loans	260,500,263	252,594,402
-Discounted bills	7,247,270	7,164,004
-Others	-	-
Total	**400,142,777**	**324,376,831**
Less: Provision for loan losses	(7,114,000)	(6,275,667)
-individually assessed	(1,972,737)	(2,253,311)
-collectively assessed	(5,141,263)	(4,022,356)
The book value of loans and advances to customers	**393,028,777**	**318,101,164**

① As at 31 December, 2007, corporate loans included in "Repurchase agreement" amounted to RMB1,928,995 thousand (2006: RMB781,000 thousand).

② As at 31 December, 2007, discounted bills included in "Repurchase agreement" amounted to RMB239,874 thousand (2006: RMB1,679,159 thousand).

③ As at 31 December, 2007, top ten loans to corporate entities amounted to RMB10,022,825 thousand (2006: RMB8,215,451 thousand).

④ As at 31 December, 2007, no loan is owed by shareholders holding 5% or more shares of the Company.

(2) Analysis by industry sector

	2007-12-31		2006-12-31	
	Amount	%	Amount	%
Agriculture, forestry, animals farming and fishing	861,494	0.22	865,200	0.27
Mining	7,450,059	1.86	7,093,480	2.19
Manufacturing	67,998,261	16.99	55,564,570	17.13
Electricity, gas and water supply	15,612,454	3.90	15,357,969	4.73
Construction	11,378,158	2.84	11,916,689	3.67
Transport, storage, post and courier activities	23,547,311	5.88	24,858,314	7.66
Telecommunication, computer and software related activities	2,932,115	0.73	4,793,476	1.48
Wholesale and retail trade	29,006,275	7.25	23,881,277	7.36
Hotels and restaurants	852,199	0.21	960,722	0.30
Financial concerns	762,525	0.19	1,411,695	0.44
Real estate	56,057,566	14.01	53,990,649	16.64
Renting and commercial activities	17,374,907	4.34	18,822,393	5.80
Scientific research, technical services and geologic perambulation	712,136	0.18	1,300,521	0.40
Water conservancy, environment and public facilities administration	17,578,024	4.39	20,698,223	6.38
Residential services and other related activities	666,970	0.17	1,668,310	0.51
Education	2,200,955	0.55	2,662,590	0.82
Sanitation, social security and other community services activities	1,154,082	0.29	1,121,102	0.35
Cultural, sporting and entertainment	1,367,737	0.34	1,778,089	0.55
Public administration and social organization activities	2,987,035	0.75	3,849,132	1.19
Personal loans	132,395,244	33.09	64,618,425	19.92
Bill discounted	7,247,270	1.82	7,164,005	2.21
Gross amount	400,142,777	100.00	324,376,831	100.00
Less: loan loss provisions	(7,114,000)		(6,275,667)	
-individually assessed	(1,972,737)		(2,253,311)	
-collectively assessed	(5,141,263)		(4,022,356)	
Total	393,028,777		318,101,164	

(In RMB'000)

VI. NOTES TO THE FINANCIAL STATEMENTS *continued*

9. Loans and advances to customers *continued*

(3) Analysis of advances to customers by geographical area

Geographical area	2007-12-31		2006-12-31	
	Amount	%	Amount	%
Headquarters	5,109,017	1.27	4,088,111	1.26
Fujian	73,141,571	18.28	57,570,086	17.75
Beijing	31,835,441	7.95	27,687,821	8.54
Shanghai	40,876,392	10.22	38,055,911	11.73
Guangdong	56,603,615	14.15	45,839,133	14.13
Zhejiang	48,160,205	12.04	39,202,908	12.09
Jiangsu	19,836,641	4.96	16,938,600	5.22
Others	124,579,895	31.13	94,994,261	29.28
Gross amount	400,142,777	100.00	324,376,831	100.00
Less: loan loss provisions	(7,114,000)		(6,275,667)	
-individually assessed	(1,972,737)		(2,253,311)	
-collectively assessed	(5,141,263)		(4,022,356)	
Total	393,028,777		318,101,164	

(4)Analysis by forms of security

	2007-12-31	2006-12-31
Credit loans	63,181,131	59,632,443
Guarantee loans	103,191,946	97,682,478
Secured by guaranties	226,522,430	159,897,906
- Secured by mortgage	187,639,239	118,989,474
- Secured by collaterals	38,883,191	40,908,432
Discounted bills	7,247,270	7,164,004
Gross amount	400,142,777	324,376,831
Less: loan loss provisions	(7,114,000)	(6,275,667)
-individually assessed	(1,972,737)	(2,253,311)
-collectively assessed	(5,141,263)	(4,022,356)
Total	393,028,777	318,101,164

(5) Analysis by overdue terms for overdue loans

	2007-12-31				
Item	1-90 days (inclusive)	91-360 days (inclusive)	361 days to 3 years (inclusive)	Over 3 years	Total
Credit loans	49,575	42,394	246,202	87,251	425,422
Guarantee loans	201,066	418,011	894,789	483,051	1,996,917
Secured by guaranties	504,615	410,311	824,692	128,238	1,867,856
-Secured by mortgage	499,987	276,092	622,882	128,238	1,527,199
-Secured by collaterals	4,628	134,219	201,810	-	340,657
Total	755,256	870,716	1,965,683	698,540	4,290,195

Item	2006-12-31 1-90 days (inclusive)	91-360 days (inclusive)	361 days to 3 years (inclusive)	Over 3 years	Total
Credit loans	19,404	416,149	51,023	34,295	520,871
Guarantee loans	140,038	985,215	442,081	779,948	2,347,282
Secured by guaranties	456,036	902,658	268,041	640,856	2,267,591
-Secured by mortgage	336,930	681,188	267,661	353,778	1,639,557
-Secured by collaterals	119,106	221,470	380	287,078	628,034
Total	615,478	2,304,022	761,145	1,455,099	5,135,744

The overdue loans refer to loans of which all or part of principals have overdue in excess of one day.

(6) Movement of allowances for impairment losses of loan

	2007 Individually	Collectively	Total
Opening balance	2,253,311	4,022,356	6,275,667
Charge for the year	472,489	1,118,907	1,591,396
Transfer out for the year	(166,978)	-	(166,978)
Write-offs	(451,083)	-	(451,083)
Recoveries	(135,002)	-	(135,002)
-Recoveries of advances written off in previous years	23,643	-	23,643
-Unwinding of discount	(158,645)	-	(158,645)
Closing balance	1,972,737	5,141,263	7,114,000

	2006 Individually	Collectively	Total
Opening balance	2,701,155	2,410,397	5,111,552
Charge for the year	742,240	1,611,959	2,354,199
Transfer out for the year	(15,464)	-	(15,464)
Write-offs	(989,900)	-	(989,900)
Recoveries	(184,720)	-	(184,720)
-Recoveries of advances written off in previous years	4,868	-	4,868
-Unwinding of discount	(189,588)	-	(189,588)
Closing balance	2,253,311	4,022,356	6,275,667

Transfers out include the transfer of allowances for impairment losses to debt assets.

(In RMB'000)

VI. NOTES TO THE FINANCIAL STATEMENTS *continued*

10. Available-for-sale investments

	2007-12-31	2006-12-31
Available-for-sale investments, measured at fair value:		
PRC Government bonds	14,627,871	36,900,800
Bonds issued by the PBOC and financial bonds	19,589,848	27,483,808
Other debt securities	9,031,108	5,925,478
Subtotal	43,248,827	70,310,086
Available-for-sale equity investments, measured at cost:		
Unlisted shares	116,048	80,528
Total	43,364,875	70,390,614

Details of Available-for-sale equity investments

Name of investee	2007-12-31		2006-12-31	
	Amount	Percentage of shares(%)	Amount	Percentage of shares(%)
Industrial securities Co., Ltd	51,275	6.23	51,275	10.22
Sun securities Co., Ltd	35,520	2.50	-	-
Chongqing national energy investment Co., Ltd	29,253	10.17	29,253	10.17
Total	116,048		80,528	

These equity investments are not quoted in an active market and it is fair value cannot be reasonably measured. Therefore, they are measured at cost.

11. Receivables

	2007-12-31	2006-12-31
Bonds issued by the PBOC and financial bonds	14,653,108	4,794,782
Other debt securities	1,754,676	1,262,720
Trust items	4,717,915	-
Total	21,125,699	6,057,502

RMB4,532,500 thousand of trust items is fund management product purchased by the Company from other financial institutions. The investment direction of the product is trust loans.

12. Held-to-maturity investment

	2007-12-31	2006-12-31
PRC Government bonds	53,690,510	40,517,895
Bonds issued by the PBOC and financial bonds	6,811,797	8,247,214
Other debt securities	1,171,745	1,068,552
Gross amount	61,674,052	49,833,661
Less: Provision for impairment	(81,373)	-
Total	61,592,679	49,833,661

(1) Provision for impairment

	2007	2006
Opening balance	-	-
Charge for the year	81,373	-
Recoveries	-	-
Closing balance	81,373	-

Detail of provision made for held-to-maturity investment

Bond code	Currency	Date of value	Maturity	Par value	Provision
XS0000000010	USD	2001-10-17	2012-10-17	20,000	(11,140)

(2) As at 31 December 2007, bonds amounting to RMB311,279 thousand (2006: RMB25,684 thousand) have been pledged for the derivatives transactions and bonds amounting to RMB11,701,995 thousand (2006: RMB16,732,103 thousand) have been pledged for securities repurchase agreements.

13. Long term equity investment

In accordance with the approval document PBOC YF [2001] No. 234, the Company has made an equity investment in China Unionpay Co., Ltd., at cost of RMB50,000 thousand, which represents 3.03% of the registered capital of China Unionpay Co., Ltd.. Equity investments that do not have any quoted market prices and whose fair values cannot be measured reliably are stated at cost.

(In RMB'000)

VI. NOTES TO THE FINANCIAL STATEMENTS *continued*

14. Fixed assets

	2006-12-31	Additions	Disposals	2007-12-31
Cost:				
Properties and buildings and buildings	2,674,651	245,294	(15,632)	2,904,313
Operating premises improvement	88,870	24,210	-	113,080
Office equipments	944,266	380,937	(36,036)	1,289,167
Transportation equipments	160,647	18,309	(21,474)	157,482
Subtotal	3,868,434	668,750	(73,142)	4,464,042
Accumulated depreciation:				
Properties and buildings	635,937	94,706	(2,957)	727,686
Operating premises improvement	41,258	18,631	-	59,889
Office equipments	464,369	168,011	(33,407)	598,973
Transportation equipments	73,746	18,076	(12,277)	79,545
Subtotal	1,215,310	299,424	(48,641)	1,466,093
Provisions for impaired losses:				
Properties and buildings	2,782	-	-	2,782
Operating premises improvement	-	-	-	-
Office equipments	-	-	-	-
Transportation equipments	-	-	-	-
Subtotal	2,782	-	-	2,782
Net book value:				
Properties and buildings	2,035,932			2,173,845
Operating premises improvement	47,612			53,191
Office equipments	479,897			690,194
Transportation equipments	86,901			77,937
Subtotal	2,650,342			2,995,167

All the properties and buildings of the Company are located in the PRC. Properties and buildings cost RMB108,707 thousand (2006: RMB126,977 thousand) are in use but the legal ownership registration procedures were still in process as at 31 December, 2007.

15. Construction in progress

	Budget	2006-12-31	Increase	Decrease: Transfer to fixed assets	Decrease: Transfer to long term deferred assets	2007-12-31
CIB building, Beijing	819,631	450,000	242,469	-	-	692,469
CIB building, Ningbo	136,880	84,225	24,966	-	-	109,191
CIB building, Jinan	109,864	-	87,891	-	-	87,891
CIB building, Changsha	95,000	-	69,621	-	-	69,621
Zhangjiang operating centre, Shanghai	568,190	2,719	47,709	-	-	50,428
Jinhai trade and commercial centre, Mawei	23,798	-	22,929	-	-	22,929
New century building decoration, Mawei	32,318	-	22,684	-	-	22,684
CIB building, Hangzhou	218,547	141,905	76,642	(218,547)	-	-
Other decoration projects	195,223	28,610	162,348	(18,297)	(105,674)	66,987
Total	2,199,451	707,459	757,259	(236,844)	(105,674)	1,122,200

16. Intangible asset

	2006-12-31	Increase	Decrease	2007-12-31
Cost:				
Franchise	430,000	-	-	430,000
Land use right	54,602	3,967	-	58,569
Others	102,739	25,327	(867)	127,199
Subtotal	587,341	29,294	(867)	615,768
Accumulated amortisation:				
Franchise	89,583	43,000	-	132,583
Land use right	9,364	4,115	-	13,479
Others	31,140	18,456	(867)	48,729
Subtotal	130,087	65,571	(867)	194,791
Provisions for impaired losses:				
Franchise	-	-	-	-
Land use right	-	-	-	-
Others	-	-	-	-
Subtotal	-	-	-	-
Net book value:				
Franchise	340,417			297,417
Land use right	45,238			45,090
Others	71,599			78,470
Subtotal	457,254			420,977

(In RMB'000)

VI. NOTES TO THE FINANCIAL STATEMENTS *continued*

17. Deferred tax

	2006-12-31	Recognised in P/L	Recognised in equity	2007-12-31
Deferred tax assets:				
Provisions for credit losses	850,617	(69,079)	-	781,538
Provisions for asset impairments	110,181	28,631	-	138,812
Amortisation of pre-operating expenses	23,692	(1,738)	-	21,954
Changes in fair value of derivative financial instruments	3,099	18,012	-	21,111
Changes in fair value of financial assets at fair value through profit or loss	6,752	9,773	-	16,525
Unrecognised gains and losses on available-for-sale investments	-	-	68,171	68,171
Supplemented employee retirement benefits	27,374	(27,374)	-	-
Other	4,737	(3,347)	-	1,390
Total	1,026,452	(45,122)	68,171	1,049,501
Deferred tax liabilities:				
Unrealised gain or loss on available-for-sale investments	51,848	-	(51,848)	-
Changes in fair value of precious metals	2,130	17,249	-	19,379
Total	53,978	17,249	(51,848)	19,379

	2005-12-31	Recognised in P/L	Recognised in equity	2006-12-31
Deferred tax assets:				
Provisions for credit losses	733,920	116,697	-	850,617
Provisions for asset impairments	94,172	16,009	-	110,181
Amortisation of pre-operating expenses	26,327	(2,635)	-	23,692
Changes in fair value of derivative financial instruments	-	3,099	-	3,099
Changes in fair value of financial assets at fair value through profit or loss	-	6,752	-	6,752
Unrecognised gains and losses on available-for-sale investments	-	-	-	-
Supplemented employee retirement benefits	-	27,374	-	27,374
Other	-	4,737	-	4,737
Total	854,419	172,033	-	1,026,452
Deferred tax liabilities:				
Unrealised gain or loss on available-for-sale investments	241,739	-	(189,891)	51,848
Changes in fair value of precious metals	-	2,130	-	2,130
Changes in fair value of derivative financial instruments	21,839	(21,839)	-	-
Others	69,939	(69,939)	-	-
Total	333,517	(89,648)	(189,891)	53,978

18. Other assets

	2007-12-31	2006-12-31
Other receivables	447,421	349,549
Wait-deal debt repayment assets	446,050	477,463
Items in the process of clearance and settlement	342,942	151,964
Long term deferred assets	330,059	261,153
Continuous involved assets	373,250	-
Others	-	27,893
Total	1,939,722	1,268,022

(1) Other receivables

	2007-12-31	2006-12-31
Analysed by nature:		
Prepayment	125,389	82,837
Legal fare	63,069	68,895
Earnest money	24,905	25,734
Provision	33,840	6,528
Others	297,437	251,487
Subtotal	544,640	435,481
Less: provisions for bad debts	(97,219)	(85,932)
Net book value	447,421	349,549
Analysed by account age:		
Less than 1 year	247,773	148,076
1-2 years	40,702	228,766
2-3 years	203,770	42,620
Over 3 years	52,395	16,019
Subtotal	544,640	435,481
Less: provisions for bad debts	(97,219)	(85,932)
Net book value	447,421	349,549

① As at 31 December, 2007, no other receivable owe by shareholders holding 5% or more shares of the Company.

② Movement of provision for bad debts

	2007	2006
Opening balance	85,932	80,428
Charge for the year	11,287	6,981
Recoveries	-	-
Write offs for the year	-	(1,477)
Closing balance	97,219	85,932

(In RMB'000)

VI. NOTES TO THE FINANCIAL STATEMENTS *continued*

18. Other assets *continued*

(2) Wait-deal debt repayment assets

① Analysed by nature of the assets

	2007-12-31	2006-12-31
Properties and Buildings	453,881	501,154
Land use rights	92,404	92,404
Others	8,330	15,666
Subtotal	**554,615**	**609,224**
Less: provision for losses	(108,565)	(131,761)
Net book value	**446,050**	**477,463**

② Movement of provision for impairment

	2007	2006
Opening balance	131,761	96,831
Charge for the year	220	47,237
Transfer out	(23,416)	(12,307)
Closing balance	**108,565**	**131,761**

Transfer out for the year results from the disposal of assets for repayment of debt which have been provided for, and corresponding provision were transferred out simultaneously.

(3) Long term deferred assets

	Original amount	2006-12-31	Increase	Amortisation	Accumulative amortisation	2007-12-31
Leasehold improvements	612,991	218,567	151,300	(90,276)	(333,400)	279,591
Others	67,757	42,586	18,074	(10,192)	(17,289)	50,468
Total	680,748	261,153	169,374	(100,468)	(350,689)	330,059

(4) Continuous involved assets

On December 2007, the Company acted as "consigner" and "initiator", utilizing its legally possession of "financial assets" amounting to RMB5,243,250 thousand together with part of funds as "trust assets", entrusting China Foreign Economy and Trade Trust & Investment Co., Ltd. (Fotic hereafter), who acts as "trustee" and "issuer" to set up "Xingyuan Asset Backed Securities (the first tranche) of the Industrial Bank". The actual issue situation is: Fotic issued 4,870,000 thousand primary asset backed securities within inter bank bond market. At the same time, Fotic offered 373,250 thousand substandard tranche asset backed securities orientately to the Company.

The situation is as follows:

ABS	Type of Interest rate	Coupon rate(%)	Value date	Maturity date	Issue price (Yuan)	Actual issue amount (10 million)
Primary A1	Fixed	5.2	2007/12/18	2010/10/26	100	25.0000
Primary A2	Floating	Y1+1.1	2007/12/18	2010/10/26	100	18.0000
Primary B	Floating	Y1+2.15	2007/12/18	2011/07/26	100	5.7000
Substandard	Fixed	5	2007/12/18	2012/04/26	100	3.7325
Total						52.4325

Once the "trust" becomes effective, the "trust asset" is differentiated from other property of the Company that is not put under trust. In case that the Company is dissolved or cancelled according to law, or is declared bankrupt, and the Company is the sole beneficiary, the trust shall be terminated, and the trust property shall be its legacy liquidation property; where the settler is not the sole beneficiary, the trust shall subsist, and the trust property shall not be its legacy or liquidation property, instead, the "beneficial right of the trust" (including beneficial right represented as Asset-backed securities and special beneficial right of the trust) shall be its legacy liquidation property. The "trust asset" shall also be segregated from the property owned by the trustee. Where the trustee is dissolved, removed or is declared bankrupt according to the law, the trust property shall not be deemed as its liquidation property.

As the holder of the substandard tranche of Asset-backed securities, the Company the future losses of loan principal and interests that possible occur. For "trust asset" which is the object of the substandard tranche of Asset-backed securities, the management considers that the Company neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset, also the Company has retained control of the financial asset. Therefore, the Company recognizes the related financial asset, that is, the par value of the holding secondary ABS, and recognizes the relevant liability accordingly according to the extent of its continuous involvement in the transferred financial asset.

19. Due to banks and other financial institutions

	2007-12-31	2006-12-31
Analysed by region:		
Domestic banks and other institutions	191,122,772	105,764,197
Oversea banks and other institutions	-	-
Total	191,122,772	105,764,197
Analysed by counterparty:		
Banks	30,740,702	31,603,648
Other financial institutions	160,382,070	74,160,549
Total	191,122,772	105,764,197

(In RMB'000)

VI. NOTES TO THE FINANCIAL STATEMENTS *continued*

20. Inter-bank borrowings

	2007-12-31	2006-12-31
Analysed by region:		
Domestic banks and other institutions	845,310	665,900
Oversea banks and other institutions	146,092	50,200
Total	991,402	716,100
Analysed by counterparty:		
Banks	823,397	716,100
Other financial institutions	168,005	-
Total	991,402	716,100

21. Repurchase agreements

	2007-12-31	2006-12-31
Securities	11,404,012	16,325,352
Bills	29,818,096	6,511,766
Credit assets	1,920,080	354,025
Total	43,142,188	23,191,143

22. Customer deposits

	2007-12-31	2006-12-31
Demand deposits	266,749,549	197,622,061
-Corporate	237,905,351	179,935,387
-Personal	28,844,198	17,686,674
Time deposits	180,693,133	163,047,424
-Corporate	154,147,390	141,476,419
-Personal	26,545,743	21,571,005
Other deposits	57,928,174	62,527,226
-Remittance payable and outward remittance	1,432,413	1,001,564
- Guarantee deposit	55,680,075	61,102,830
- Trust funds	694,379	277,673
- Fiscal deposits	121,307	145,159
Total	505,370,856	423,196,711

23. Salaries and staff welfare payables

	2007-12-31	2006-12-31
Salaries	2,864,284	1,780,455
Staff welfare	249,905	-
Total	3,114,189	1,780,455

(1) Supplemental retirement benefits

The Company has established an "Enterprise Annuity Fund Scheme" (Annuity Scheme hereafter) to provide supplemental retirement benefits to employees. The Company recognizes a liability for the present value of the unfunded obligation relating to retirement benefits payable to employees at the balance sheet date. The actuarial liabilities in relation to the supplemental benefit obligation for employees at the balance sheet date were assessed by Watson Wyatt Worldwide, Inc (members of Society of Actuaries), using the Projected Unit credit actuarial cost method.

① The movements of the net liabilities recognized in the balance sheets are as follow:

At 1 January, 2007	-
Supplemental retirement benefits	254,689
Benefits paid	(4,784)
At 31 December, 2007	**249,905**

② Net liabilities recongnised at the year end:

	2007-12-31
Present value of the benefit obligation	618,497
Unrecognised actuarial surplus	59,062
Unrecognised past service cost	(427,654)
Total	249,905

③ The amounts of retirement benefit costs recognized in the income statement comprise:

	2007
Current service cost	85,757
Interest cost	22,854
Unrecognised past service cost	146,078
Total	254,689

④ Primary assumptions used:

Discount rate (%)	4.75
Expected rate of salary increases (%)	8.00
Expected rate of voluntary turnover of employees (%)	9.00

(2) RMB816,869 thousand of salaries and staff welfare payables are long term benefit plan for employees' past service, the Company will settle the amount within 2008 in accordance with relevant plan.

(In RMB'000)

VI. NOTES TO THE FINANCIAL STATEMENTS *continued*

24. Tax payable

	2007-12-31	2006-12-31
Income tax	1,272,283	538,469
Business tax	455,565	302,201
City maintenance and construction tax	30,419	21,400
Personal income tax	22,164	11,536
Educational Surtax	1,514	10,933
Real estate tax	16,194	1,987
Others	16,600	7,047
Total	1,814,739	893,573

25. Interest payable

	2007-12-31	2006-12-31
Interest due to customer deposits	2,313,836	1,649,346
Interest of bonds	754,309	223,581
Placement interest due to other banks	244,814	157,278
Interest of repurchase agreements	35,045	31,739
Interest of inter bank borrowings	7,354	205
Others	7	1,362
Total	3,355,365	2,063,511

26. Bonds payable

	2007-12-31	2006-12-31
Long term subordinated bonds	6,000,000	6,000,000
Financial bonds	49,962,608	31,000,000
-Par value	50,000,000	31,000,000
-Unamortised issuance cost	(37,392)	-
Hybrid capital bonds	4,000,000	4,000,000
Total	59,962,608	41,000,000

(1) Long term subordinated bonds

	Issuing period	Term	2007-12-31	2006-12-31
Floating rate	2003-12-17-2003-12-30	61 months	3,000,000	3,000,000
Callable fixed rate	2004-12-23-2004-12-29	10 years	1,860,000	1,860,000
Callable floating rate	2004-12-23-2004-12-29	10 years	1,140,000	1,140,000
Total			6,000,000	6,000,000

① In December 2003, the Company issued subordinated bonds totaling RMB3,000,000 thousand with a term of 5 years plus 1 month at the floating interest rate 2.01% over the benchmark rate of one-year fixed deposit stipulated by the People's Bank of China.

② In December 2004, the Company issued subordinated bonds totaling RMB3,000,000 thousand with a term of 10 years. The Company has an option to fully or partly redeem the debt at the par value on the last day of the fifth interest year. Fixed and floating interest rates are adopted for the bonds: The yearly interest rate (namely the original coupon rate) of the fixed interest rate bonds is 5.1% in the period from the first to the fifth year. If the Company does not exercise the option, the contract interest rate will increase by 300BP (100BP is equivalent to 1%) over the original coupon rate (8.1%). The contract interest rate of the floating interest rate bonds is the summation of the benchmark interest rate and the basic margin; The benchmark interest rate refers to the interest rate for fixed amount and period deposit with a term of one year stipulated by the People's Bank of China, which is applicable on the inaugural date and the value date of other interest years; The basic interest spread in the first five interest years is 2.4%; If the Company does not exercise the redemption right, the basic margin of the rest five interest years will increase by 50BP (100BP is equivalent to 1%) over the basic margin during the period from the sixth year to the maturity date of the floating interest rate bonds (2.9%).

(2) Financial bonds

	Issuing period	Term (year)	2007-12-31	2006-12-31
05 IB 01	2005-10-25-2005-11-01	3	10,000,000	10,000,000
06 IB 01	2006-03-31-2006-04-06	5	5,000,000	5,000,000
06 IB 03(5 years)	2006-12-15-2006-12-19	5	8,000,000	8,000,000
06 IB 03(10 years)	2006-12-15-2006-12-19	10	8,000,000	8,000,000
07 IB 01(3 years)	2007-03-27-2007-03-29	3	6,986,224	-
07 IB 02(5 years)	2007-03-27-2007-03-29	5	6,986,224	-
07 IB 03(5 years)	2007-03-27-2007-03-29	5	4,990,160	-
Total			49,962,608	31,000,000

① In accordance with the approval document of YF [2005] No. 77 by the PBOC and YJF [2005] No. 253 by the CBRC, the Company has issued financial bonds totaling RMB15,000,000 thousand as follows:

(i) In November 2005, the Company has issued a financial bond totaling RMB10,000,000 thousand with a maturity of 3 years at annual interest rate of 2.15%. The bond is named as "Bond of Industrial Bank Co., Ltd., 2005 (first tranche)". The bond is also referred to as "05 IB 01".

(ii) In April 2006, the Company has issued a financial bond totaling RMB5,000,000 thousand with a maturity of 5 years at yearly interest rate of 2.98%. The bond is named as "Bond of Industrial Bank Co., Ltd., 2006 (first tranche)". The bond is also referred to as "06 IB 01".

② In accordance with the approval document of (Yin Shi Chang Xu Zhun Yu Zi [2006] No. 22) issued by the PBOC and (YJF [2006] No. 345) issued by the CBRC, the Company was allowed to issue financial bonds up to RMB35,000,000 thousand.

(i) In December 2006, the Company has issued a financial bond totaling RMB16,000,000 thousand. The bond is named as "Financial Bond of the Industrial Bank Co., Ltd., 2006 (second tranche)". The financial bond comprised a financial bond totaling RMB8,000,000 thousand with a maturity of 5 years at yearly interest rate of 3.45% which refers to as "06 IB 03 (5 years)" and a financial bond totaling RMB8,000,000 thousand with a maturity of 10 years at yearly interest rate of 3.75% which refers to as "06 IB 03 (10 years)".

(In RMB'000)

VI. NOTES TO THE FINANCIAL STATEMENTS *continued*

26. Bonds payable *continued*

(2) Financial bonds *continued*

(ii) In March 2007, the Company has issued a financial bond totaling RMB19,000,000 thousand. The bond is named as "Financial Bond of the Industrial Bank Co., Ltd., 2007 (the first tranche)". The financial bond consisted of a financial bond totaling RMB7,000,000 thousand with a maturity of 3 years at yearly interest rate of 3.58% which refers to as "07 IB 01"; a financial bond totaling RMB7,000,000 thousand with a maturity of 5 years at yearly interest rate of 3.78% which refers to as "07 IB 02"; a financial bond totaling RMB5,000,000 thousand with a maturity of 5 years at floating interest rate, which refers to as "07 IB 03". The benchmark rate is the PBOC one-year fixed deposit rate at the issuance date and the repricing date and the basic interest margin is 65BP.

The financial bonds are circulated within inter bank bond market in accordance with the relevant regulations of the PBOC after the issuance.

(3) Hybrid capital bond

	Issuing period	Term (year)	2007-12-31	2006-12-31
06 IB 02 fixed	2006-09-28-2006-09-29	15	3,000,000	3,000,000
06 IB 02 floating	2006-09-28-2006-09-29	15	1,000,000	1,000,000
Total			4,000,000	4,000,000

In accordance with the approval document of YSCXZY [2006] No. 16 issued by the PBOC and YJF [2006] No. 324 issued by the CBRC, the Company was allowed to issue hybrid capital bonds up to RMB4,000,000 thousand. In September 2006, the Company has issued a financial bond totaling RMB4,000,000 thousand with a maturity of 15 years. The bond is named as "Hybrid Capital Bond of the Industrial Bank Co., Ltd., 2006". Approved by the CBRC, the Company has the option to redeem all the bonds at face value from the 10th year to the maturity of the bond. It does not need any permission of the bond holders to exercise this option.

① The annual interest rate of current fixed interest rate bond (also refers to as 06 IB 02 fixed) from the 1st year to the 10th year is 4.94% (namely "original coupon rate"). If the Company does not exercise this option, the annual coupon rate of the bonds for the third 5 year period shall be the original coupon rate plus 2.8%.

② The annual interest rate of current floating interest rate bond (06 IB 02 floating) is the summation of the benchmark interest rate and the basic margin; The benchmark interest rate refers to the interest rate for fixed amount and period deposit with a term of one year stipulated by the People's Bank of China, which is applicable on the inaugural date and the value date of other interest years; the basic interest spread in the first 10 interest years is 1.82%. If the Company does not exercise the option to redeem, the basic margin of the rest five interest years shall be the original basic margin plus 1% during the period from the 11th year to the maturity of the bond.

27. Other liabilities

	2007-12-31	2006-12-31
Bank promissory notes	540,859	1,292,411
Items in the process of clearance and settlement	340,078	204,004
Dividend payables	1,318	1,120
Continuous involved liabilities	373,250	-
Other payables	947,317	987,597
Total	2,202,822	2,485,132

(1) Dividend payable

As at 31 December, 2007, no dividends payable was owed to shareholders holding 5% or more shares of the Company.

(2) Other payables

As at 31 December, 2007, no other payable was owed to shareholders holding 5% or more shares of the Company.

28. Share capital

	2006-12-31		Movements	2007-12-31	
	Number	%		Number	%
I. Shares with limit sales condition	3,999,000	100.00	300,000	4,299,000	85.98
1.Shares before issuance	3,999,000	100.00	-	3,999,000	79.98
-Shares owned by the state	1,207,642	30.20	-	1,207,642	24.15
-Shares owned by state-owned legal person	1,109,814	27.75	-	1,109,814	22.20
- Shares owned by domestic legal person	682,544	17.07	-	682,544	13.65
- Shares owned by foreign legal person	999,000	24.98	-	999,000	19.98
2.Issuance for the year	-	-	300,000	300,000	6.00
II. Shares without limit sales condition	-	-	701,000	701,000	14.02
RMB ordinary shares	-	-	701,000	701,000	14.02
III. Total shares	**3,999,000**	**100.00**	**1,001,000**	**5,000,000**	**100.00**

The Company issued 1,001,000,000 "A" shares with par value of RMB1.00 for each on January 2007. The issue price for each share was RMB15.98, which increased the Company's registered capital and share capital RMB1,001,000,000. After the issuance, the Company's registered capital has increased from RMB3,999,000,000 to RMB5,000,000,000, which has been verified by Fujian Huaxing Certified Public Accountants Ltd. with a capital verification report referenced "MHXS (2007) YZ NO.G-002".

29. Capital reserve

	Equity premium over par value	Available-for-sale investments reserve	Others	Total
2005-12-31	**2,804,883**	**490,141**	**34,331**	**3,329,355**
Increase	-	93,667	-	93,667
Decrease	-	(477,641)	-	(477,641)
2006-12-31	**2,804,883**	**106,167**	**34,331**	**2,945,381**
Increase	14,720,959	82,842	-	14,803,801
Decrease	-	(393,158)	-	(393,158)
2007-12-31	**17,525,842**	**(204,149)**	**34,331**	**17,356,024**

(In RMB'000)

VI. NOTES TO THE FINANCIAL STATEMENTS *continued*

29. Capital reserve *continued*

(1) Available-for-sale investments reserve

	2007	2006
Opening	106,167	490,141
Amounts recognised in equity during the year	(390,491)	93,667
Transfer to income statement on disposal	82,842	(436,066)
Amortised for the year	(2,667)	(41,575)
Closing	(204,149)	106,167

The Company has reclassified bond investments with par value amounting RMB37,078,133 thousand which was previously classified as available-for-sale investment into held-to-maturity investment on January 1, 2006. The investment is measured at amortised cost. On the date of reclassification, the carrying amount of the investment was reported as its amortised cost, unrealised gain or loss totaling RMB65,623 thousand (after tax) which was previously recognised in equity is amortised using the effective interest method during the remaining term of the financial asset and included in the income statement. The amortised amount is RMB2,667 thousand for the current accounting period.

30. Retained earnings

	Statutory surplus reserve	Statutory public welfare fund	Discretionary surplus reserve	Total
2005-12-31	729,688	296,621	-	1,026,309
Increase	379,826	-	296,621	676,447
Decrease	-	(296,621)	-	(296,621)
2006-12-31	1,109,514	-	296,621	1,406,135
Increase	858,576	-	-	858,576
Decrease	-	-	-	-
2007-12-31	1,968,090	-	296,621	2,264,711

(1) Under relevant PRC laws, the Company is required to transfer 10% of its net profit, as determined under PRC GAAP, to a non-distributable statutory surplus reserve. Subject to the approval of the shareholders, statutory surplus reserve can be used for replenishing the accumulated loss or increasing the Company's share capital. According to the newly revised PRC Company Law, effective 1 January 2006, the Company does not make appropriation to the statutory welfare reserve.

(2) According to the "Circular of accounting treatments for enterprises after the enactment of PRC Company Law" (CQ [2006] No.67, effective 1 April 2006), the cumulative statutory welfare reserve as at 31 December, 2005 should be transferred into and managed as surplus reserve. Accordingly, the Company has transferred its statutory welfare reserve into discretionary surplus reserve.

31. General reserve

	2007	2006
Opening balance	3,626,865	2,400,000
Appropriation	1,147,003	1,226,865
Closing balance	**4,773,868**	**3,626,865**

Pursuant to Cai Jin [2005] No. 49 "Measures on General Provision for Bad and Doubtful Debts for Financial Institutions" and Cai Jin [2005] No. 90 "Circular on matters related to general provision for bad and doubtful debts" issued by MOF, the Company is required to transfer certain percentage of its net profit to establish and maintain a general reserve within shareholders' equity, through the appropriation of income to address unidentified potential impairment losses.

(1) Pursuant to the resolution of "2006 Profit Distribution Proposal of Industrial Bank" approved at the annual general meeting of shareholders held on 28 April 2007, general reserve of RMB1,226,865 thousand was appropriated.

(2) Pursuant to the resolution passed in the 7th session of 6th board of directors on 18 March 2008, general reserve of RMB1,147,003 thousand was appropriated.

32. Retained earnings

	2007	2006
Net Profit for the year	8,585,767	3,798,256
Opening balance	4,222,286	2,030,721
Appropriations to statutory surplus reserve	(858,576)	(379,826)
Appropriations to general reserve	(1,147,003)	(1,226,865)
Dividends declared for ordinary shares	(1,300,000)	-
Closing balance	**9,502,474**	**4,222,286**

(1) Appropriations to statutory surplus reserve please refer to Note.VI. 30

(2) Appropriations to general reserve please refer to Note VI. 31

(3) Dividends declared for ordinary shares

① Pursuant to the resolution of "2006 Profit Distribution Proposal of Industrial Bank" approved at the annual general meeting of shareholders held on 28 April 2007, a cash dividend of RMB0.26 per ordinary share (before tax) was distributed on the basis of 5 billion ordinary shares after the issuance of "A" shares in 2007. The total cash dividend distributed was RMB1.3 billion.

② Pursuant to the resolution of "2007 Profit Distribution Proposal of Industrial Bank" passed in the 7th session of 6th board of directors on 18 March 2008, a cash dividend of RMB0.32 per ordinary share (tax inclusive) was proposed. The dividends (totaling RMB1.6 billion) are not recognized as liabilities as at December 31, 2007. This proposal is subject to submission to shareholders' meeting for approval.

(In RMB'000)

VI. NOTES TO THE FINANCIAL STATEMENTS *continued*

33. Net interest income

	2007	2006
Interest income:		
Due from the central bank	1,057,568	575,180
Due from other financial institutions	590,016	376,290
Inter bank placement	464,124	194,028
Reverse repo	4,087,369	739,241
Loans and advances to customers	28,174,065	18,928,284
-Corporate	18,167,231	14,332,477
-Personal	5,741,748	2,340,670
-Bills discount	4,265,086	2,255,137
Bond interest	5,822,376	4,124,617
Others	2,129	1,385
Subtotal	40,197,647	24,939,025
-Interest income from impaired financial assets	158,645	189,588
Interest expense:		
Due to banks and other financial institutions	3,882,842	2,109,578
Placement from banks and other financial institutions	183,995	60,728
Repurchase agreement	1,904,786	1,033,600
Deposits from customers	7,990,485	6,189,344
Interests of rediscount and inter-bank discount	3,408,789	1,571,595
Bond interest	1,976,509	676,250
Others	4,249	3,269
Subtotal	19,351,655	11,644,364
Net	20,845,992	13,294,661

34. Net income from fee and commission

	2007	2006
Fee and commission income:		
Settlement and clearing fees	80,588	70,305
Bank card fees	205,515	84,602
Agency commissions	472,554	105,225
Guarantee and commitment commissions	141,480	109,420
Transactional fees	59,588	22,929
Custodian fees	81,785	8,071
Consulting fees	403,017	131,797
Others	384,633	75,057
Subtotal	1,829,160	607,406
Fee and commission expenditure	311,305	174,799
Net	1,517,855	432,607

35. Investment income

	2007	2006
Equity investment	1,650	400
Gains on bond spread	(467,823)	(122,222)
Gains on precious metals business	(65,467)	9,322
Gains or losses of derivative instruments	718	(61,858)
Total	(530,922)	(174,358)

36. Gains on variation of fair value

	2007	2006
Net change in fair value of derivative instruments	(75,050)	(75,571)
Net change in fair value of transactional investment	(45,658)	(20,461)
Net change in fair value of precious metals	71,062	6,455
Total	(49,646)	(89,577)

37. Business tax and surcharges

	2007	2006
Business tax	1,329,357	885,023
City maintenance and construction tax	88,184	59,139
Education surcharge	47,304	31,869
Others	6,309	4,507
Total	1,471,154	980,538

38. General and administrative expenses

	2007	2006
Staff expenses	3,749,423	2,291,105
Depreciation and amortization	463,802	423,813
Office expenses	1,504,876	956,295
Rental expenses	409,906	302,544
Promotion	512,304	315,867
Entertainment	235,462	178,499
Traveling	168,552	148,774
Fuel	190,938	127,762
Supervision fee	95,231	97,997
Professional service fee	196,065	65,353
Telecommunications and postage	137,587	94,415
Taxes	61,534	45,883
Utilities	60,022	46,561
Repairs and maintenance	37,797	43,939
Others	181,692	123,458
Total	8,005,191	5,262,265

(In RMB'000)

VI. NOTES TO THE FINANCIAL STATEMENTS *continued*

39. Provisions for losses and impairments

	2007	2006
Provisions for placements with banks and other financial institutions	(5,434)	(6,000)
Provisions for held-to-maturity investment	81,373	-
Provision for loan losses	1,591,396	2,354,199
Provision for other receivables	11,287	6,981
Provision for impairment of debt assets	220	47,237
Total	1,678,842	2,402,417

40. Non-operating income

	2007	2006
Gains on disposal of non current asset	22,314	21,128
- Gains on disposal of fixed assets	12,675	13,011
- Gains on disposal of debt assets	9,639	8,117
Penalties and fines received	1,635	2,995
Gains on aged payable pending for collection	1,432	11,514
Tax rebate	14,809	-
Others	48,392	29,040
Total	88,582	64,677

41. Non-operating expense

	2007	2006
Losses on disposal of non current asset	2,609	2,296
- Losses on disposal of fixed assets	2,222	2,296
- Losses on disposal of debt assets	387	-
Repayment of aged payable pending for collection	1,889	740
Donation expenses	7,677	4,511
Penalties and fines paid	4,313	1,070
Others	10,481	14,220
Total	26,969	22,837

42. Income tax

(1) Items

	2007	2006
Current tax	2,777,800	1,494,719
Deferred tax	62,371	(261,680)
Adjustment of taxable salaries of 2006	(539,016)	-
Income tax for previous years	23,249	14,907
Total	2,324,404	1,247,946

(2) Difference between the amount of income tax shown in the financial statements and the amount as calculated by the statutory tax rate of 33% is as follows:

	2007	2006
Profit before tax	10,910,171	5,046,201
Tax calculated at a tax rate of 33%	3,600,356	1,665,247
Adjustments on income tax:		
Income not subject to tax	(1,150,310)	(1,059,596)
Expenses not deductible for tax purposes	294,518	712,130
Adjustment of taxable salaries of 2006	(539,016)	-
Repayment of tax	23,249	14,907
Lower applicable tax rates in certain geographical area	(47,534)	(84,742)
Change in statutory tax rate	143,141	-
Total	2,324,404	1,247,946

43. Notes to the cash flow statement

(1) Reconciliation of net profit to cash flows from operating activities:

	2007	2006
① Reconciliation of net profit to cash flows from operating activities:		
Net profit	8,585,767	3,798,256
Add: Provision for asset impairment	1,678,842	2,402,417
Depreciation of fixed assets	297,763	270,551
Amortisation of intangible assets	65,572	59,780
Amortisation of long-term deferred assets and other long term assets	90,276	82,008
Losses on disposal of fixed assets, intangible assets and other long term assets (deduct: gains)	(19,705)	(18,832)
Losses on disposal of fixed assets (deduct: gains)	-	-
Losses on change in fair value (deduct: gains)	49,646	89,577
Investment losses (deduct gains)	(5,292,890)	(3,950,259)
Decrease of deferred tax assets (deduct: increase)	45,122	(172,033)
Increase of deferred tax liabilities (deduct: decrease)	17,249	(89,648)
Decrease in operating receivables (deduct: increase)	(172,943,743)	(106,651,602)
Increase in operating payables (deduct: decrease)	190,492,587	114,320,870
Interest expense on bond issued	1,976,508	676,250
Others	218,554	137,142
Net cash flows from operating activities	25,261,548	10,954,477
② Investing and financing activities that do not involve cash receipts and payment:		
Conversion of debt into capital	-	-
Convertible corporate bond expired within one year	-	-
Fixed assets acquired under finance leases	-	-
③ Net increase/(decrease) in cash and cash equivalents:		
Cash at end of year	161,239,181	100,420,272
Less: Cash at beginning of year	(100,420,272)	(78,590,313)
Plus: Cash equivalents at end of year	1,388,025	6,680,685
Less: Cash equivalents at beginning of year	(6,680,685)	(12,080,740)
Net increase in cash and cash equivalents	55,526,249	16,429,904

(In RMB'000)

(2) Cash and cash equivalents

	2007-12-31	2006-12-31
Cash:		
Cash on hand	2,162,185	1,466,960
General deposits with the central bank	33,456,362	45,808,872
Due from banks and other financial institutions with original maturity less than three months	28,110,316	8,276,201
Placements with banks and other financial institutions with original maturity less than three months	1,956,460	8,836,245
Reverse repurchase agreements with original maturity less than three months	95,553,858	36,031,994
Subtotal	161,239,181	100,420,272
Cash equivalent:		
Security investments with original maturity less than three months	1,388,025	6,680,685
Subtotal	1,388,025	6,680,685
Total	162,627,206	107,100,957

VII. SEGMENT INFORMATION

A geographical segment is a distinguishable component of the Company that is engaged in providing products or services within a particular economic environment and that is subject to risks and returns that are different from those of components operating in other economic environments.

The Company analyses revenues, expenditures, segment assets, segment liabilities and capital expenditures by geographical segments.

The major geographical segments of the Company include the following five major business regions:

The headquarters of the Company (including head office and its operating departments); Fujian, Beijing, Shanghai, Guangdong, Zhejiang; Jiangsu and others (not included in above segments).

1. Geographical segments for the year 2007

	Headquarter	Fujian	Beijing	Shanghai	Guangdong	Zhejiang	Jiangsu	Others	Offset	Total
① Operating income	1,522,810	4,215,376	1,924,363	2,898,594	2,734,259	2,157,785	934,580	5,667,644	-	22,055,411
Net interest income	1,625,978	3,958,934	1,814,685	2,848,604	2,588,339	1,935,484	875,117	5,198,851	-	20,845,992
Including:										
inter-segment income	(3,120,973)	775,907	517,651	2,041,754	921,046	(219,538)	(125,278)	(790,569)	-	-
Net fee and commission income	343,888	204,304	116,783	64,094	134,012	186,527	54,677	413,570	-	1,517,855
Other income	(447,056)	52,138	(7,105)	(14,104)	11,908	35,774	4,786	55,223	-	(308,436)
② Operating expense	(1,885,194)	(1,752,586)	(796,306)	(1,033,450)	(1,468,366)	(1,072,988)	(412,401)	(2,785,562)	-	(11,206,853)
③ Operating profit	(362,384)	2,462,790	1,128,057	1,865,144	1,265,893	1,084,797	522,179	2,882,082	-	10,848,558
④ Total asset	334,484,252	112,189,249	80,505,387	131,900,071	103,497,238	59,678,003	42,207,621	199,487,709	(212,614,260)	851,335,270
⑤ Total liability	306,598,100	109,839,149	79,269,807	130,091,499	102,262,706	58,635,429	41,699,899	196,655,864	(212,614,260)	812,438,193
⑥ Supplemented issue										
A. Loan to customer	5,109,017	73,141,571	31,835,441	40,876,392	56,603,615	48,160,205	19,836,641	124,579,895	-	400,142,777
B. Capital expenditure	255,899	102,441	260,003	20,476	53,481	138,617	21,655	360,309	-	1,212,881
C. Depreciation and amortisation of intangible asset	151,758	81,192	19,292	37,039	49,393	28,768	13,739	82,621	-	463,802
D. Credit commitment	18,845,160	12,151,141	2,938,588	3,720,596	9,720,109	23,647,129	7,629,886	41,543,634	-	120,196,243
E. Asset impairment loss	99,997	194,468	94,365	188,295	264,353	236,320	55,519	545,525	-	1,678,842

(In RMB'000)

VII. SEGMENT INFORMATION *continued*

2. Geographical segments for the year 2006

	Headquarter	Fujian	Beijing	Shanghai	Guangdong	Zhejiang	Jiangsu	Others	Offset	Total
① Operating income	749,037	2,741,036	1,295,450	1,459,097	1,910,071	1,589,021	613,700	3,303,412	-	13,660,824
Net interest income	1,046,443	2,623,602	1,216,618	1,334,405	1,834,365	1,464,203	580,909	3,194,116	-	13,294,661
Including:										
inter-segment income	(1,921,890)	498,893	324,216	499,869	507,499	120,210	55,823	(84,620)	-	-
Net fee and commission income	6,542	74,636	43,124	56,659	60,529	77,748	28,730	84,639	-	432,607
Other income	(303,948)	42,798	35,708	68,033	15,177	47,070	4,061	24,657	-	(66,444)
② Operating expense	(1,053,028)	(1,517,132)	(599,755)	(857,774)	(1,401,579)	(788,337)	(374,235)	(2,064,622)	-	(8,656,462)
③ Operating profit	(303,991)	1,223,904	695,695	601,323	508,492	800,684	239,465	1,238,790	-	5,004,362
④ Total asset	241,645,093	87,844,922	63,511,622	74,579,188	87,910,474	56,611,406	26,505,288	147,658,826	(168,806,423)	617,460,396
⑤ Total liability	230,475,156	86,714,244	62,787,067	73,961,155	87,575,006	55,811,134	26,252,175	146,491,215	(168,806,423)	601,260,729
⑥ Supplemented issue										
A. Loan to customer	4,088,111	57,570,086	27,687,821	38,055,911	45,839,133	39,202,908	16,938,600	94,994,261	-	324,376,831
B. Capital expenditure	131,665	64,268	469,582	19,947	41,044	198,108	11,723	126,001	-	1,062,338
C. Depreciation and amortisation of intangible asset	130,069	78,905	18,751	46,020	44,602	25,577	14,245	65,644	-	423,813
D. Credit commitment	6,285,534	10,580,211	2,906,331	3,987,888	12,733,904	21,203,692	9,276,029	36,846,709	-	103,820,298
E. Asset impairment loss	40,917	417,371	91,102	275,215	633,648	157,602	82,371	704,191	-	2,402,417

VIII. RELATED PARTY RELATIONSHIP AND TRANSACTIONS

1. Related parties

The Company's related parties included: shareholders holding more than 5% (including 5%) of the Company's shares as well as their controlling shareholders; legal persons or any other entity which were subject to direct, indirect, joint control or significant influence by the Company's shareholders holding more than 5% (including 5%) of the Company's shares; the Company's directors, senior management and their close relatives (hereinafter referred to as "Key management personnel and their close relatives"); Legal persons or any other entity which were subject to direct, indirect, joint control or significant influence by directors and senior management (hereinafter referred to as "Key management-related enterprises").

(1) Shareholders holding more than 5% (inclusive) of the Company's shares.

(i) General information

	Economic nature	Domicile	Business scope	Legal representative	Remark
The Finance Bureau of Fujian Province	Legal person of government units	Fuzhou	Administration of Fujian provincial fiscal and tax policy	Ma Lusheng	A.B
Hang Seng Bank Limited	Limited company	Hong Kong	Financial services	Raymond C F Or	A.B
Tetrad Ventures Pte Ltd	Limited company	Singapore	Investment	Kunna Chinniah/ Ng Koon Siong	B

① Related parties with remark "A" held more than 5% (including 5%) of the Company's shares on December 31, 2007 Related parties with remark "B" held more than 5% (including 5%) of the Company's shares on December 31, 2006.

② Founded in Hong Kong in 1933, Hang Seng Bank is a principal member of the HSBC Group, which is one of the world's largest financial services organizations. Being a listed bank in Hong Kong Stock Exchange (0011), Hang Seng Bank is granted the "Best Domestic Commercial Bank in Hong Kong" and the "Strongest Bank in Asia" by Asia Money magazine, and is granted the "Best Local Bank in Hong Kong" by Finance Asia magazine. The "Hang Seng Index", a benchmark index tracking the performance of Hong Kong stock market, is established by Hang Seng Bank.

③ Tetrad Ventures Pte Ltd is wholly owned by GIC Special Investment Pte Ltd("GICSI"), while GICSI is a wholly-owned investment company of Government of Singapore Investment Corporation Pte Ltd("GIC"), mainly responsible for investments in unlisted enterprises. Funded in 1981, GIC is mainly responsible for managing Singapore's foreign reserve, with more than USD 100 billion assets under management.

(ii) Registered capital and changes therein

	2007-12-31	2006-12-31
The Finance Bureau of Fujian Province	-	-
Hang Seng Bank Limited	HKD11,000,000,000	HKD11,000,000,000
Tetrad Ventures Pte Ltd	SGD 2	SGD 2

(In RMB'000)

VIII. RELATED PARTY RELATIONSHIP AND TRANSACTIONS *continued*

1. Related parties *continued*

(1) Shareholders holding more than 5% (inclusive) of the Company's shares. *continued*

(iii) Number of shares or equity held and changes therein

Unit: RMB'0000

	2006-12-31		Increase		Decrease		2007-12-31	
	Amount	%	Amount	%	Amount	%	Amount	%
The Finance Bureau of Fujian Province	102,000	25.5064	-	-	-	-	102,000	20.4000
Hang Seng Bank Limited	63,909	15.9812	-	-	-	-	63,909	12.7818
Tetrad Ventures Pte Ltd	19,995	5.0000	-	-	-	-	19,995	4.0000

The amounts of the shares holding by above related parties do not changed during the current period. However, the percentage of holdings has changed. This is because the Company has issued 1,001,000,000 "A" shares publicly on January 2007, resulting in the increase of the Company's registered capital from RMB3,999,000,000 to RMB5,000,000,000.

(2) General information of the Company's shareholders related enterprises holding more than 5% (including 5%) of the Company's shares

Unit: RMB'0000

	Economic nature	Domicile	Registered capital	Business scope	Legal representative	Remark
Hang Seng Bank (China) Limited	Limited company	Shanghai	450,000	Financial services	Raymond C F Or	A

Related parties with remark "A" held more than 5% (including 5%) of the Company's shares on December 31, 2007.

(3) General information of key management-related enterprises

Unit: RMB'0000

	Economic nature	Domicile	Registered capital	Business scope	Legal representative	Remark
China National Cereals, Oils and Foodstuffs Corp (COFCO)	State-owned enterprise	Beijing	31,223	Commerce, food processing, real estate, hotel operation, financial services	Ning Gaoning	A、B
COFCO financial business Co., Ltd.	State-owned enterprise	Beijing	100,000	Providing fund management and other financial service to enterprises	Wu Xiaohui	A、B
Aviva-Cofco life insurance Co., Ltd	Foreign capital enterprise	Shanghai	50,000	Life insurance	Wu Xiaohui	B

Related parties with remark "A" were key management-related enterprises on December 31, 2007.

Related parties with remark "B" were key management-related enterprises on December 31, 2006.

2. Related party transactions

Related party transactions mainly cover: loans, bank acceptance, letters of credit, letters of guarantee and deposit, etc. Both transaction condition and the interest rate charged are in accordance with the Company's normal business terms.

(1) Due from banks and other financial institutions

	2007-12-31	2006-12-31
Hang Seng Bank Limited	16,670	100,000

(2) Placement with banks and other financial institutions

	2007-12-31	2006-12-31
Hang Seng Bank Limited	-	355,000
Hang Seng Bank (China) Limited	146,092	-

(3) Derivative financial instruments

		2007-12-31		2006-12-31	
	Type of transaction	Notional value	Fair value	Notional value	Fair value
Hang Seng Bank Limited	Foreign exchange derivative contracts	-	-	390,560	1,005
Hang Seng Bank (China) Limited	Foreign exchange derivative contracts	80,000	242	-	-
Hang Seng Bank (China) Limited	Foreign exchange derivative contracts	586,088	19,088	-	-

(4) Reverse repo

	2007-12-31	2006-12-31
Hang Seng Bank Limited	-	99,000
Hang Seng Bank (China) Limited	194,000	-
COFCO financial business Co., Ltd	-	100,000

(5) Loans to customers

	2007-12-31		2006-12-31	
	Amount	%	Amount	%
A. Shareholders holding more than 5%(including 5%) of the Company's shares	-	-	-	-
B. Shareholders related enterprises holding more than 5%(including 5%) of the Company's shares	-	-	-	-
C. Key management personnel and their close relatives	6,291	-	2,246	-
D. Key management-related enterprises	1,000,000	0.25	400,000	0.12
Total	1,006,291	0.25	402,246	0.12

Note: Discounted bills are included in loans.

(In RMB'000)

VIII. RELATED PARTY RELATIONSHIP AND TRANSACTIONS *continued*

2. Related party transactions *continued*

(6) Customer deposit

	2007-12-31	2006-12-31
A. Shareholders holding more than 5%(including 5%) of the Company's shares	7,501,455	6,842,144
B. Shareholders related enterprises holding more than 5% (including 5%) of the Company's shares	-	-
C. Key management personnel and their close relatives	24,734	9,201
D. Key management-related enterprises	159,170	154,492
Total	7,685,359	7,005,837

7. Loan interest income

	2007	2006
A. Shareholders holding more than 5%(including 5%) of the Company's shares	-	6,720
B. Shareholders related enterprises holding more than 5% (including 5%) of the Company's shares	2,292	-
C. Key management personnel and their close relatives	133	83
D. Key management-related enterprises	49,540	39,763
Total	51,965	46,566

8. Interest expense

	2007	2006
A. Shareholders holding more than 5%(including 5%) of the Company's shares	117,811	92,111
B. Shareholders related enterprises holding more than 5% (including 5%) of the Company's shares	-	-
C. Key management personnel and their close relatives	179	198
D. Key management-related enterprises	7,751	4,476
Total	125,741	96,785

9. Remuneration of key management personnel

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly, including any directors and Executive Committee members of the Company and senior management personnel.

	2007	2006
Salaries and other short term employee benefits	16,013	7,964

IX. CONTINGENCIES

1. Pending legal proceedings

As at 31 December 2007, the Company has deposits in defenders of one pending legal proceedings with target money over RMB10 million each (inclusive), with the total claims amounting to RMB20,000 thousand. In the opinion of management of the Company, these legal proceedings would not have significant adverse impact on the Company's financial position and its operating result.

X. COMMITMENTS

1. Loan commitment

	2007-12-31	2006-12-31
Irrevocable loan commitment	640,000	31,200
Undrawn credit limit of credit card facilities	18,845,160	6,285,534
Letters of credit issued	8,805,468	7,612,824
Letter of guarantee issued	5,188,248	3,936,644
Bank acceptance	86,717,367	85,954,096
Total	120,196,243	103,820,298

2. Capital expenditure commitment

	2007-12-31	2006-12-31
Ratified but not signed	329,491	31,250
Signed but not appropriated	529,927	420,939
Total	859,418	452,189

3. Operating lease commitment

At the end of each accounting period, the lowest rental payables of the Company according to the irrevocable house lease agreements in the following terms are:

	2007-12-31	2006-12-31
Within 1 year	405,627	275,902
1 to 5 years	1,009,158	653,406
Over 5 years	521,595	239,139
Total	1,936,380	1,168,447

4. Bonds underwriting commitment

At the end of each accounting period, the amount of the Company's irrevocable bonds underwriting commitments in the following term is:

	2007-12-31	2006-12-31
Underwritten but before settlement date	-	60,000

(In RMB'000)

X. COMMITMENTS *continued*

5. Bearer treasury bonds redemption commitments

The Company is entrusted by the MOF to issue certain Bearer Treasury Bonds. The investors of Bearer Treasury Bonds have a right to redeem the bonds at par any time prior to maturity and the Company is committed to redeem those bonds. The redemption price is the principal value of the Bearer Treasury Bonds plus unpaid interest. The principal value of the bonds underwritten and sold by the Company which have not matured and have not been redeemed are listed as follows:

	2007-12-31	2006-12-31
Bearer treasury bonds redemption commitments	4,471,067	5,201,587

Management expects the amount of redemption before the maturity dates through the Company will not be material.

XI. FIDUCIARY TRANSACTIONS

	2007-12-31	2006-12-31
Entrusted loans	23,650,951	16,108,470
Entrusted deposits	23,650,951	16,108,470
Fiduciary wealth management assets	39,055,176	20,281,637
Fiduciary wealth management funds	39,055,176	20,281,637

Entrusted deposits represent funds which depositors have instructed the Company to use to make loans to third parties designated by them. The credit risk remains with the depositors.

Fiduciary wealth management business means that the Company acts in a fiduciary capacity as a custodian or an agent for customers and is responsible for running and managing customers' assets. Fiduciary wealth management funds represent the funds that the Company obtained from customers while fiduciary wealth management assets represent the investment sum that the Company invests using entrusted funding from customers.

XII. POST BALANCE SHEET EVENT

As at Dec 31, 2007, there is no post balance sheet non-adjusting event which should be disclosed by the Company.

XIII. RISK MANAGEMENT

1. Introduction of risk management

The Company accepts deposits of various terms at fixed or floating rates. It uses the funds obtained for investments or granting loans to earn profit. In these processes, the Company encounters different types of risk. A description and analysis of the major risks faced by the Company is as follows:

Credit risk: Credit risk is the risk of loss from default by an obligor or counterparty when payments fall due.

Market risk: Market risk is the risk that foreign exchange rates, interest rates, equity and commodity prices and indices will move and result in uncertainty of profits or incur losses for the Company.

Liquidity risk: Liquidity risk is the potential that the Company will be unable to meet its obligations as they come due because of an inability to liquidate assets or obtain adequate funding.

Operating risk: Operating risk refers to the potential of loss that result from an imperfect or problematic internal control, employee and information system or cause from external events.

The Company's risk management policy and procedure are designed to identify and analyse risks, to set appropriate risk limits and control facilities and to monitor these risks and limits continually by means of management information systems. By referencing to leading practice of risk management, the Company regularly reviews and strengthens risk management police and system management to reflect the changes of market and product up-to-date. They are regularly reviewed by the Audit Committee to ensure the compliance with the applicable policies and procedures.

2. Credit risk

The main credit risk of the Company arises from loan to customers, inter bank placement, bill acceptance, letter of credit, letter of guarantee, etc. the Company recognizes and manages above risk through due diligence, approval process, post disbursement monitoring and recovery process.

Several departments of The Company are responsible for the management of credit risk, including risk management department and approval department. Those departments are engaged to the following obligations: draft credit risk management related policies and operating plan; develop risk management technology and the application of risk management tools; monitor the risk, etc.

The approval department has four local approving centers, including Beijing, Shanghai, Guangzhou and Fujian. The approval center reviews and makes approval of loans developed by the branched. In addition, The Company also sets up several specialized committees such as credit approval committee and credit duty investigation committee. The first one is responsible for the examination and approval of the loans within the authority. The other one is responsible for determining the responsibility of related loans.

The Company has formulated a whole set of credit policies on approval process and management procedure, and implemented throughout the Company. The credit management procedure for corporate and personal loans can be classified as credit investigation, credit examination, credit approval, credit disbursement, post disbursement monitoring and recovery process.

On the other hand, the company issued "Due diligence of credit approval" to clarify the duties of different positions, to effectively control the credit risk, and to strengthen compliance of credit business.

The Company continues strengthen post disbursement monitoring and pre warning facility of credit assets, including monitoring and pre warning on overall and individual level in order to discover risk information earlier and therefore, controlling the credit risk effectively.

Based on the five grades classification method established by CBRC, the Company further classifies its credit assets into nine grades: Pass 1, 2 and 3; special mentioned 1, 2 and 3; sub-standard; doubtful and loss. Different management policies are addressed to the credit assets according to their grades. Provision is also made for these credit assets according to their grades.

Risk arises from financial guarantee and credit commitment is similar with risk associate with loans and advances to customer. Therefore, the requirements for application, post disbursement management and collateral and other enhancements for these transactions are the same with the requirements for loans and advances to customer.

(In RMB'000)

XIII. RISK MANAGEMENT *continued*

2. Credit risk *continued*

(1) Concentration of credit risk

Concentration of credit risk exists when changes in geographic, economic or industry factors similarly affect groups of counterparties whose aggregate credit exposure is material in relation to the Company's total exposures. The Company's portfolio of financial instrument is diversified along geographic, industry and product sectors.

The Company operates the lending business in the PRC only. Since there are different economic development characteristics in the different regions in China, credit risks are also different.

For the geographical and industrial concentration of the loans and advances please refer to note VI (9).

(2) Maximum exposure to credit risk before collateral held or other credit enhancements.

	2007-12-31	2006-12-31
Due from the centre bank	91,701,024	75,011,780
Due from banks and other financial institutions	42,289,887	11,127,752
Placement with other banks	4,016,673	10,486,118
Transactional financial assets	8,525,067	9,186,318
Derivative financial assets	1,257,430	106,538
Reverse repurchase financial assets	169,955,558	56,360,611
Loan and advance to customers	393,028,777	318,101,164
Available for sale bond investment	43,248,827	70,310,086
Held-to-maturity investment	61,592,679	49,833,661
Receivable	21,125,699	6,057,502
Other financial assets	4,083,511	2,469,656
Total of on balance sheet credit risk exposure	840,825,132	609,051,186
Credit risk exposure of credit commitment	120,196,243	103,820,298
Maximum exposure to credit risk	961,021,375	712,871,484

Other financial assets mainly include interest receivable, other receivables and items in the process of clearance and settlement.

(3) Collateral and other credit enhancements

The amount and type of collateral and guarantees required is based on the assessment of the credit risk of the Counterparties. The Company has implemented guidelines on the acceptability of specific classes of collateral and determined the valuation parameters.

The principal collateral types are as follows:

-In the reverse repo agreement, charges over bills, loans or securities;
-In the commercial loan agreement, charges over lands, properties, stock, machinery and investment funds;
-In the personal loan transaction, charges over properties.

The management of the Company will continue to monitor the market value of collaterals, to require extra collaterals, and to monitor the change of the market value of collaterals in the process of examining adequacy of impairment provision.

(4) Analysis of exposure to credit risk of the Company

	2007-12-31			
	Loans and advances	Inter bank placement	Investment	Total
Impaired:				
Individual assessment				
Total assets	4,358,060	142,240	146,092	4,646,392
Provision for impairment	(1,972,737)	(142,240)	(81,373)	(2,196,350)
Net value of assets	**2,385,323**	**-**	**64,719**	**2,450,042**
Collective assessment				
Total assets	225,312	-	-	225,312
Provision for impairment	(120,394)	-	-	(120,394)
Net value of assets	**104,918**	**-**	**-**	**104,918**
Overdue but not individually impaired:				
Total assets	711,559	-	-	711,559
Including:				
-Over 90 days	648,864	-	-	648,864
-90 to 360 days	62,695	-	-	62,695
-360 days to 3 years	-	-	-	-
-Over 3 years	-	-	-	-
Provision for impairment	(37,752)	-	-	(37,752)
Net value of assets	673,807	-	-	673,807
Neither past due nor individually impaired:				
Total assets	394,847,846	216,262,118	134,427,553	745,537,517
Provision for impairment	(4,983,117)	-	-	(4,983,117)
Net value of assets	389,864,729	216,262,118	134,427,553	740,554,400
Total of net value of assets	393,028,777	216,262,118	134,492,272	743,783,167

(In RMB'000)

XIII. RISK MANAGEMENT *continued*

2. Credit risk *continued*

(4) Analysis of exposure to credit risk of the Company *continued*

	2006-12-31			
	Loans and advances	Inter bank placement	Investment	Total
Impaired:				
Individual assessment				
Total assets	4,793,503	147,674	-	4,941,177
Provision for impairment	(2,253,311)	(147,674)	-	(2,400,985)
Net value of assets	2,540,192	-	-	2,540,192
Collective assessment				
Total assets	186,172	-	-	186,172
Provision for impairment	(110,248)	-	-	(110,248)
Net value of assets	75,924	-	-	75,924
Overdue but not individually impaired:				
Total assets	764,312	-	-	764,312
Including:				
-Over 90 days	437,447	-	-	437,447
-90 to 360 days	144,356	-	-	144,356
-360 days to 3 years	182,509	-	-	182,509
-Over 3 years	-	-	-	-
Provision for impairment	(43,017)	-	-	(43,017)
Net value of assets	721,295	-	-	721,295
Neither past due nor individually impaired:				
Total assets	318,632,844	77,974,481	135,387,567	531,994,892
Provision for impairment	(3,869,091)	-	-	(3,869,091)
Net value of assets	314,763,753	77,974,481	135,387,567	528,125,801
Total of net value of assets	318,101,164	77,974,481	135,387,567	531,463,212

Inter banks placement includes due from banks and other financial institutions, placement with other banks and reverse repurchase of financial assets.

(5) Analysis of the value of collaterals

The Company assesses the fair value of corresponding collaterals when granting loans to customers. If there is no any sign of possible assets impairment, the Company assesses the impairment loss collectively. Therefore the fair values of collaterals of these loans have not been re-assessed. For overdue but not individually impaired loans and impaired loans, the Company regularly re-assesses the fair value of collaterals.

As at 31 December, 2007, overdue but not individually impaired loans of the Company which can be covered by the fair value of collaterals amounting to RMB586,479 thousand (2006: RMB490,585 thousand). The collaterals include lands, properties, machinery and equipments as well as investment funds.

As at 31 December, 2007, impaired loans of the Company which can be covered by the fair value of collaterals amounting to RMB1,785,900 thousand (2006: RMB1,657,653 thousand). The collaterals include lands, properties, machinery and equipments as well as investment funds.

3. Market risk

Market risk is the risk of loss, in respect of the Company'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 Company's trading and non-trading business. The Company's management target is to limit the market risk into tolerable and reasonable scope, in order to achieve the optimized earnings through risk restructure.

The Company has built up the market risk control system, including establishing the risk control policy and processes; forming necessary market risk recognition, measurement, investigation and control processes; creating complete internal control and audit systems, market risk rating systems and risk reporting system.

According to the Company's market risk management structure, market risk is critical for the Company's assets and liabilities management. Material events should be proposed to the assets management committee for discussion and authorized by the president.

The finance department should be in charge of the Company's assets and liabilities management; analysis and supervision of each ratio's implementation; liquidity management of assets and liability allocation; making limitation of risk management and take into implementation, which is the responsibility of the Company's assets and liabilities committee.

For the routine control and management of capital market, considering of improving the market sensitivity and reflecting rate, the risk management department of the Company built up mid-stage risk control system in the treasure center to carry out an implanting risk management. The system controls the market operation of the treasure center simultaneously, and represents written risk evaluation reports of the treasure center.

(1) Interest rate risk

The interest rate risk of the Company includes price re-setting risk, income rate curve risk, standard risk and optional risk, during which the re-setting price risk is the main risk. It is the risk caused by the mismatch between the agreed maturity date and the re-settled maturity date of interest bearing assets and interest payment liabilities. Up till now, the Company has fully carried out the internal capital transfer of foreign currency. Both the mid-term and long-term capital sources and utilisation of RMB are also applying the same method. The Company transferred and pricing internal capital according to differently products and terms, and centralized the interest rate risk to the head office to be universally settled and managed, so as to improve the efficiency of management and controlling the risk.

As for the interest risk management of bank account, the Company mainly evaluates the interest risk of balance sheet though gap analysis. The Company monitors and controls the interest rate sensitive gap of balance sheet though information systems like assets and liabilities management system, and simply calculates the interest rate sensitivity affected by revenue and economic value on the basis of gap analysis. The revenue analysis emphasizes on the effect of the interest rate fluctuation to the short term bank income while the economic value analysis lays stress on the effect of the interest rate fluctuation to the book value of net bank cash flow.

As for the interest rate management of transaction account, the Company sets specific indexes on those long-term bonds to make control; the indexes include combined future, basic point value, investment scale and distribution of most payment terms. Those indexes are decided and carried out through annual capital engagement authorizing plan and periodic capital investment strategic plan. Meanwhile, The Company also uses financial derivation tools, such as swap, forward and option to hedge the interest rate exposure.

(In RMB'000)

XIII. RISK MANAGEMENT *continued*

3. Market risk *continued*

(1) Interest rate risk *continued*

① An analysis of expected next repricing dates or maturity dates (whichever is earlier) for the assets and liabilities of the Company as at 31 December, 2007 are as follow:

	Less than 3months	3 Month to 1 year	1 to 2 years	2 to 3 years	3 to 5 years	Over 5 years	Overdue/Non -interest bearing	Total
Assets:								
Cash and due from the central bank	81,404,816	8,488,707	561,735	592,465	650,494	2,807	2,162,185	93,863,209
Due from banks and other financial institutions	31,979,435	6,908,059	3,402,393	-	-	-	-	42,289,887
Precious metals	-	-	-	-	-	-	1,817,950	1,817,950
Placements with banks and other financial institutions	3,255,965	760,708	-	-	-	-	-	4,016,673
Reverse repurchase agreements	146,960,658	18,578,900	2,966,000	450,000	300,000	700,000	-	169,955,558
Investments	15,114,393	32,874,356	25,095,527	28,778,997	19,536,066	12,821,799	437,182	134,658,320
Loans	263,226,497	115,448,851	3,423,630	2,917,391	2,036,273	2,321,836	3,654,299	393,028,777
Other assets	-	185,000	-	-	-	-	11,519,896	11,704,896
Total assets	541,941,764	183,244,581	35,449,285	32,738,853	22,522,833	15,846,442	19,591,512	851,335,270
Liabilities:								
Due to banks and other financial institutions	181,703,745	7,699,027	400,000	-	1,320,000	-	-	191,122,772
Placements from banks and other financial institutions	891,402	100,000	-	-	-	-	-	991,402
Repurchase agreements	35,997,572	7,144,616	-	-	-	-	-	43,142,188
Customer deposits	416,033,850	73,653,875	4,873,999	5,140,638	5,644,139	24,355	-	505,370,856
Bonds payable	7,990,160	12,140,000	1,860,000	6,986,224	19,986,224	11,000,000	-	59,962,608
Other liabilities	-	-	-	-	-	-	11,848,367	11,848,367
Total liabilities	642,616,729	100,737,518	7,133,999	12,126,862	26,950,363	11,024,355	11,848,367	812,438,193
Net assets or liabilities	(100,674,965)	82,507,063	28,315,286	20,611,991	(4,427,530)	4,822,087	7,743,145	38,897,077

② An analysis of expected next repricing dates or maturity dates (whichever is earlier) for the assets and liabilities of the Company as at 31 December, 2006 are as follow:

	Less than 3 months	3 months to 1 year	1 to 2 years	2 to 3 years	3 to 5 years	Over 5 years	Overdue/Non -interest bearing	Total
Assets:								
Cash and due from the central bank	69,315,778	4,806,684	337,571	162,896	298,913	89,939	1,466,960	76,478,741
Due from banks and other financial institutions	9,025,310	1,957,259	50,000	95,183	-	-	-	11,127,752
Precious metals	-	-	-	-	-	-	1,203,704	1,203,704
Placements with banks and other financial institutions	9,411,574	1,074,544	-	-	-	-	-	10,486,118
Reverse repurchase agreements	43,847,739	8,383,872	1,679,000	1,000,000	450,000	1,000,000	-	56,360,611
Investments	14,586,060	40,784,517	8,895,923	22,781,135	22,299,895	25,892,869	277,696	135,518,095
Loans	173,701,854	122,487,015	7,348,548	4,816,970	4,630,206	2,206,524	2,910,047	318,101,164
Other assets	-	185,000	-	-	-	-	7,999,211	8,184,211
Total assets	319,888,315	179,678,891	18,311,042	28,856,184	27,679,014	29,189,332	13,857,618	617,460,396
Liabilities:								
Due to banks and other financial institutions	97,500,536	7,153,661	40,000	520,000	500,000	50,000	-	105,764,197
Placements from banks and other financial institutions	70,200	645,900	-	-	-	-	-	716,100
Repurchase agreements	17,720,458	5,470,685	-	-	-	-	-	23,191,143
Customer deposits	340,652,533	69,656,520	4,891,943	2,360,624	4,331,728	1,303,363	-	423,196,711
Bonds payable	3,000,000	2,140,000	10,000,000	1,860,000	13,000,000	11,000,000	-	41,000,000
Other liabilities	-	-	-	-	-	-	7,392,578	7,392,578
Total liabilities	458,943,727	85,066,766	14,931,943	4,740,624	17,831,728	12,353,363	7,392,578	601,260,729
Net assets or liabilities	(139,055,412)	94,612,125	3,379,099	24,115,560	9,847,286	16,835,969	6,465,040	16,199,667

(In RMB'000)

XIII. RISK MANAGEMENT *continued*

3. Market risk *continued*

(1) Interest rate risk *continued*

The Company uses sensitive analysis to measure the possible effect of interest fluctuation to the net interest income. The following chart shows the result of the interest rate sensitive analysis of 2007 and 2006 on the basis of the assets and liabilities on balance sheet date.

	2007-12-31		2006-12-31	
	Interest rate flu (basic point)		Interest rate flu(basic point)	
	(100)	100	(100)	100
Flu of net interest income caused by interest rate risk	571,505	(571,505)	861,939	(861,939)
Flu of equity caused by interest rate risk	595,852	(595,852)	1,122,328	(1,122,328)

The above sensitive analysis is based on a static interest rate construction. The related analysis only measures the fluctuation in one year and reflects the gain/ (loss) of The Company due to the effect of price re-setting of the assets and liabilities. It is based on the following assumptions: (1) all the prices of assets and liabilities within three months or over three months but still within one year are re-settled or be maturity during the term. (2) The profit rate curve moves parallel with the fluctuation of rate. (3) The portfolio of assets and liabilities has no other change. Thus, the result of the analysis would have a certain difference from the actual fluctuation of The Company's gain/ (loss) caused by the change of interest rate.

The sensitivity of equity change is based on the ending balance of available-for-sale financial assets, regarding to the assumption of parallel movement of profit rate curve, and is calculated through re-valuation by setting interest rate change.

(2) Currency risk

The currency risk of the Company is mainly caused by structural exposure such as the mismatching of assets and liabilities, foreign currency transactions and foreign capital.

The treasure center of the Company centrally controls the currency risk. The currency risk exposure due to all types of foreign exchange transactions at branch level should be centralized to head office which will manage the risk exposure and level quotation together.

Risk exposure between foreign currency and foreign currency. The management methods are discriminated into "overnight exposure limit" and "daily self-operation exposure". All the exposure are centralized to the treasure center simultaneously and managed together. The exposure is relatively small compared to The Company's asset scale, thus controllable.

Risk exposure between RMB and foreign currency. The Company mainly bears exchange risk exposure arising from RMB versus foreign currency, which mainly includes RMB transaction and foreign currency transactions. As an active RMB market maker, The Company controls the exposure limit positively. To avoid the risk of RMB appreciation, the combined cash position is tended to be zero, and the overnight exposure remains little. The biggest exchange rate exposure of The Company is the exposure between RMB and foreign currency bearing from the foreign capital business. Since the foreign capital is necessary for the foreign currency business, the Company adopts the risk retention tactic. The main methods of controlling the risk are to apply for capital settlement to the foreign exchange management bureau or to settle foreign exchange through profit transformations.

①A breakdown of relevant assets and liabilities by currency as at 31 December, 2007 is as follows:

	RMB	USD	Others	Total
Assets:				
Cash and due from the central bank	92,762,500	887,643	213,066	93,863,209
Due from banks and other financial institutions	39,432,228	1,908,874	948,785	42,289,887
Precious metals	1,817,950	-	-	1,817,950
Placements with banks and other financial institutions	3,144,500	820,947	51,226	4,016,673
Reverse repurchase agreements	169,955,558	-	-	169,955,558
Investments	129,489,987	4,898,114	270,219	134,658,320
Loans	387,790,286	4,836,394	402,097	393,028,777
Other assets	10,573,526	1,086,187	45,183	11,704,896
Total assets	**834,966,535**	**14,438,159**	**1,930,576**	**851,335,270**
Liabilities:				
Due to banks and other financial institutions	185,521,360	2,986,947	2,614,465	191,122,772
Placements from banks and other financial institutions	670,000	321,402	-	991,402
Repurchase agreements	43,142,188	-	-	43,142,188
Customer deposits	496,756,477	6,573,501	2,040,878	505,370,856
Bonds payable	59,962,608	-	-	59,962,608
Other liabilities	11,414,587	344,157	89,623	11,848,367
Total liabilities	**797,467,220**	**10,226,007**	**4,744,966**	**812,438,193**
Net Position	37,499,315	4,212,152	(2,814,390)	38,897,077

②A breakdown of relevant assets and liabilities by currency as at 31 December, 2006 is as follows:

	RMB	USD	Others	Total
Assets:				
Cash and due from the central bank	75,558,983	702,109	217,649	76,478,741
Due from banks and other financial institutions	6,345,970	4,147,200	634,582	11,127,752
Precious metals	1,203,704	-	-	1,203,704
Placements with banks and other financial institutions	9,118,000	1,298,472	69,646	10,486,118
Reverse repurchase agreements	56,360,611	-	-	56,360,611
Investments	129,778,058	5,658,326	81,711	135,518,095
Loans	314,917,354	2,865,591	318,219	318,101,164
Other assets	7,976,546	172,850	34,815	8,184,211
Total assets	**601,259,226**	**14,844,548**	**1,356,622**	**617,460,396**
Liabilities:				
Due to banks and other financial institutions	100,524,028	4,530,275	709,894	105,764,197
Placements from banks and other financial institutions	665,900	-	50,200	716,100
Repurchase agreements	22,925,791	265,352	-	23,191,143
Customer deposits	414,248,959	6,909,387	2,038,365	423,196,711
Bonds payable	41,000,000	-	-	41,000,000
Other liabilities	7,185,563	162,293	44,722	7,392,578
Total liabilities	**586,550,241**	**11,867,307**	**2,843,181**	**601,260,729**
Net Position	14,708,985	2,977,241	(1,486,559)	16,199,667

(In RMB'000)

XIII. RISK MANAGEMENT *continued*

3. Market risk *continued*

(2) Currency risk *continued*

The Company measured possible gain/ (loss) due to exchange rate changes by sensitivity analysis. Following table shows the results of exchange rate sensitivity analysis of assets and liabilities on December 31, 2007 and December 31, 2006.

	2007-12-31		2006-12-31	
	Exchange rate flu (%)		Exchange rate flu (%)	
	(1)	1	(1)	1
Profit fluctuation caused by currency risk	(25,412)	25,412	(20,950)	20,950

The above sensitivity analysis is based on a static exchange frame of assets and liabilities. And the related assumptions are as follows: (1) The exchange rate sensitivity stands for the gain/ (loss) caused by a 1% fluctuation of the closing quotation exchange rate (middle price) of foreign currency versus RMB on the balance sheet date. (2) The undulation among different currencies means the changing exchange between different foreign currencies and RMB in the same direction simultaneously. (3) It includes current and forward foreign exchange exposure when calculating the foreign exposure. As the results are based on the above assumptions, the actual fluctuation of The Company's net gain/ (loss) due to the fluctuation of exchange rate may be different from the result of the sensitive analysis.

4. Liquidity risk

The assets and liabilities management committee supervises the liquidity risk on behalf of The Company to ensure that liquidity is under control. The committee normally carries out the following work: 1) Authorizing and deciding : (a) policies on liquidity risk management; (b) monitoring indexes and alarming limits of liquidity risk;(c) methods of liquidity risk management; 2) Listening and discussing reports of liquidity risk periodically.

The assets and liabilities management committee is responsible for 1) the establishment of policies and methods of liquidity risk management; 2) monitoring all kinds of liquidity ratio and exposure indexes, which means monitoring structural liquidity ratio monthly; investigating the reason of why some liquidity ratio is close to or over alarming limit and raising the suggested solutions to adjust the structure of balance sheet; 3) making liquidity risk analysis and periodic reports.

The treasury center and the capital management department are responsible for the routine operation of the daily liquidity management. Both departments are responsible for establishing a cash position forecast system at The Company level; in order to meet the Company's cash outflow need; assuring the liquidity of business development need.

(1) A maturity analysis of assets and liabilities of the Company as at 31 December, 2007 is as follows:

	Overdue	On demand	less than 3 months	3 months to 1 year	1 to 5 years	over 5 years	Total
Assets:							
Cash and due from the central bank	-	72,964,577	6,567,395	9,280,483	4,875,070	175,684	93,863,209
Due from banks and other financial institutions	-	26,175,659	5,681,861	6,629,096	3,602,394	200,877	42,289,887
Precious metals	-	1,817,950	-	-	-	-	1,817,950
Placements with banks and other financial institutions	-	-	3,255,965	760,708	-	-	4,016,673
Reverse repurchase agreements	-	-	146,960,658	18,578,900	3,716,000	700,000	169,955,558
Investments	-	77,570	2,954,976	14,360,432	84,136,305	33,129,037	134,658,320
Loans	2,426,252	-	53,470,614	142,336,561	73,877,454	120,917,896	393,028,777
Other assets	1,722	442,622	1,679,248	2,567,789	1,283,068	5,730,447	11,704,896
Total assets	2,427,974	101,478,378	220,570,717	194,513,969	171,490,291	160,853,941	851,335,270
Liabilities:							
Due to banks and other financial institutions	-	168,612,261	11,354,984	8,132,527	2,451,520	571,480	191,122,772
Placements from banks and other financial institutions	-	-	891,402	100,000	-	-	991,402
Repurchase agreements	-	-	35,997,572	7,144,616	-	-	43,142,188
Customer deposits	-	324,039,908	56,983,251	80,523,873	42,299,469	1,524,355	505,370,856
Bonds payable	-	-	-	10,000,000	34,962,608	15,000,000	59,962,608
Other liabilities	-	1,827,964	6,909,892	1,802,707	1,179,838	127,966	11,848,367
Total liabilities	-	494,480,133	112,137,101	107,703,723	80,893,435	17,223,801	812,438,193
Net liquidity gap	2,427,974	(393,001,755)	108,433,616	86,810,246	90,596,856	143,630,140	38,897,077

(In RMB'000)

XIII. RISK MANAGEMENT *continued*

4. Liquidity risk *continued*

(2) A maturity analysis of assets and liabilities of the Company as at 31 December, 2006 is as follows:

	Overdue	On demand	less than 3 months	3 months to 1 year	1 to 5 years	over 5 years	Total
Assets:							
Cash and due from the central bank	-	64,227,572	4,229,679	5,386,331	2,545,220	89,939	76,478,741
Due from banks and other financial institutions	-	4,968,300	3,910,157	1,850,329	168,609	230,357	11,127,752
Precious metals	-	1,203,704	-	-	-	-	1,203,704
Placements with banks and other financial institutions	-	-	9,411,574	1,074,544	-	-	10,486,118
Reverse repurchase agreements	-	-	43,847,739	8,383,872	3,129,000	1,000,000	56,360,611
Investments	-	21,278	8,646,945	29,466,109	62,886,027	34,497,736	135,518,095
Loans	2,906,132	-	41,452,079	129,294,100	81,015,652	63,433,201	318,101,164
Other assets	1,895	287,991	856,570	1,671,413	497,640	4,868,702	8,184,211
Total assets	**2,908,027**	**70,708,845**	**112,354,743**	**177,126,698**	**150,242,148**	**104,119,935**	**617,460,396**
Liabilities:							
Due to banks and other financial institutions	-	86,019,886	10,263,080	6,970,661	2,160,570	350,000	105,764,197
Placements from banks and other financial institutions	-	-	70,200	645,900	-	-	716,100
Repurchase agreements	-	-	17,720,458	5,470,685	-	-	23,191,143
Customer deposits	-	245,657,746	61,294,788	78,056,520	36,884,294	1,303,363	423,196,711
Bonds payable	-	-	-	-	26,000,000	15,000,000	41,000,000
Other liabilities	-	2,645,809	3,261,015	1,164,964	311,545	9,245	7,392,578
Total liabilities	**-**	**334,323,441**	**92,609,541**	**92,308,730**	**65,356,409**	**16,662,608**	**601,260,729**
Net liquidity gap	**2,908,027**	**(263,614,596)**	**19,745,202**	**84,817,968**	**84,885,739**	**87,457,327**	**16,199,667**

5. Operating risk

Operating risk is the risk of a direct or indirect loss resulting from incorrectly or insufficiently set up internal processes, or from errors caused by systems, persons or external factors.

The Company has already defined, assessed, controlled, managed and reported its operational risks by establishing rules and procedures in order to assess the testing of internal controls. The system includes all business sections involving finance, loan, accounting, settlement, deposit, funds, agency, information system application and management, asset maintenance and law affairs. It helps the Company comprehensively identify and recognize the whole major products, activities, processes, and internal operational risk of the system. The main internal control measures consist of which as following:

1) Continue to enhance the establishment of rules and regulations and normalize the management and operation flows of all kinds of business as well as to implement the supervision and restriction among each department, position and panel point during that process.

2) Combining the key point which may cause the risk in process, in connection with the business variety, process and legal contract etc. to sort out relevant suggestions and to distribute to each branch and operating unit for the purpose of increasing the operation risk awareness of relevant staff.

3) Promote the specialization and centralization in order to gradually set up processing centre such as professional loan centre as well as disbursement and settlement centre.

4) Emphasize the labor division and staff training in post

5) Business department and management department are responsible for their own operational risk respectively by using internal examination and accountability system so as to strengthen the subsequent supervision and specify each staff's responsibility.

6) Intensify the punishment of internal control by using internal auditing and accountability mechanism. Internal auditing department examines and evaluates the risk management policy and procedure and internal control independently. Based on the evaluation of the risk level for different business sections and branches, Internal auditing department decides the frequency and the order of auditing process.

7) Specially concern the risk management while conducting the guidance and acceptance check of newly established departments or branches.

XIV. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is the amount for which an asset could be exchanged, or a liability could be settled, between knowledgeable and willing parties at an arm's length transaction. Subject to the existence of an active market, such as an authorised securities exchange, the market value is the best reflection of the fair values of financial instruments. As there is no available market value for part of the financial assets and liabilities held and issued by the Company, the discounted cash flow method or other valuation methods described below are adopted to determine the fair value of these assets and liabilities. However, the value determined by such methods is subject to the impact of future cash flows, time assumption and discount rates used.

Assumptions used to estimate fair value:

(1) Financial assets and liabilities at fair value through profit or loss (including transactional financial assets and liabilities, derivative financial assets and liabilities) and available for sale financial assets are stated at fair value by reference to the quoted market prices when available. If quoted market prices are not available then fair values are estimated on the basis of pricing models or discounted cash flows. The carrying amount of these assets is its fair value.

(2) Held-to-maturity investments, receivables and bonds payables are stated at fair value by reference to the quoted market prices when available. If quoted market prices are not available then fair values are estimated on the basis of pricing models or discounted cash flows. These items' book values and fair values are stated below:

	2007-12-31		2006-12-31	
	Book value	Fair value	Book value	Fair value
Held-to-maturity investments	61,592,679	60,489,100	49,833,661	49,964,581
Receivables	21,125,699	21,030,743	6,057,502	6,048,001
Bonds payables	59,962,608	56,844,223	41,000,000	40,798,577

(3) The fair values of financial assets and liabilities maturing within 12 months are assumed to be approximately equal to their carrying amounts.

(In RMB'000)

XIV. FAIR VALUE OF FINANCIAL INSTRUMENTS *continued*

(4) The fair value of fixed rate loans is estimated by comparing the market interest rates offered when the loans are granted, with the current market rates offered on similar loans. The applicable interest rates of most loans are repriced once every year for any changes in market interest rate and accordingly their fair values approximate to their carrying amounts. Changes in the credit quality of loans within the portfolio are not taken into account in determining the gross fair values as the impact of credit risk is recognised separately by deducting the amount of impairment provision from the carrying amount.

(5) The interest rates of deposits from customers, floating or fixed, depend on the types of products. The fair values of demand deposits and saving deposits without specific maturity date represent the amounts payable to customers at any moment. Due to the short-term nature of most fixed deposits, the fair values of the fixed deposits approximate to their carrying values.

All of the assumptions and methods mentioned above provide a consistent basis for the calculation of fair value of the Company's assets and liabilities. However, other institutions may use different assumptions and methods. Therefore, the fair values disclosed by different financial institutions may not be entirely comparable.

The Company considers that loans, investments and customer deposits are the Company's major assets and liabilities. In the opinion of the management, the difference between the fair value and the carrying amount of loans, investments and customer deposits arising from changes in interest rates and other factors is not material at the end of each balance sheet date.

XV. CAPITAL MANAGEMENT

The Company' capital management target is to comply with the management's requirements of capital adequacy; to comply with the demand of business development; and to maximize the share hold's value. The Company has made up business development plan and capital supplementary plan for future years, in order to strengthen the capital restrict policy and make intensive development. The Company should realize the operation target of maximizing the share hold's value by restructuring; improving retain on assets ratio; emphasizing the compliance of risk control and capital increment. The Company will adjust the capital structure according to the changes and risk exposure of economic environments. The capital restructuring method includes dividend distribution plan; adding paid-in capital and issuing new bonds, etc. During the current year, the Company's management target is consistent with last year.

The Company has calculated and disclosed core capital and supplementary capital as follows according to the "Measures for the Management of Capital Adequacy Ratios of Commercial Banks" issued by CBRC.

	2007-12-31	2006-12-31
Core capital	37,027,428	14,728,236
Capital base	48,959,207	27,455,743
Risk-weighted assets and market risk Capital adjustment	412,660,155	335,774,189
Core capital adequacy ratio (%)	8.97	4.39
Capital adequacy ratio (%)	11.86	8.18

Note 1:Net core capital =Core capital – Deductions
Core capital includes capital shares, capital reverses, surplus reverses and retained earnings;
Note 2:Capital base = Core capital+ Supplementary capital – Deductions
Supplementary capital includes revaluation reserve, general provision, long term substandard bonds and hybrid bonds.

XVI. OTHER MATERIAL EVENTS

1.Initial public offering of "A" shares

Approved by the China Securities Regulatory Commission with the document (ZJF [2007] No. 10), The Company's initial public offering ("IPO") of "A" shares was accomplished on January 29 2007. The offer price was RMB15.98 per share and the offering volume was 1,001 million shares. This offering adopts the combination of placement to A-share strategic investors (hereinafter referred to as "strategic allotment"), book-building allotment to off-line enquiry subjects (hereinafter referred to as "off-line allotment") and online fund subscription of fixed pricing offering (hereinafter referred to as "on-line offering"). The total shareholding of the Company increased to the amount of 5 billion after the IPO, among which is the strategic allotment accounts for 300,000,000 shares while the off-line allotment accounts for 250,250,000 shares and the on-line offering accounts for 450,750,000. The Company's IPO "A" shares were listed on the Shanghai Stock Exchange on 5 February 2007.

2. Issuance of financial bond

(1) In accordance with the approval document of (Yin Shi Chang Xu Zhun Yu Zi [2006] No. 22) issued by the PBOC and (YJF [2006] No. 345) issued by the CBRC, The Company was approved to issue RMB19 billion financial bonds as the Financial Bond of Industrial Bank 2007 (the first tranche) in the nationwide inter-bank bond market on March 27 2007. The funds raised from the issuance of the bonds will be used as the stable resource for liabilities and applied in high quality asset projects.

(2) Pursuant to the resolution of "Proposal on the Issuance of Financial Bonds" passed in the first interim general meeting of shareholders on October 19, 2007, the Company intends to issue no more than RMB50 billion within 10 years term of financial bonds in the inter-bank bond market publicly. The funds raised from the issuance of financial bonds will be applied in high quality asset projects. The authorized effective date will expires on 12/31/2008. The proposal needs to be submitted for the approval of the CBRC and the PBOC.

3. Investments to the allotment of China Unionpay

Pursuant to the resolution pass in the 12th meeting of the board executive committee on December 22, 2006, the subscription of 1250 0000 shares for the allotment of China Unionpay has been made by the Company. Until the signature day of the financial statements, the application of increasing capital and enlarging shares of China Unionpay is waiting for the approval of relevant authorities.

XVII. DIFFERENCE BETWEEN FINANCIAL STATEMENTS BASED ON CHINESE ACCOUNTING STANDARD (CAS) AND INTERNATIONAL FINANCIAL REPORTING STANDARD (IFRS)

1. Net profit difference

	2007	2006
Amount based on Chinese GAAP	8,585,767	3,798,256
Adjustments	-	-
Amount based on IFRS	8,585,767	3,798,256

(In RMB'000)

XVII. DIFFERENCE BETWEEN FINANCIAL STATEMENTS BASED ON CHINESE ACCOUNTING STANDARD (CAS) AND INTERNATIONAL FINANCIAL REPORTING STANDARD (IFRS) *continued*

2. Net asset difference

	2007-12-31	2006-12-31
Amount based on Chinese GAAP	38,897,077	16,199,667
Adjustments	-	-
Amount based on IFRS	38,897,076	16,199,666

The international auditor of the Company is Ernst & Young.

XVIII. SUPPLEMENTAL DOCUMENTS

1. Non-recurrent gains & losses

In accordance with the requirement of "Rules for compiling financial statements for public offering companies No. 1-Extraordinary items" (Revised 2007), The calculation of non-recurrent gains and loss is listed as follow:

	2007	2006
Net profit	**8,585,767**	**3,798,256**
Extraordinary items:		
Non operating income	88,582	64,677
Non operating expense	(26,969)	(22,838)
Recovery of assets previously written off	23,643	4,868
Impact on income tax	(28,918)	(15,108)
The effects on income tax from the adjustments of taxable salary in year 2006	539,016	-
Subtotal	**595,354**	**31,599**
Net profit excluding extraordinary items	**7,990,413**	**3,766,657**

2. Major financial indicators

According to the "Rules for compiling financial statements for public offering companies No. 9-Calculation and disclosure of Return on Assets (ROA) and Earnings per Share (EPS)" (Revised 2007), The calculation of Return on Assets (ROA) and Earnings per Share (EPS) is listed as follow:

	2007			
	ROA (%)		EPS (Yuan)	
	Fully diluted	Weighted average	Primary EPS	Fully Diluted EPS
Retained profit for ordinary shareholders	22.07	25.34	1.75	1.75
Retained profit for ordinary shareholder subtracting Non-recurrent gains & losses	20.54	23.58	1.63	1.63

	2006			
	ROA (%)		EPS (Yuan)	
	Fully diluted	Weighted average	Fully diluted	Weighted average
Retained profit for ordinary shareholders	23.45	26.21	0.95	0.95
Retained profit for ordinary shareholder subtracting Non-recurrent gains & losses	23.25	25.99	0.94	0.94

3. Adjustment form of discrepancies in net profit of 2006 between new and old accounting standards.

According to the requirement of Guideline on Contents and Format for Information Disclosure of Companies That Make Public Offering of Securities No.7- Compilation and Disclosure of Comparative Financial Accounting Information during the Transitional Period of Old and New Accounting Standards (Zheng Jian Kuai Ji Zi [2007] No. 10), the Company prepared the adjustment form of discrepancies in net profit of 2006 between new and old accounting standards, which indicates the retroactive adjustment for income statement of 2006. Meanwhile, the Company assumes that January 1, 2006 is the initial implementation date on which the No. 1 to No. 37 of the new CAS was implemented, analyzing and simulating execution of the new CAS for non retroactive adjustment items which are excluded from items listed in article 5 to 19 of the Accounting Standards for Business Enterprises No. 38 "Initial Implementation of Accounting Standards for Enterprises" to analysis the difference of net profit calculated under new and old accounting standards. The result is listed as follows:

	2006
Net profits of 2006 (Old Accounting standards)	3,798,256
Retroactive adjustment	-
Net profits of 2006 (Old Accounting standards)	3,798,256
Assumes that January 1, 2006 is the initial implementation date of new CAS:	
Effects on other items	-
Mock net profit of 2006(simulating execution of the new CAS comprehensively)	3,798,256

XIX. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorized for issue by the board of directors on 18 March 2008. According to the articles of association of the Company, the financial statements will be submitted for discussion on the general meeting of shareholders.

Industrial Bank Co., Ltd.

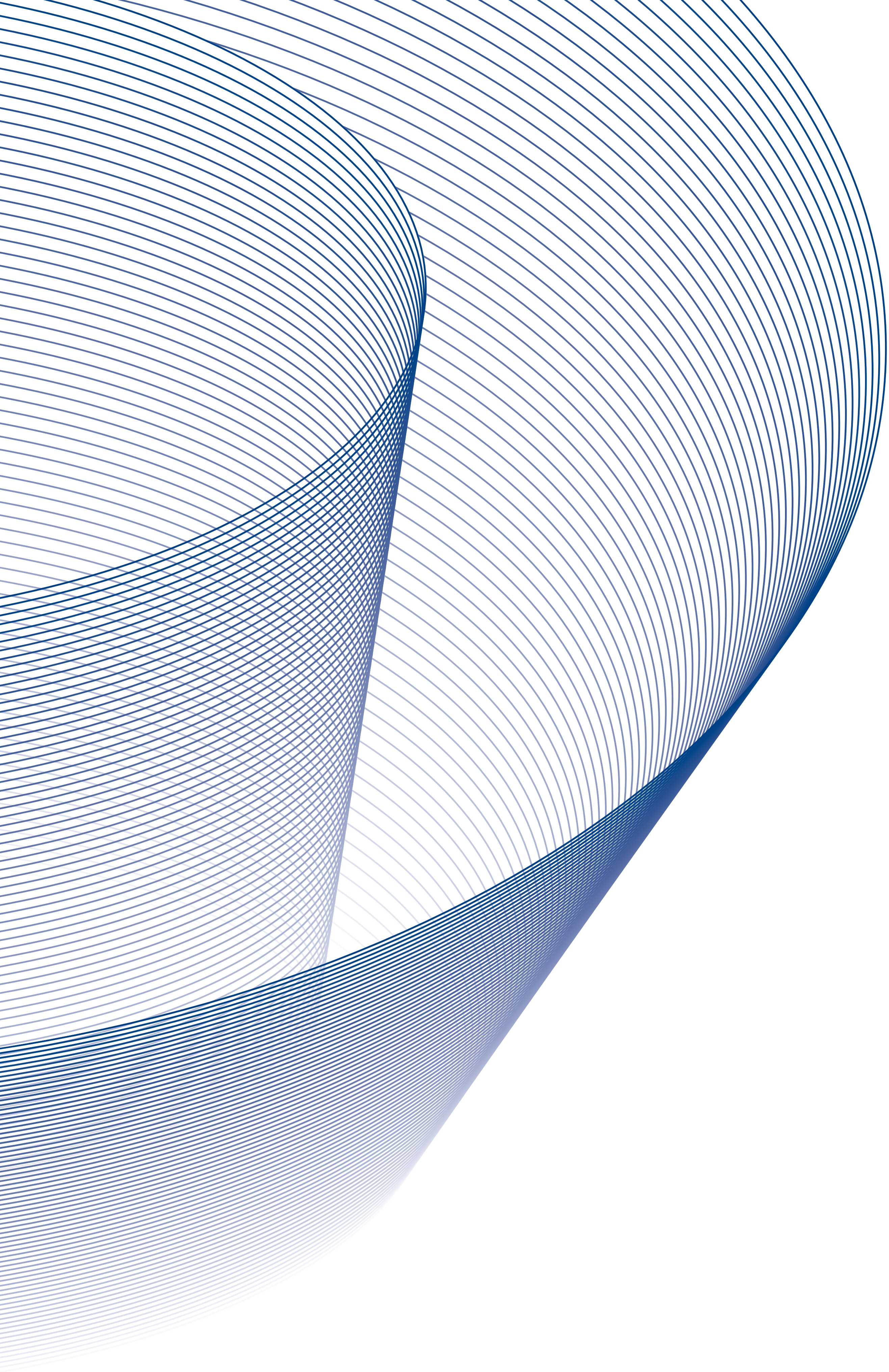
兴业银行股份有限公司 INDUSTRIAL BANK CO., LTD.

March 18, 2008

Legal representative:

President:

Financial Director:



Appendix II: International Auditors' Report

CONTENTS

Important Notice

The attached financial statements have been translated from financial statements written in Chinese (as prepared in accordance with International Financial Reporting Standards) for reference by Industrial Bank's management. In the event of any differences in interpreting the financial statements, the financial statements in Chinese shall prevail.

ERNST & YOUNG

INDEPENDENT AUDITORS' REPORT

To the shareholders of Industrial Bank Co., Ltd.

We have audited the accompanying financial statements of Industrial Bank Co., Ltd. (the "Company"), which comprise the balance sheet as at 31 December 2007, and the income statement, the statement of changes in equity and the cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' responsibility

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

We conducted our audit in accordance with International Standards on Auditing. 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 of 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 auditors' 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 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 policies used and the reasonableness of accounting estimates made by management, 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 financial statements have been prepared in accordance with International Financial Reporting Standards and present fairly, in all material aspects, the financial position of the Company as of 31 December 2007, and of its financial performance and its cash flows for the year then ended.

Ernst & Young

Hong Kong Certified Public Accountants

18 March 2008

INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2007

(In RMB'000)

	Notes	2007	2006
Interest income	3	40,197,649	24,939,025
Interest expense	3	(19,351,656)	(11,644,364)
Net interest income	3	**20,845,993**	**13,294,661**
Net fee and commission income	4	1,517,855	432,607
Other income, net	5	(298,489)	(35,846)
OPERATING INCOME		22,065,359	13,691,422
Staff costs	6	(3,749,422)	(2,291,105)
General and administrative expenses	7	(3,863,615)	(2,618,733)
Depreciation		(392,154)	(352,427)
Business tax and surcharges		(1,471,154)	(980,538)
Provision for loan losses	14(c)	(1,591,396)	(2,354,199)
Provision for impairment of other assets	8	(87,446)	(48,218)
PROFIT BEFORE INCOME TAX		10,910,172	5,046,202
Income tax	9	(2,324,405)	(1,247,946)
PROFIT FOR THE YEAR		8,585,767	3,798,256
EARNINGS PER SHARE			
- Basic (in RMB)	10	1.75	0.95

The accompanying notes form an integral part of the financial statements.

BALANCE SHEET

AS AT 31 DECEMBER 2007

(In RMB'000)

	Notes	31-12-2007	31-12-2006
ASSETS			
Cash and balances with the central bank	11	93,863,209	76,478,741
Due from and placements with banks and other financial institutions	12	46,306,560	21,613,870
Reverse repurchase agreements	13	169,955,558	56,360,611
Loans	14	393,028,777	318,101,164
Investments	15	134,464,756	135,370,927
Fixed assets	16	4,442,048	3,621,606
Intangible assets	17	375,886	412,016
Deferred tax assets	9	1,049,501	1,026,453
Other assets	18	7,848,974	4,475,009
TOTAL ASSETS		851,335,269	617,460,397
LIABILITIES			
Due to and placements from banks and other financial institutions	19	192,114,174	106,480,297
Repurchase agreements	20	43,142,188	23,191,143
Customer deposits	21	505,370,856	423,196,711
Subordinated bonds issued	22	6,000,000	6,000,000
Long-term debt securities issued	23	53,962,608	35,000,000
Deferred tax liabilities	9	19,379	53,978
Other liabilities	24	11,828,988	7,338,602
TOTAL LIABILITIES		812,438,193	601,260,731
SHAREHOLDERS' EQUITY			
Share capital	25	5,000,000	3,999,000
Capital surplus	26	17,560,173	2,839,214
Surplus reserves	27	2,264,711	1,406,135
General reserve	28	4,773,867	3,626,865
Retained earnings	30	9,502,474	4,222,285
Unrealised (loss)/gain on investments, net of tax		(204,149)	106,167
TOTAL SHAREHOLDERS' EQUITY		38,897,076	16,199,666
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		851,335,269	617,460,397

These financial statements have been approved by the board of directors.

Director: Gao Jianping Director: Li Renjie Chop

The accompanying notes form an integral part of the financial statements.

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2007

(In RMB'000)

	Share capital	Capital surplus	Surplus reserves	General reserve	Retained earnings	Unrealised gain on investments net of tax	Share-holders' equity
As at 1 January 2006	3,999,000	2,839,214	999,755	2,400,000	2,057,274	490,141	12,785,384
Changes in equity during the year:							
Profit for the year	-	-	-	-	3,798,256	-	3,798,256
General reserve (note 28)	-	-	-	1,226,865	(1,226,865)	-	-
Unrealised gain on investments, net of tax							
-Net changes in fair value	-	-	-	-	-	134,537	134,537
-Net changes in deferred tax (note 9)	-	-	-	-	-	189,892	189,892
-Reserve realised on disposal	-	-	-	-	-	(708,403)	(708,403)
Appropriations for the year							
-Appropriations for the year	-	-	379,826	-	(379,826)	-	-
-Statutory adjustment (note 27)	-	-	26,554	-	(26,554)	-	-
As at 31 December 2006	3,999,000	2,839,214	1,406,135	3,626,865	4,222,285	106,167	16,199,666
As at 1 January 2007	3,999,000	2,839,214	1,406,135	3,626,865	4,222,285	106,167	16,199,666
Changes in equity during the year:							
Issue of shares	1,001,000	14,720,959	-	-	-	-	15,721,959
Profit for the year	-	-	-	-	8,585,767	-	8,585,767
General reserve (note 28)	-	-	-	1,147,002	(1,147,002)	-	-
Dividend (note29)	-	-	-	-	(1,300,000)	-	(1,300,000)
Unrealised gain on investments, net of tax							
-Net changes in fair value	-	-	-	-	-	(520,622)	(520,622)
-Net changes in deferred tax (note 9)	-	-	-	-	-	120,019	120,019
-Reserve realised on disposal	-	-	-	-	-	90,287	90,287
Appropriations for the year	-	-	858,576	-	(858,576)	-	-
As at 31 December 2007	5,000,000	17,560,173	2,264,711	4,773,867	9,502,474	(204,149)	38,897,076

The accompanying notes form an integral part of the financial statements.

CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2007

(In RMB'000)

	Notes	2007	2006
NET CASH INFLOW FROM OPERATING ACTIVITIES	31	25,326,686	10,952,725
CASH FLOWS FROM INVESTING ACTIVITIES			
Cash received from maturity or disposal of investments		671,370,034	329,209,881
Interest received from bond investments		4,643,546	4,783,323
Dividends received from equity investments		1,650	400
Cash received from disposal of fixed assets		34,567	57,879
Cash received from disposal of long-term assets		9,639	2,247
Cash paid for purchase of fixed assets		(1,187,553)	(1,036,662)
Cash paid for purchase of intangible assets		(25,327)	(25,676)
Cash paid for purchase of investments		(675,753,176)	(350,635,366)
Net cash paid for trading of precious metal		(614,246)	(1,206,571)
NET CASH OUTFLOW FROM INVESTING ACTIVITIES		(1,520,866)	(18,850,545)
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash received from issuance of long-term debt securities		19,000,000	25,000,000
Proceeds from issue of shares		15,721,959	-
Interest paid for subordinated bonds issued		(309,451)	(278,415)
Interest paid for long-term debt securities issued		(981,198)	(215,000)
Interest paid for hybrid bonds issued		(192,524)	-
Cash paid for distribution of dividends		(1,299,802)	(37,951)
NET CASH INFLOW FROM FINANCING ACTIVITIES		31,938,984	24,468,634
EFFECT OF CHANGES IN EXCHANGE RATES ON CASH AND CASH EQUIVALENTS		(218,554)	(140,910)
Net increase in cash and cash equivalents		55,526,250	16,429,904
Cash and cash equivalents at beginning of year		107,100,957	90,671,053
CASH AND CASH EQUIVALENTS AT END OF YEAR		162,627,207	107,100,957
ANALYSIS OF CASH AND CASH EQUIVALENT			
Cash on hand and general deposits with the central bank		35,618,547	47,275,832
Due from banks and other financial institutions with original maturity less than three months		28,110,316	8,276,201
Reverse repurchase agreements with original maturity less than three months		95,553,858	36,031,993
Placements with banks and other financial institutions with original maturity less than three months		1,956,460	8,836,245
Investments with original maturity less than three months		1,388,026	6,680,686
		162,627,207	107,100,957

The accompanying notes form an integral part of the financial statements.

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2007
(In RMB'000)

1. CORPORATE INFORMATION

Industrial Bank Co., Ltd. (the "Company", formerly known as Fujian Industrial Bank Co., Ltd.) was established on 20 July 1988 with the approval of the State Council and the People's Bank of China ("PBOC") as a joint stock commercial bank, and was listed on the Shanghai Stock Exchange on 5 February 2007. The Company's registered address is No. 154 Hudong Road, Fuzhou, Fujian Province, the People's Republic of China (the "PRC"). The legal representative of the Company is Mr. Gao Jianping.

The Company is principally engaged in the banking business approved by the PBOC. The scope of the banking business as stated in the business license includes accepting public deposits; granting short-term, mid-term and long-term loans; performing settlement services; discounting bills and notes; issuing financial debentures; issuing, underwriting and cashing securities on behalf of governmental authorities; trading of government and financial bonds and debentures; derivatives trading (except for derivatives of stock and commodities); entrusted management of the investing fund and social security fund; inter-bank placements and borrowings; purchase and sale of foreign currencies either for itself or on behalf of its clients; bank card business; services relating to letters of credit and letters of guarantee; factoring and insurance agent services; safe deposit services; other banking activities approved by the Banking Supervision and Administration Institutions of the State Council of the PRC.

2.1 BASIS OF PRESENTATION

The financial statements have been prepared in accordance with the judgements and estimates set out in note 2.2 and the accounting policies set out in note 2.3, which comply with International Financial Reporting Standards ("IFRS"). IFRS comprise standards and interpretations approved by the International Accounting Standards Board ("IASB"), and International Accounting Standards and Standing Interpretations Committee's interpretations approved by the International Accounting Standards Committee ("IASC") that remain in effect. Disclosures have been made, in all material respects, in accordance with the IFRS and in a format appropriate to the business environment of the Company and the PRC.

The financial statements have been prepared on the historical cost basis, except for derivatives, financial assets and liabilities at fair value through profit or loss and available-for-sale financial assets that have been measured at fair value.

The Company prepares its statutory financial statements in accordance with Chinese Accounting Standards as established by the Ministry of Finance ("MOF") of the PRC on 15 February 2006. There are no material differences in major items between the accounting policies and basis of preparation used in preparing statutory financial statements and the IFRS, other than the presentation and disclosure in the financial statements.

The Company has adopted the following relevant new and revised IFRS and International Financial Reporting Interpretation Committee's ("IFRIC") interpretations during the year.

IAS 1 Amendment	Presentation of Financial Statements: Capital Disclosures
IFRS 7	Financial Instruments: Disclosures
IFRIC 8	Scope of IFRS 2
IFRIC 9	Reassessment of Embedded Derivatives
IFRIC 10	Interim Financial Reporting and Impairment

(In RMB'000)

2.1 BASIS OF PRESENTATION *continued*

The IAS 1 Amendment requires the disclosures of qualitative and quantitative information about the Company's objectives, policies and processes for managing capital and consequently will affect the level of details in the disclosures to the Company's financial statements. Management does not expect it to have any significant financial impact on the Company's results of operations and financial position.

IFRS 7 mainly requires more detailed qualitative and quantitative disclosures regarding fair value information and risk management and, accordingly, will affect the level of details in the disclosures to the Company's financial statements. Management does not expect it will have any significant financial impact on the Company's results of operations and financial position.

IFRIC Interpretation 9 Reassessment of Embedded Derivatives was issued in March 2006 by IFRIC. This Interpretation requires that an entity shall assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative when the entity first becomes a party to the contract. Subsequent reassessment is prohibited unless there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract, in which case reassessment is required. Management does not expect it to have any significant financial impact on the Company's results of operations and financial position.

Management does not expect the adoption of IFRIC Interpretations 8 and 10 to have any significant financial impact on the Company's financial statements.

The Company has not adopted the following new and revised IFRS and IFRIC interpretations, which have been issued but are not yet effective.

IFRS 8	Operating Segments
IAS 1 (Revised)	Presentation of Financial Statements
IAS 23 (Revised)	Borrowing Costs
IFRIC 11	IFRS2 Group and Treasury Share Transactions
IFRIC 12	Service Concession Arrangements
IFRIC 13	Customer Loyalty Programmes
IFRIC 14	The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

IFRS 8 shall be applied for financial periods beginning on or after 1 January 2009 and will replace the existing IAS 14 "Segment Reporting". IFRS 8 requires an entity to report on the financial performance of its operating segments, based on the information used internally for the purpose of evaluating segment performance and deciding resources allocation to operating segments. Such information may be different from what is used for preparing the income statement and balance sheet. IFRS 8 therefore requires explanations of the basis on how the segment information is prepared and reconciled to the income statement and balance sheet.

IAS 1 (Revised) shall be applied for annual periods beginning on or after 1 January 2009. The standard requires the entities to change their presentation of primary statements. The major changes including (i) all items of income and expense (including those accounted for directly in equity) are required to be presented either in a single statement (a "statement of comprehensive income") or in two statements (a separate "income statement" and "statement of comprehensive income"); and (ii) the statement of changes in equity will include only details of transactions with owners, while all non-owner changes in equity presented as a single line (i.e. total comprehensive income) with details included in a statement of comprehensive income.

When an entity applies an accounting policy retrospectively or makes a retrospective restatement or reclassification of items in its financial statements, it will be required to present a statement of financial position as at the beginning of the earliest comparative period.

IAS 23 (2007 Amendment) shall be applied for annual periods beginning on or after 1 January 2009. The main change from the previous version is the removal of the option of immediately recognising as an expense borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale. However, the revised Standard does not require the capitalisations of borrowing costs relating to assets measured at fair value, and inventories that are manufactured or produced in large quantities on a repetitive basis, even if they take a substantial period of time to get ready for use or sale.

IFRIC interpretation 11 shall be applied for financial periods beginning on or after 1 March 2007. It provides guidance on distinguishing between equity-settled transactions and cash-settled transactions under the share-based payment arrangement. IFRIC 11 also addresses the accounting for share-based payment transactions involving two or more entities within the Group.

IFRIC interpretation 12 shall be applied for financial periods beginning on or after 1 January 2008. It addresses how an operator shall apply existing IFRS to account for the obligations and the rights arising from service concession arrangements by which a government or a public sector entity grants a contract for the construction of infrastructure used to provide public services and/or for the supply of public services. These infrastructures include roads, bridges, tunnels, prisons, hospitals, airports, water and energy supply establishment, and telecom network, etc. The interpretation does not consider the accounting treatment from government perspective.

IFRIC interpretation 13 shall be applied for financial periods beginning on or after 1 July 2008. It gives accounting treatment guidance to the entity which provides the loyalty award credits, free products or discounts to customers when selling products or providing service.

IFRIC 14 interpretation shall be applied for financial periods beginning on or after 1 January 2008. It addresses how to assess the limit under IAS 19 Employee Benefits, on the amount of a refund or a reduction in future contributions in relation to a defined benefit scheme that can be recognised as an asset or liability, in particular, when a minimum funding requirement exists. The interpretation provides a standardised accounting treatment in order to ensure the entity recognise the relevant surplus as asset under the same basis.

The Company is in the process of making an assessment of the impact of these new and revised IFRS and IFRIC interpretations upon initial application. So far, it has concluded that these new and revised IFRS and IFRIC interpretations are unlike to have a significant impact on the Company's results of operations and financial position.

2.2 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

Judgements

In the process of applying the Company's accounting policies, management has made the following judgements, apart from those involving estimations, which have significant effect on the financial statements:

Classification of investments

In evaluating the classification of investments, significant management judgements are required. Different classifications of investments result in different accounting treatments and hence different financial positions of the Company. If the Company fails to correctly classify its investments, the Company may need to reclassify the whole investment portfolio.

Estimation uncertainties

The key assumptions and uncertainties on significant estimations made by the Company's management at the year end may have significant risks resulting in a material adjustment to the assets and liabilities in the next accounting year as are stated below:

Impairment losses of loans

The Company determines periodically whether there is any objective evidence that an impairment loss on loans and advances has been incurred. If any such evidence exists, the Company assesses the amount of the impairment loss. The amount of impairment losses are measured as the difference between the carrying amount and the present value of estimated future cash flows. In assessing the amount of impairment losses, significant judgements are required as to whether objective evidence for impairment exists and also significant estimates are required on assessing the present value of expected future cash flows.

Income tax

Determining income tax provisions requires the Company to make judgements on the future tax treatment of certain transactions. The Company carefully evaluates the tax implications of transactions in accordance with prevailing tax regulations and makes tax provisions accordingly. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the deferred tax assets can be utilised. This requires significant judgements on the tax treatments of certain transactions and also significant assessment on the probability that adequate future taxable profits will be also available for the recovery of deferred tax assets.

Fair value of financial instruments

If the market for a financial instrument is not active, the Company establishes fair value by using valuation techniques. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties; if available, reference to the current fair value of another instrument that is substantially the same; discounted cash flow analysis and option pricing models. To the extent practicable, valuation techniques make maximum use of market inputs. However, where market inputs are not available, management needs to make estimates on areas such as credit risk (both its own and any counterparty's), volatility and correlation. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Foreign currency transactions

The functional and presentation currency of the Company is Renminbi ("RMB").

Foreign currency transactions are translated into the functional currency using the exchange rates ruling at the dates of transaction. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the applicable exchange rates ruling at the balance sheet date. Exchange differences are recognised in the income statement.

Non-monetary items that are measured at historical cost in a foreign currency are translated using the exchange rates ruling at the dates of the initial transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates ruling at the date when the fair value was determined.

Financial instruments

Financial instrument will be recognised as a financial asset or a financial liability when the Company becomes a party to the contractual provisions of the instrument.

Financial assets

The Company classifies its financial assets into four categories: financial assets at fair value through profit or loss, held-to-maturity investments, loans and receivables and available-for-sale financial assets. When financial assets are recognised initially, they are measured at fair value. For financial assets which are not classified as at fair value through profit or loss, any transaction costs that are directly attributable to the acquisition of the financial assets can be recognised.

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

Financial assets at fair value through profit or loss are financial assets which are either classified as held for trading or designated by the Company at fair value through profit or loss upon initial recognition.

Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

A financial asset, other than one held for trading, may be designated as a financial asset at fair value through profit or loss if it meets the criteria set out below, and is so designated by management:

(i) eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring the financial assets or financial liabilities or recognising the gains and losses on them on different bases;

(ii) applies to a group of financial assets, financial liabilities or both that is managed and its performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and where information about that group of financial instruments is provided internally on that basis to key management personnel; or

(iii) relates to financial instruments containing one or more embedded derivatives that significantly modify the cash flow resulting from those financial instruments; or it is clear, with little analysis, that the embedded derivatives would not be separately recorded.

The interest income of the relevant financial assets is included in interest income on bonds.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *continued*

Financial assets *continued*

(2) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company has the positive intention and ability to hold to maturity. These investments are carried at amortised cost using the effective interest rate method, less provision for impairment in value. Gains and losses are recognised in the income statement when the held-to-maturity investments are derecognised or impaired, or are recognised through the amortisation process.

The Company shall not classify any financial assets as held-to-maturity if the Company has, during the current financial year or during the two preceding financial years, sold or reclassified more than an insignificant amount of held-to-maturity investments before maturity, other than sales or reclassifications that:

(i) are close to maturity or the financial asset's call date (for example, less than three months before maturity) that changes in the market rate of interest would not have a significant effect on the financial asset's fair value;

(ii) occur after the entity has collected substantially all of the financial asset's original principal through scheduled payments or prepayments; or

(iii) are attributable to an isolated event that is beyond the entity's control and is non-recurring and could not have been reasonably anticipated by the entity.

(3) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and the Company has no intention of trading the assets immediately or in the near term. Such assets are carried at amortised cost using the effective interest rate method, less provision for impairment in value.

Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

(4) 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 in any of the three preceding categories. After initial recognition, available-for-sale financial assets are measured at fair value. Available-for-sale financial assets, that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, shall be measured at cost. The interest income derived from available-for-sale financial assets are amortised using the effective interest rate method and recognised in the income statement.

Fair value changes of available-for-sale financial assets are reported as a separate component of equity until the financial asset is derecognised or the financial asset is determined to be impaired, at which time the cumulative gains or losses previously reported in equity are included in the income statement.

If, as the result of a change in intention or ability or in the rare circumstance that a reliable measure of fair value is no longer available or because the "two preceding financial years" referred to in note 2.3 (2) have passed, it becomes appropriate to carry a financial asset or financial liability at amortised cost rather than at fair value, the fair value carrying amount of the financial asset or the financial liability on that date becomes its new amortised cost, as applicable.

In the case of a financial asset with a fixed maturity, the gain or loss shall be amortised to profit or loss over the remaining life of the financial asset using the effective interest rate method. Any difference between the new amortised cost and maturity amount shall also be amortised to the profit and loss over the remaining life of the financial asset using the effective interest rate method.

In the case of a financial asset that does not have a fixed maturity, the gain or loss shall remain in equity until the financial asset is sold or otherwise disposed of, when it shall be recognised in the income statement.

Impairment of financial assets

An assessment is made at each balance sheet date to determine whether there is objective evidence of any impairment of financial assets as a result of one or more events that occur after the initial recognition of those assets ("loss event") and whether the loss event has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

(1) Financial assets carried at amortised cost

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, 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 (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an impairment provision account and the amount of the loss is recognised in the income statement.

The Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. The Company classifies the financial assets into different groups with similar credit risk characteristics and then collectively assesses the impairment of such financial assets. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is then included in a group of financial assets with similar credit risk characteristics and that group of financial assets is to be collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not to be assessed collectively for impairment.

Future cash flows of a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the historical loss experience of the Company. Historical loss experience is adjusted on the basis of current observable data to reflect the impact of current conditions that did not affect the period on which the historical loss experience is based and to eliminate the impact of historical conditions that do not exist currently. The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Company.

If, in a subsequent period, the amount of an impairment loss decreases and the decrease can be attributed objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

When a loan is uncollectible, it is written off against the related provision for loan impairment. Subsequent recoveries of the amounts previously written off reduce the amount of provision for loan impairment in the income statement.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *continued*

Impairment of financial assets *continued*

(2) Financial assets carried at cost

If there is objective evidence that an impairment loss has been incurred on a financial asset, the amount of impairment loss is measured as the difference between the carrying amount of that financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not allowed to be reversed.

(3) Available-for-sale financial assets

If an available-for-sale asset is impaired, any cumulative gain/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 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 the current fair value, less any impairment loss on that financial asset previously recognised in the income statement.

Reversals of impairment losses in respect of equity instruments classified as available-for-sale are not recognised in the income statement. Reversals of impairment losses on debt instruments classified as available-for-sale are made through the income statement, if the increase in the fair value of the debt instruments can be objectively related to an event occurring after the impairment losses have been recognised in the income statement.

Financial liabilities

Financial liabilities are classified as either financial liabilities at fair value through profit or loss, or deposits, debt securities issued and other liabilities.

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

Financial liabilities at fair value through profit or loss are financial liabilities which are either classified as held for trading or designated by the Company as at fair value through profit or loss upon initial recognition.

Financial liabilities at fair value through profit or loss are financial liabilities which are either classified as held for trading or, based on the criteria (i), (ii) and (iii) in note 2.3 (1), designated by the Company as at fair value through profit or loss upon initial recognition.

Gains and losses from changes in fair value are recognised in the income statement.

(2) Deposits, debt securities issued and other liabilities

Deposits, debt securities issued other than those designated as trading liabilities or at fair value through profit or loss, and other financial liabilities are carried at amortised cost.

Derecognition of financial assets and liabilities

(1) Financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

· the rights to receive cash flows from the assets have expired;

· the Company retains the right to receive cash flows from the assets, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or

· the Company has transferred its rights to receive cash flows from the asset and either (i) has transferred substantially all the risks and rewards of ownership of the financial asset; or (ii) has neither transferred nor retained substantially all the risks and rewards of ownership of the financial asset, but has transferred control of the asset.

Where the Company has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Company's continuing involvement of the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Company's continuing involvement is the amount of the transferred asset that the Company may repurchase, except in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, where the extent of the Company's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

(2) Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference between the respective carrying amounts is recognised in the income statement.

(3) Asset-backed securities

As part of the Company's business, certain financial assets are securitised by selling them to a special purpose vehicle, which then issues asset-backed securities to the investors. Some or all of these financial assets transferred may meet the derecognition criteria, as separately stated in the respective derecognition of financial assets and liabilities accounting policy. The asset-backed securities retained by the Company mainly related to subordinated class, with gain/loss arise being dealt with in the income statement. The gain/loss arise from the asset-backed securities is the difference between the carrying value of the asset derecognised and the asset retained and the fair value at the date of derecognition.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *continued*

Derivative financial instruments

Derivatives are initially measured at fair value on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when fair value is positive and as liabilities when the fair value is negative. Fair values are obtained from quoted market prices in an active market, including recent market transactions, and valuation techniques, including discounting cash flow models and option pricing models, as appropriate.

Certain derivatives embedded in other financial instruments are treated as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract and the hybrid instrument is not carried at fair value through profit or loss. These embedded derivatives are measured at fair value with the changes in fair value recognised in the income statement.

Any gains or losses arising from changes in fair value on derivatives that do not qualify for hedge accounting are taken directly to the income statement.

The fair value of forward currency contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles. The fair value of interest rate swap contracts is determined by reference to market values for similar instruments, or otherwise internal pricing model such as discounted cash flow method.

Offsetting

Assets and liabilities are offset only when the Company has the legal right to offset amounts with the same counterparty and transactions are expected to be settled on a net basis.

Repurchase and reverse repurchase transactions

The Company purchases securities, bills and loans under agreements to resell and sale of securities, bills and loans under agreements to repurchase. The considerations paid to purchase assets under agreements to resell are treated as collateralised loans and the purchase assets are treated as the collateral. Assets sold under agreements to repurchase continue to be recognised in the balance sheet. The proceeds from the sale of these assets are treated as liabilities.

Interest earned on reverse repurchase agreements and interest incurred on repurchase agreements are recognised as interest income and interest expense, respectively, on a time proportion basis.

Fixed assets

Fixed assets, other than construction in progress, are initially stated at cost. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its present working condition and location for its intended use. Expenditure incurred after the asset has been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the asset, the expenditure is capitalised as an additional cost of the asset. The carrying amounts of fixed assets are reviewed and if their carrying values exceed the recoverable amounts, the assets are written down and the impairment losses are charged to the current year's income statement.

Depreciation is calculated using the straight-line method over the estimated useful life of the fixed assets with zero residual value at the following rates per annum:

	Estimated useful life(year)	Depreciation rate(%)
Properties and buildings	20 - 30	3.33 - 5.00
Leasehold improvements	5 years or the lease terms, whichever is shorter	
Office equipment and computers	5 - 10	10.00 - 20.00
Motor vehicles	6 - 8	12.50 - 16.67

Construction in progress comprises the direct costs of construction less any impairment during the period of construction and is not depreciated. Construction in progress is reclassified to the appropriate category of property and equipment when completed and ready for use.

Intangible assets

Intangible assets acquired separately are capitalised at cost and those obtained from a business acquisition are capitalised at fair value as at the date of acquisition. Following initial recognition, intangible assets are stated at cost less accumulated amortisation. Amortisation is charged on intangible assets with finite lives using the straight-line method over their estimated economic useful lives. Intangible assets are assessed for impairment at each balance sheet date. A write-down is made if the carrying value exceeds the recoverable amount and the impairment losses are charged to the current year's income statement.

Impairment of assets

The Company assesses at each balance sheet date whether there is any objective evidence that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Company makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of its fair value less costs to sell and its value in use, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered to be impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses of continuing operations are recognised in the income statement under those expense categories consistent with the function of the impaired assets.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of any depreciation/amortisation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the income statement unless the asset is carried at the revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal, the depreciation/amortisation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *continued*

Cash and cash equivalents

Cash and cash equivalents comprise cash, amounts due from the central bank with original maturity of three months or less, amounts due from banks and other financial institutions with original maturity of three months or less, placements with banks and other financial institutions with original maturity of three months or less, reverse repurchase agreements with other banks with original maturity of three months or less, and short-term highly liquid investments which are readily convertible into known amounts of cash, subject to an insignificant risk of conversion in value and which are within three months of maturity when acquired.

Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Rentals applicable to such operating leases are charged to the income statement on the straight-line basis over the lease terms.

Related parties

A party is considered to be related to the Company if:

(i) the party, directly or indirectly through one or more intermediaries, (a) controls, is controlled by, or is under common control with, the Company; (b) has an interest in the Company that gives it significant influence over the Company; or (c) has joint control over the Company;

(ii) the party is an associate of the Company;

(iii) the party is a joint venture in which the Company is a venturer;

(iv) the party is a member of the key management personnel of the Company or its parent;

(v) the party is a close member of the family of any individual referred to in (i) or (iv);

(vi) the party is an entity that is controlled, jointly controlled or significantly influenced by, or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (iv) or (v); or

(vii) the party is a post-employment benefit plan for the benefit of the employees of the Company, or of any entity that is a related party of the Company.

Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured, on the following bases:

(i) interest income is recognised by using the effective interest rate method. The effective interest rate method involves applying the rate that discounts the estimated future cash inflows through the expected life of the financial instrument to the net carrying amount of the financial asset. Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is thereafter recognised using the interest rate used to discount the future cash flows for the purpose of measuring the impairment loss;

(ii) fee and commission income is recognised when the service has been rendered and proceeds can be reasonably estimated; and

(iii) dividend income is recognised when the shareholders' right to receive payment has been established.

Income Tax

Income tax is inclusive of current tax and deferred tax. Income tax is recognised in the income statement or in equity if it relates to items that recognised in the same or a different period directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities.

Deferred income tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

(a) where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

(b) in respect of taxable temporary differences associated with investments in subsidiaries and associates where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised, except:

(a) where the deferred tax asset relating to the deductible temporary differences arise from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

(b) in respect of deductible temporary differences associated with investments in subsidiaries and associates, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *continued*

Employee retirement benefits

(1) Defined retirement contribution plan

According to the statutory requirements of the PRC, the Company is required to provide certain staff retirement and pension benefits. The Company is obligated to contribute a fixed percentage of staff salaries to a fixed contribution employee retirement benefits scheme, governed by the relevant government authorities. The contributions are charged to the income statement.

(2) Supplementary retirement benefit plan

The Company has set up a pension plan for employees to supplement the retirement benefit. The defined benefit is calculated by the amount of benefit that an employee is entitled to receive from the Company upon retirement and the plan is considered as the defined benefit plan. The amount recognised as defined benefit liability at the balance sheet date shall be the net total of the present value of the defined benefit obligation at the balance sheet date, plus any actuarial gains (less any actuarial losses) not recognised, minus any past service cost not yet recognised and minus the fair value at the balance sheet date of plan assets. The Company adopts the Projected Unit Credit Method to determine the present value of its defined benefit obligations and the related current service cost and past service cost, and the relevant defined benefit liability is recognised as other liabilities on balance sheet. As at balance sheet date, the Company recognises a portion of its actuarial gains and losses as income or expense if the net cumulative unrecognised gains and losses at the end of the previous balance sheet date exceeded the greater of (a) and (b) mentioned below and the portion of actuarial gains and losses to be recognised is the excess portion divided by the expected average remaining working lives of the employees participating in the plan, otherwise, the amount is not recognised:

(a) 10% of present value of the defined benefit obligation at balance sheet date; and

(b) 10% of fair value of plan assets at the balance sheet date.

Past service cost is recognised to income statement as expense immediately except for the vesting condition applied. The Company recognises past service cost as an expense on a straight-line basis over the average period until the benefits become vested.

Fiduciary activities

Where the Company acts in a fiduciary capacity such as nominee, trustee or agent, the risk is taken by the client. The Company only charges fee income, thus assets and liabilities arising thereon are excluded from the financial statements.

Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligations and a reliable estimate can be made of the amount of the obligation.

Where the Company expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset. Only when the reimbursement is virtually certain are the expenses relating to any provision presented in the income statement net of any reimbursement. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects the current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as an interest expense.

Contingent liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Company. It can also be a present obligation arising from past events that is not recognised because it is not probable that an outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

Contingent liabilities are not recognised but are disclosed in the notes to the financial statements. When a change in the probability of an outflow occurs so that outflow is probable, it will then be recognised as a provision.

Financial guarantee contracts

The Company issues letters of credit and letters of guarantee. These financial guarantee contracts provide for specified payments to be made to reimburse the holder for a loss it incurs when a guaranteed party defaults under the original or modified terms of a debt instrument, loan or other obligation.

Financial guarantee contracts are recognised initially as a liability at fair value, adjusted for transaction costs that are directly attributable to the issue of the guarantee. This amount is amortised over the period of the contract and recorded as fee and commission income. Subsequently, the liabilities are measured as the higher of the initial fair value less cumulative amortisation and the fair value of the provision related to the Company's obligation under the contract.

Any increase in the liability relating to a financial guarantee is taken to the income statement. The premium received is recognised in the income statement as fee and commission income and on a straight-line basis over the life of the guarantee.

Dividend

Dividends are recognised as a liability and deducted from equity when they are approved by the Company's shareholders. Interim dividends are deducted from equity when they are declared and no longer at the discretion of the Company. Dividends for the year that are approved after the balance sheet date are disclosed as an event after the balance sheet date.

(In RMB'000)

3. NET INTEREST INCOME

	2007	2006
Interest income:		
Interest income on loans	26,060,360	17,828,311
Interest income on amounts due from the central bank	1,057,568	575,180
Interest income on amounts due from and placements with banks and other financial institutions	7,257,345	2,410,917
Interest income on bonds	5,822,376	4,124,617
	40,197,649	24,939,025
Interest expense:		
Interest expense on deposits	7,990,485	6,189,344
Interest expense on amounts due to and placements from banks and other financial institutions	9,384,662	4,778,770
Interest expense on subordinated bonds issued	310,475	278,671
Interest expense on long-term debt securities issued	1,666,034	397,579
	19,351,656	11,644,364
	20,845,993	13,294,661

Included in interest income for 2007 is RMB159 million (note 14(c)) (2006: RMB190 million) with respect to notional interest of impaired loan.

Included in interest income for 2007 is RMB477million with respect to interest income of financial assets held for trading. As the Company's IT system was not upgraded in 2006, the interest income of financial assets held for trading for the year 2006 could not be obtained and separately disclosed.

4. NET FEE AND COMMISSION INCOME

	2007	2006
Fee and commission income	1,829,160	607,406
Fee and commission expense	(311,305)	(174,799)
	1,517,855	432,607

Included in fee and commission income for 2007 are RMB301 million (2006: RMB75 million) with respect to wealth management business and RMB361 million (2006: RMB67 million) with respect to credit related business and other entrusted businesses.

5. OTHER INCOME, NET

	2007	2006
Loss on disposal of investment securities, net	(467,823)	(122,222)
Foreign exchange gain, net	173,893	118,482
Unrealised loss on held for trading financial instruments, net	(49,647)	(89,577)
Others	45,088	57,471
	(298,489)	(35,846)

Net loss on disposal of investment securities for 2007 included RMB171 million and RMB297 million with respect to net losses on disposal of held for trading investments and available-for-sale investments, respectively. As the relevant IT system was not upgraded in 2006, the Company could not extract the related information from net loss on disposal of investment securities to separately disclose the comparatives of net loss on disposal of held for trading investments and available-for-sale investments.

6. STAFF COSTS

	2007	2006
Salaries and bonuses	2,870,725	1,593,025
Contributions to defined contribution schemes	102,872	85,143
Supplementary retirement benefits (note 24 (a))	254,689	-
Other staff benefits	521,136	612,937
	3,749,422	2,291,105

7. GENERAL AND ADMINISTRATIVE EXPENSES

	2007	2006
Office expenses	1,504,876	956,295
Rental	409,906	302,544
Entertainment	235,462	178,499
Promotion	512,304	315,867
Telecommunications and postage	137,587	94,415
Travelling	168,552	148,774
Repairs and maintenance	37,797	43,939
Utilities	60,022	46,561
Taxes	61,534	45,883
Consulting and professional fees	196,065	65,353
Supervision fees	95,231	97,997
Fuel	190,938	127,762
Amortisation of intangible assets (note 17)	61,457	56,121
Others	191,884	138,723
	3,863,615	2,618,733

8. PROVISION FOR IMPAIRMENT OF OTHER ASSETS

	2007	2006
Due from and placements with banks and other financial institutions (note 12 (a))	(5,434)	(6,000)
Held-to-maturity bond investments (note 15 (c))	81,373	-
Other assets (note 18 (b))	11,507	54,218
	87,446	48,218

(In RMB'000)

9. INCOME TAX

	2007	2006
Current income tax	2,777,800	1,494,720
Deferred tax	62,372	(261,681)
(Overprovision)/underprovision in prior years	(515,767)	14,907
	2,324,405	**1,247,946**

A reconciliation of income tax expense, disclosed in the income statement, to the amount calculated at the statutory rate of 33% is as follows:

	2007	2006
Profit before income tax	10,910,172	5,046,202
Income tax at statutory rate of 33%	3,600,357	1,665,247
Additions/(deductions):		
Tax exempted income	(1,150,310)	(1,059,596)
Non-deductible expenses	294,518	712,130
(Over)/underprovision in respect of the prior year	(515,767)*	14,907
Effect of lower tax rates in certain regions	(47,534)	(84,742)
Effect on tax rate change	143,141	-
Income tax	**2,324,405**	**1,247,946**

* The Company obtained approval from the MOF and National Tax Bureau on 8 August 2007 to revise the tax policy of deductible salary expenses, and reassess the deductible salary expenses for the year 2006. The income tax for 2007 was decreased by RMB539 million upon the approval of the reassessed 2006 deductible salary expenses.

Deferred tax assets are as follows:

	31-12-2007	31-12-2006
Provisions for loan losses	781,537	850,618
Provisions for impairment of other assets	138,813	110,181
Pre-operating expenses	21,954	23,692
Unrealised loss on derivatives	21,111	3,099
Unrealised loss on held for trading investments	16,525	6,752
Unrealised loss on available-for-sale investments	68,171	-
Supplementary retirement fund	-	27,374
Others	1,390	4,737
Deferred tax assets	**1,049,501**	**1,026,453**

Deferred tax liabilities are as follows:

	31-12-2007	31-12-2006
Unrealised gain on available-for-sale investments	-	51,848
Unrealised gain on precious metal	19,379	2,130
Deferred tax liabilities	19,379	53,978

Deferred income tax included in equity:

	2007	2006
Unrealised gain on available-for-sale investments	(120,019)	(189,892)

10. EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the net profit for the year attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year.

	2007	2006
Profit for the year attributable to shareholders (in RMB'000)	8,585,767	3,798,256
Number of ordinary shares outstanding (in thousand shares)	4,916,583	3,999,000
Earnings per share, basic (in RMB)	1.75	0.95

11. CASH AND BALANCES WITH THE CENTRAL BANK

	31-12-2007	31-12-2006
Cash on hand	2,162,185	1,466,960
Due from the central bank:		
- General deposits	33,456,362	45,808,873
- Statutory deposits	58,149,353	29,030,567
- Fiscal deposits	95,309	172,341
Total	93,863,209	76,478,741

Statutory deposits represent a statutory reserve placed with the central bank calculated at 14.5% (31 December 2006: 9%) on customer deposits denominated in RMB and at 5% (31 December 2006: 4%) on customer deposits denominated in a foreign currency.

12. DUE FROM AND PLACEMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

	31-12-2007	31-12-2006
Deposits:		
Domestic banks and financial institutions	40,526,464	9,743,565
Foreign banks and financial institutions	1,785,963	1,406,727
	42,312,427	11,150,292
Less: Provisions for impairment (note 12 (a))	(22,540)	(22,540)
	42,289,887	11,127,752
Placements:		
Domestic banks and financial institutions	4,136,374	10,611,253
Less: Provisions for impairment (note 12 (a))	(119,701)	(125,135)
	4,016,673	10,486,118
Total	46,306,560	21,613,870

(In RMB'000)

12. DUE FROM AND PLACEMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS *continued*

(a) Movements of provisions for impairment

	Deposits	Placements	Total
2007			
Balance at beginning of year	22,540	125,135	147,675
Transfer out (note 8)	-	(5,434)	(5,434)
Write-offs	-	-	-
Balance at end of year	**22,540**	**119,701**	**142,241**
2006			
Balance at beginning of year	26,008	131,135	157,143
Transfer out (note 8)	-	(6,000)	(6,000)
Write-offs	(3,468)	-	(3,468)
Balance at end of year	**22,540**	**125,135**	**147,675**

13. REVERSE REPURCHASE AGREEMENTS

	31-12-2007	31-12-2006
Analysed by counterparty:		
Banks	127,852,385	31,783,912
Other financial institutions	42,103,173	24,576,699
	169,955,558	**56,360,611**
Analysed by collateral:		
Bills	58,028,982	24,557,446
Bonds	85,478,101	22,179,281
Loans	26,448,475	9,623,884
	169,955,558	**56,360,611**

Regarding certain agreements included in the above reverse repurchase agreements, the Company is permitted to sell or repledge the collateral in the absence of default by the owner of the collateral. As at 31 December 2007, the fair value of the aforesaid collateral amounted to RMB47,478 million (31 December 2006: RMB17,716 million). Additionally, as at 31 December 2007, bills amounted to RMB29,578 million (31 December 2006: RMB4,833 million) have been pledged for repurchase agreements.

14. LOANS

	31-12-2007	31-12-2006
Corporate loans	260,500,263	252,594,402
Personal loans	132,395,243	64,618,425
Discounted bills	7,247,270	7,164,004
	400,142,776	**324,376,831**
Less: Provisions for loan losses (note 14(c))	(7,113,999)	(6,275,667)
	393,028,777	**318,101,164**

Loan Derecognition

In December 2007, the Company transferred a portfolio of clean and guaranteed loans to a special purpose trust ("SPT") with a face value amounted to RMB5,243 million. The trustee of the SPT, China Foreign Economy and Trade Trust & Investment Co., Ltd., subsequently issued prime tranche of RMB4,870 million to other investors and subordinated tranche of RMB373 million of asset-backed securities to the Company, respectively. Being the holder of the subordinated tranche, the Company should bear the potential future loss, which is limited to the subordinated tranche retained by the Company, of the transferred loans. Management considered that the Company had not transferred substantially all risks and rewards of the loans; therefore, based on the degree of continuing involvement, the Company recognised the face value of the subordinated tranche as well as the associated asset and liability.

(a) The composition of corporate loans to customers by industry is as follows:

	31-12-2007	%	31-12-2006	%
Agriculture, forestry and fishing	861,494	0	865,200	0
Mining	7,450,059	3	7,093,480	3
Manufacturing	67,998,261	26	55,564,570	22
Electricity, gas and water supply	15,612,454	6	15,357,969	6
Construction	11,378,158	4	11,916,689	5
Transport, storage, post and courier activities	23,547,311	9	24,858,314	10
Telecommunications, computer and software related activities	2,932,115	1	4,793,476	2
Wholesale and retail trade	29,006,275	11	23,881,277	9
Hotels and restaurants	852,199	0	960,722	0
Finance	762,525	0	1,411,695	1
Real estate	56,057,566	22	53,990,649	21
Rental and business activities	17,374,907	7	18,822,393	7
Scientific research, technical services and geologic reconnaissance	712,136	0	1,300,521	1
Water conservancy, environment and public facilities administration	17,578,024	7	20,698,223	8
Residential services and other related activities	666,970	0	1,668,310	1
Education	2,200,955	1	2,662,590	1
Sanitation, social security and other community services	1,154,082	1	1,121,102	0
Cultural, sport and entertainment	1,367,737	1	1,778,089	1
Public administration and social organisation activities	2,987,035	1	3,849,133	2
Total	260,500,263	100	252,594,402	100

(b) For the composition of corporate loans to customers by geographical region, see note 38 of the financial statements.

(In RMB'000)

14. LOANS *continued*

Loan Derecognition *continued*

(c) Movement of provisions for loan losses

	Individual assessment	Collective assessment	Total
At 1 January 2007			
Balance at beginning of year	2,253,311	4,022,356	6,275,667
Charge for the year	472,490	1,118,906	1,591,396
Notional interest on impaired loans (note 3)	(158,645)	-	(158,645)
Recovery	23,643	-	23,643
Transfer out	(166,979)	-	(166,979)
Write-offs	(451,083)	-	(451,083)
At 31 December 2007	**1,972,737**	**5,141,262**	**7,113,999**
At 1 January 2006			
Balance at beginning of year	2,701,155	2,410,397	5,111,552
Charge for the year	742,240	1,611,959	2,354,199
Notional interest on impaired loans (note 3)	(189,588)	-	(189,588)
Recovery	4,868	-	4,868
Transfer out	(15,464)	-	(15,464)
Write-offs	(989,900)	-	(989,900)
At 31 December 2006	**2,253,311**	**4,022,356**	**6,275,667**

(d) As at 31 December 2007, loans amounted to RMB1,929 million (31 December 2006: RMB781 million) have been pledged for loans repurchase agreements, and discounted bills amounted to RMB240 million (31 December 2006: RMB1,679 million) have been pledged for discounted bills repurchase agreements.

(e) Loan movement

	31-12-2007	31-12-2006
Loan for which provisions for loan losses is:		
Individually assessed	4,358,060	4,793,503
Collectively assessed	395,784,716	319,583,328
	400,142,776	**324,376,831**
Provision for loan losses:		
Individually assessed	1,972,737	2,253,311
Collectively assessed	5,141,262	4,022,356
	7,113,999	**6,275,667**
Net loan balance for which provisions for loan losses is:		
Individually assessed	2,385,323	2,540,191
Collectively assessed	390,643,454	315,560,973
	393,028,777	**318,101,164**
Impaired loans	**4,583,372**	**4,979,675**
Percentage of impaired loans(%)	**1.15**	**1.54**

Impaired loans are the loans with objective evidence of impairment. The objective evidence means one or more events that occurred after the initial recognition of the loans and that loss event (or events) has an impact on the estimated future cash flows of the loans that can be reliably estimated. These loans include substandard, doubtful and loss corporate and personal loans.

As at 31 December 2007, the carrying amount of impaired loans covered by fair value of collateral amounted to RMB1,786 million (31 December 2006: RMB1,658 million). The collateral includes land, buildings, equipment and shares.

15. INVESTMENTS

	31-12-2007	31-12-2006
Held for trading investments, measured at fair value:		
Government bonds	3,099,830	3,957,292
Financial bonds issued by policy banks and PBOC	4,580,658	2,880,806
Corporate bonds	767,010	2,326,942
Funds	77,570	21,278
Held for trading investments, measured at fair value	**8,525,068**	**9,186,318**
Available-for-sale bond investments, measured at fair value:		
Government bonds	14,620,466	36,882,459
Financial bonds issued by policy banks and PBOC	14,614,225	22,673,361
Bonds issued by banks and other financial institutions	4,975,622	4,808,519
Corporate bonds	9,008,403	5,917,866
Available-for-sale bond investments	43,218,716	70,282,205
Available-for-sale equity investments, measured at cost (note 15(a))	166,048	130,528
Available-for-sale investments	**43,384,764**	**70,412,733**
Held-to-maturity bond investments, measured at amortised cost:		
Government bonds	53,526,742	40,398,608
Financial bonds issued by policy banks and PBOC	5,557,463	6,230,813
Bonds issued by banks and other financial institutions	1,254,334	2,016,401
Corporate bonds	1,172,059	1,068,552
Provision for held-to-maturity bond investments (note 15(c))	(81,373)	-
Held-to-maturity bond investments	**61,429,225**	**49,714,374**
Loans and receivables bond investments, measured at amortised cost:		
Financial bonds issued by policy banks and PBOC	13,949,858	4,464,782
Bonds issued by banks and other financial institutions	703,250	330,000
Corporate bonds	1,754,676	1,262,720
Others (note 15(b))	4,717,915	-
Loans and receivables bond investments	**21,125,699**	**6,057,502**
Total	**134,464,756**	**135,370,927**

(In RMB'000)

15. INVESTMENTS *continued*

(a) Equity investments

Invested Companies	31-12-2007	31-12-2006	Percentage of shares in invested companies (%)
China UnionPay Co., Ltd.	50,000	50,000	3.03
Industrial Securities Co., Ltd.	51,275	51,275	6.23
Chongqing Guoneng Investment Co., Ltd.	29,253	29,253	10.17
Sun Securities Co., Ltd.	35,520	-	2.50
Total	166,048	130,528	

Equity investments are stated at cost as there are no any quoted active market prices and their fair values cannot be measured reliably.

(b) Other loans and receivables bond investments

Loans and receivables bond investments includes RMB4,533 million wealth management products, for which the underlying assets are loans purchased from other financial institutions.

(c) Impairment provision for held-to-maturity bond investments

	2007
Balance at beginning of year	-
Charge for the year (note 8)	81,373
Balance at end of year	81,373

(d) Others

As at 31 December 2007, bonds amounted to RMB311 million (31 December 2006: RMB26 million) have been pledged for derivative transactions and bonds amounted to RMB11,702 million (2006: RMB16,732 million) have been pledged for securities repurchase agreements.

16. FIXED ASSETS

	Properties and buildings	Leasehold improvements	Office equipment and computers	Motor vehicles	Construction in progress	Total
Cost, less provisions for impairment losses:						
Balance at beginning of year	2,815,341	473,368	944,266	160,647	707,459	5,101,081
Additions	16,810	45,625	371,200	18,309	735,609	1,187,553
Transfer in/(transfer out)	256,662	105,675	9,736	-	(320,869)	51,204
Disposals	(15,632)	(11,677)	(36,036)	(21,474)	-	(84,819)
Balance at end of year	**3,073,181**	**612,991**	**1,289,166**	**157,482**	**1,122,199**	**6,255,019**
Accumulated depreciation:						
Balance at beginning of year	686,559	254,801	464,369	73,746	-	1,479,475
Charge for the year	115,791	90,276	168,011	18,076	-	392,154
Transfer in/(transfer out)	1,661	-	-	-	-	1,661
Disposals	(2,958)	(11,677)	(33,408)	(12,276)	-	(60,319)
Balance at end of year	**801,053**	**333,400**	**598,972**	**79,546**	**-**	**1,812,971**
Net book value:						
At 31 December 2007	2,272,128	279,591	690,194	77,936	1,122,199	4,442,048
At 31 December 2006	2,128,782	218,567	479,897	86,901	707,459	3,621,606

Fixed assets are stated at cost less provision for impairment losses as at 31 December 2007. After comparing with the recoverable amount of nearby properties, management considers that the provision for impairment losses on properties and buildings as at 31 December 2007 is RMB3 million (31 December 2006: RMB3 million).

All the properties and buildings of the Company are located in Mainland China. Included in properties and buildings are costs amounting to RMB109 million (31 December 2006: RMB127 million). Legal ownership registration procedures were not yet completed as at 31 December 2007.

(In RMB'000)

17. INTANGIBLE ASSETS

	Operation rights and customer relationships	Other individually purchased intangible assets	Total
Cost:			
Balance at beginning of year	430,000	102,739	532,739
Additions	-	25,327	25,327
Disposals	-	(867)	(867)
Balance at end of year	430,000	127,199	557,199
Accumulated amortisation:			
Balance at beginning of year	89,583	31,140	120,723
Amortisation (note 7)	43,000	18,457	61,457
Disposals	-	(867)	(867)
Balance at end of year	132,583	48,730	181,313
Net book value:			
At 31 December 2007	297,417	78,469	375,886
At 31 December 2006	340,417	71,599	412,016

18. OTHER ASSETS

	31-12-2007	31-12-2006
Interest receivables from debt securities	2,207,369	1,597,472
Loan interest and other interest receivables	906,094	517,840
Repossessed assets	554,616	609,225
Clearing accounts	342,942	151,963
Positive fair value of financial derivatives	1,257,430	106,539
Precious metal	1,817,950	1,203,704
Continuing involvement of securitised credit assets	373,250	-
Others	595,107	505,959
	8,054,758	4,692,702
Less: Impairment provisions for other assets (note 18 (b))	(205,784)	(217,693)
	7,848,974	4,475,009

(a) Under certain circumstances, the Company established special purpose trust/vehicle ("SPV") to fulfill the securitisation criteria and issue the respective asset-back securities. The SPV under the control of the Company has been consolidated in the Company's financial statements. The control assessment is made based on the risks and rewards borne by the Company and whether the Company can exercise influence over the operations and decision making of the SPV. Since the Company had not retained nor transferred all risks and rewards of the financial assets and the Company had retained its control, the relevant asset-back securities had been derecognised entirely. The Company, based on the degree of continuing involvement, recognised the related assets and liabilities.

(b) Impairment provision for other assets

	Settled assets	Other receivables	Total
Balance at beginning of year	131,761	85,932	217,693
Charge for the year (note 8)	220	11,287	11,507
Write-offs	(23,416)	-	(23,416)
Balance at end of year	108,565	97,219	205,784

19. DUE TO AND PLACEMENTS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	31-12-2007	31-12-2006
Deposits:		
Domestic banks and financial institutions	191,122,772	105,764,197
Placements:		
Domestic banks and financial institutions	845,310	665,900
Foreign banks and financial institutions	146,092	50,200
	991,402	716,100
Total	192,114,174	106,480,297

20. REPURCHASE AGREEMENTS

	31-12-2007	31-12-2006
Analysed by counterparty:		
Banks	43,010,463	11,150,766
Other financial institutions	131,725	12,040,377
	43,142,188	23,191,143
Analysed by collateral:		
Bills	29,818,096	6,511,766
Securities	11,404,012	16,325,352
Loans	1,920,080	354,025
	43,142,188	23,191,143

21. CUSTOMER DEPOSITS

	31-12-2007	31-12-2006
Corporate and personal demand deposits	267,443,929	197,899,734
Corporate and personal time deposits	180,693,133	163,047,424
Deposits pledged as collateral	55,680,076	61,102,830
Fiscal deposits	121,307	145,159
Remittances	1,432,411	1,001,564
	505,370,856	423,196,711

(In RMB'000)

22. SUBORDINATED BONDS ISSUED

		Issuing period	Interest commencement date	Term	31-12-2007	31-12-2006
Floating rate	Note [1]	17/12/2003 - 30/12/2003	26/12/2003 - 31/12/2003	61 months	3,000,000	3,000,000
Callable fixed rate	Note [2]	23/12/2004 - 29/12/2004	30/12/2004	10 years	1,860,000	1,860,000
Callable floating rate	Note [3]	23/12/2004 - 29/12/2004	30/12/2004	10 years	1,140,000	1,140,000
					6,000,000	6,000,000

Note 1: The note bears floating interest at a one-year fixed deposit rate, plus 2.01%.

Note 2: The coupon rate of the note is 5.1% per annum. The Company has an option to fully or partly redeem the note on 30 December 2009, and if the Company does not exercise this option, the coupon rate will be increased to 8.1% per annum for the remaining period.

Note 3: The note bears floating interest at a one-year fixed deposit rate, plus 2.4%. The Company has an option to fully or partly redeem the note on 30 December 2009. If the Company does not exercise this option, the interest rate will be reset to a one-year fixed deposit rate, plus 2.9% for the remaining period.

23. LONG-TERM DEBT SECURITIES ISSUED

		Issuing period	Interest commencement date	Term (year)	Interest rate (%)	31-12-2007	31-12-2006
Financial Bonds							
05Xingye01	Note [1]	25/10/2005 -01/11/2005	01/11/2005	3	2.15	10,000,000	10,000,000
06Xingye01	Note [1]	31/03/2006 -06/04/2006	06/04/2006	5	2.98	5,000,000	5,000,000
06Xingye03 (5 years)	Note [2]	15/12/2006 -19/12/2006	19/12/2006	5	3.45	8,000,000	8,000,000
06Xingye03 (10 years)	Note [2]	15/12/2006 -19/12/2006	19/12/2006	10	3.75	8,000,000	8,000,000
07Xingye01 (3 years)	Note [3]	27/03/2007 - 29/03/2007	29/03/2007	3	3.58	6,986,224	-
07Xingye02 (5 years)	Note [3]	27/03/2007 -29/03/2007	29/03/2007	5	3.78	6,986,224	-
07Xingye03 (5 years)	Note [3]	27/03/2007 -29/03/2007	29/03/2007	5	Note 4	4,990,160	-
						49,962,608	31,000,000
Hybrid Bonds							
06Xingye02 (fixed)	Note [5]	28/09/2006 -29/09/2006	29/09/2006	15	Note 6	3,000,000	3,000,000
06Xingye02 (floating)	Note [5]	28/09/2006 -29/09/2006	29/09/2006	15	Note 7	1,000,000	1,000,000
						4,000,000	4,000,000
						53,962,608	35,000,000

Note 1: The issuance of financial bonds totalling RMB15 billion was approved by PBOC and China Banking Regulatory Commission ("CBRC") according to "PBOC approval of the issuance of financial bonds for Industrial Bank Co., Ltd." (Yin Fu [2005] No. 77) and "CBRC approval of the issuance of financial bonds for Industrial Bank Co., Ltd." (Yin Jian Fu [2005] No. 253).

Note 2: The issuance of the financial bonds totalling RMB16 billion was approved by PBOC (Yin Shi Chang Xu Zhun Yu Zi [2006] No. 22) and CBRC (Yin Jian Fu [2006] No. 345).

Note 3: The issuance of the financial bonds totalling RMB19 billion was approved by PBOC (Yin Shi Chang Xu Zhun Yu Zi [2007] No. 14) and CBRC (Yin Jian Fu [2007] No. 345).

Note 4: The floating rate of the bond is the benchmark interest rate, plus an interest margin of 0.65%. The benchmark rate is the PBOC one-year fixed deposit rate at the issuance date or repricing dates.

Note 5: The term of the hybrid bond contract is 15 years. The Company has an option to fully redeem the bonds at par value from the tenth year to the maturity date, subject to CBRC approval. The Company does not require consent from the holders of the bonds before exercising the redemption option.

Note 6: The interest rate for the first year to the tenth year is 4.94% per annum. If the Company does not exercise the option mentioned in note 3, the interest rate will be increased by 2.8% for the eleventh year and each subsequent year.

Note 7: The floating rate of the bond is the benchmark interest rate, plus an interest margin of 1.82%. The benchmark rate is the PBOC one-year fixed deposit rate at the issuance date or the repricing dates. If the Company does not exercise this option to redeem the bonds by the tenth year, the interest margin will be increased by 1% for the eleventh year and each subsequent year.

24. OTHER LIABILITIES

	31-12-2007	31-12-2006
Interest payable	3,355,365	2,063,511
Tax payable	1,814,740	893,573
Supplementary retirement benefits (a)	249,905	-
Salaries and welfare payables (b)	2,864,284	1,780,455
Bank promissory notes	540,859	1,292,411
Dividends payable	1,318	1,120
Clearing accounts	340,078	204,004
Negative fair value of financial derivatives	1,341,872	115,930
Continuing involved liabilities	373,250	-
Other payables	947,317	987,598
	11,828,988	7,338,602

(a) Supplementary retirement benefits

The Company set up a Company Pension Plan (the "Pension") to provide supplementary retirement benefits to employees in 2007.

The amounts recognised in the balance sheet represent the present value of unfunded obligations. The Company's obligations in respect of the supplementary retirement benefits at the balance sheet date were reviewed by an independent actuary, Hua Xin Hui Yue Consulting Co., Ltd., Shanghai, whose actuaries are members of the Society of Actuaries of the United States of America, using the projected unit credit method.

(In RMB'000)

24. OTHER LIABILITIES *continued*

(a) Supplementary retirement benefits *continued*

(i) Movement in the net liabilities recognised in the balance sheet of the Company is as follows:

Net liabilities at 1 January 2007	-
Supplementary retirement benefit costs	254,689
Payments made	(4,784)
Net liabilities at 31 December 2007	**249,905**

(ii) Net liabilities recognised at the balance sheet date represent:

	31-12-2007
Present value of the obligations	618,497
Unrecognised actuarial gains	59,062
Unrecognised past service cost	(427,654)
Total	**249,905**

(iii) Supplementary retirement benefit costs recognised in the income statement are as follows:

	2007
Current service cost	85,757
Interest cost	22,854
Past service cost	146,078
Total	**254,689**

(iv) Principal actuarial assumptions at balance sheet date are as follows:

Discount rate (%)	4.75
Employee salary increase rate (%)	8.00
Employee turnover rate (%)	9.00

(b) Salaries and welfare payable included an aggregate balance of RMB817 million related to the long-term welfare fund, which was established for the contribution made by the employees for the development of the Company in prior years. The Company will process the aforesaid long-term welfare fund in 2008 according to the relevant plan.

25. SHARE CAPITAL

	31-12-2007	31-12-2006
Registered (par value: RMB1)	5,000,000	3,999,000
Issued and fully paid (par value: RMB1)	5,000,000	3,999,000

As at 29 January 2007, the registered and paid-in capital was approved to increase by RMB1,001,000,000. Subsequent to the approval, the registered and paid-in capital was increased from RMB3,999,000,000 to RMB5,000,000,000. The increased paid-in capital was verified by Fujian Huaxing Certified Public Accountants Ltd., and the capital verification report (2007) No. G-002 was issued.

26. SURPLUS RESERVES

	Share premium	Others	Total
At 1 January 2006	2,804,883	34,331	2,839,214
Addition	-	-	-
At 31 December 2006	**2,804,883**	**34,331**	**2,839,214**
At 1 January 2007	2,804,883	34,331	2,839,214
Addition	14,720,959	-	14,720,959
At 31 December 2007	**17,525,842**	**34,331**	**17,560,173**

Addition of surplus reserves in 2007 represent the share premium from issuance of shares after deducting the issuance cost.

27. SURPLUS RESERVES

	Statutory surplus reserve	Statutory public welfare fund	Discretionary surplus reserve	Total
At 1 January 2006	711,652	288,103	-	999,755
Appropriation	379,826	-	-	379,826
Statutory adjustment	18,036	8,518	-	26,554
Transfer in	-	-	296,621	296,621
Transfer out	-	(296,621)	-	(296,621)
At 31 December 2006	**1,109,514**	**-**	**296,621**	**1,406,135**
At 1 January 2007	1,109,514	-	296,621	1,406,135
Appropriation	858,576	-	-	858,576
At 31 December 2007	**1,968,090**	**-**	**296,621**	**2,264,711**

Pursuant to the Company's articles of association and the relevant accounting standards and regulations of the PRC, the Company shall make appropriations to the surplus reserves, including the statutory surplus reserve and the discretionary surplus reserve, at a certain percentage of the Company's net profit. The statutory surplus reserve should be appropriated at a minimum of 10% of the net profit arrived at under the PRC accounting standards and relevant regulations, until its balance reaches 50% of the registered or paid-in capital. The statutory surplus reserve can be used to compensate the accumulated losses or transfer to paid-in capital, upon approval of the shareholders. Appropriation to the discretionary surplus reserve is to be determined by the shareholders.

From 1 January 2006 onwards, the Company adopted the "Provisional Guidelines on Recognition and Measurement of Financial Instruments" (Cai Hui [2005] No. 14), issued by the MOF on 25 August 2005, to prepare its 2006 statutory financial statements. As such, changes have been made to the accounting policies of financial assets and liabilities, and the Company has made retrospective adjustments to the statutory financial statements of 2005. These retrospective adjustments have affected the net profit after tax of the prior years' statutory financial statements. Pursuant to PRC Company Law, the Company is required to appropriate a certain percentage of its net profit, calculated based on the relevant PRC accounting standards, to the statutory surplus reserve and statutory public welfare fund. The retrospective adjustments increase the prior years' net profit after tax; as a result, the above-mentioned reserves are increased. In this regard, the Company has made respective adjustments in the statutory financial statements.

27. SURPLUS RESERVES *continued*

According to the newly revised PRC Company Law, effective from 1 January 2006, the Company does not make appropriation to the statutory public welfare fund for the year ended 31 December 2006. According to the notice (Cai Qi [2006] No.67, effective from 1 April 2006) issued by the MOF, the balance of the statutory public welfare fund as at 31 December 2005 should be transferred to the surplus reserve. In this regard, the Company transferred the balance of statutory public welfare fund as at 31 December 2005 to the discretionary surplus reserve.

28. GENERAL RESERVE

According to the relevant regulations of the MOF, the Company should set aside a certain percentage of its general reserve through profit appropriation. Pursuant to the resolution passed in the 19th Session of the 5th Board of Directors meeting held on 26 March 2007, the directors appropriated RMB1,227 million to the general reserve for the year ended 31 December 2006. The resolution was approved at the 2006 annual general meeting of shareholders held on 28 April 2007. In addition, pursuant to the resolution passed in the 7th Session of the 6th Board of Directors meeting held on 18 March 2008, the directors appropriated RMB1,147 million to the general reserve for the year ended 31 December 2007.

29. DIVIDENDS

Pursuant to the resolution passed in the 19th Session of the 5th Board of Directors meeting held on 26 March 2007, a final dividend of RMB2.6 per 10 shares was proposed for the financial year 2006 on the basis of 5,000 million shares, totalling RMB1,300 million, which was approved at the 2006 annual general meeting of shareholders held on 28 April 2007.

Pursuant to the resolution passed in the 7th Session of the 6th Board of Directors meeting held on 18 March 2008, a final dividend of RMB3.2 per 10 shares was proposed. As at 31 December 2007, the total dividends of RMB1, 600 million, which was subject to the approval at the 2007 annual general meeting of shareholders, were not recognised as liabilities in the current year's financial statements.

30. RETAINED EARNINGS

According to the PRC Company Law and the Company's articles of association, the profit can be distributed to the shareholders after (1) fulfilling all tax liabilities, (2) compensating any accumulated losses, (3) making appropriation to statutory surplus reserve, (4) making appropriation to the general reserve and (5) the discretionary surplus reserve. The percentages of the general reserve and surplus reserves that are used in appropriation are decided by the Company's board of directors with reference to the relevant regulations.

As stated in note 2.1, these financial statements are prepared under IFRS. These financial statements are not the statutory financial statements of the Company and are prepared for supplementary purposes only. According to the relevant regulations, the profits distributable to shareholders are based on the statutory financial statements prepared under the PRC accounting standards and regulations, and not on these financial statements prepared under the IFRS.

Profit distribution is decided at the annual general meeting of shareholders of the Company, with reference to the operating results, financial status and other relevant factors.

31. NET CASH INFLOW FROM OPERATING ACTIVITIES

	2007	2006
Profit before income tax	10,910,172	5,046,202
Interest income	(40,197,649)	(24,939,025)
Interest expense	19,351,656	11,644,364
Foreign exchange differences	218,554	140,910
Depreciation	392,154	352,427
Amortisation of intangible assets	61,457	56,121
Provisions for loan losses and provisions for impairment of assets	1,678,842	2,402,417
Unrealised gain/(loss) on financial instruments at fair value through profit or loss	49,647	89,577
Net gain from trading precious metal	65,468	9,322
Gain on disposal of fixed assets, net	(19,705)	(10,711)
Dividends payable recorded in non-operating income	-	(3,768)
Gain/(loss) on disposal of investments, net	467,823	122,222
Income on equity investments	(1,650)	(400)
Net (increase)/decrease in operating assets:		
Deposits with the central bank and fiscal deposits	(29,041,754)	(8,440,950)
Due from and placements with banks and other financial institutions	(11,732,926)	813,135
Reverse repurchase agreements	(54,299,004)	(15,842,308)
Loans	(74,927,612)	(82,982,475)
Other assets	(3,052,099)	161,246
Net increase in operating liabilities:		
Due to and placements from banks and other financial institutions	85,633,877	40,646,822
Repurchase agreements	19,951,045	4,082,272
Customer deposits	82,174,145	67,978,602
Other liabilities	1,931,728	1,414,881
Net cash inflow from operating activities before interests and income tax	9,614,169	2,740,883
Cash inflow from interest received	34,023,378	20,972,253
Cash outflow from interest paid	(16,614,020)	(11,385,568)
Income tax paid	(1,696,841)	(1,374,843)
Net cash inflow from operating activities	**25,326,686**	**10,952,725**

32. DERIVATIVE FINANCIAL INSTRUMENTS

The Company enters into financial derivative transactions for banking activities and also for asset and liability management purposes. Banking activities include the structuring and marketing of derivative products to customers to enable them to transfer, modify or reduce current or expected risks.

To mitigate the market risk of transactions entered into with customers, the Company enters into back-to-back contracts with third parties which effectively offset the Company's market risk exposure arising from the contracts.

The Company uses financial derivatives to manage its assets and liabilities. When there are significant interest rate mismatches of the assets and liabilities of the Company, for example, the Company acquires an asset on a fixed interest rate while its funding is at a floating rate, the fluctuation of the market rate may incur risks on the fair value of the assets and liabilities. In order to minimise the effect of interest rate fluctuation, the Company converts the interest rate of assets from fixed to floating through interest rate swaps.

The notional amount of a derivative represents the amount of the underlying asset upon which the value of the derivatives is based. It provides an indication of the volume of business transacted by the Company, but does not provide any measures of risk.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable and willing parties in an arm's length transaction.

The notional amount and fair value of the Company's derivative financial instruments are shown below.

	31 December 2007						
	Notional amount analysed by remaining maturity					Fair value	
	Less than 3 months	3 to 1 year	1 to 5 years	Over 5 years	Total	Assets	Liabilities
Exchange rate derivatives:							
Forwards	23,133,536	33,635,855	6,805,125	-	63,574,516	940,964	(942,503)
Interest rate derivatives							
Cross-currency swaps	22,007	126,896	146,046	215,399	510,348	1,139	(16,565)
Interest rate swaps	4,563,046	21,624,566	39,607,950	2,603,322	68,398,884	295,591	(364,362)
Forwards	-	8,882	-	-	8,882	469	(469)
	4,585,053	21,760,344	39,753,996	2,818,721	68,918,114	297,199	(381,396)
Credit derivatives:							
Credit swaps	-	36,523	511,322	-	547,845	2,158	(15,413)
Bond derivatives:							
Forwards	740,000	-	-	-	740,000	2,479	-
Options	146,092	56,103	-	-	202,195	2,460	(2,560)
	886,092	56,103	-	-	942,195	4,939	(2,560)
Precious metal derivatives:							
Forwards	3,153,535	-	-	-	3,153,535	12,170	-
	31,758,216	55,488,825	47,070,443	2,818,721	137,136,205	1,257,430	(1,341,872)

	31 December 2006						
	Notional amount analysed by remaining maturity					Fair value	
	Less than 3 months	3 to 1 year	1 to 5 years	Over 5 years	Total	Assets	Liabilities
Foreign exchange derivatives:							
Forwards	12,236,975	7,995,739	-	-	20,232,714	40,677	(50,843)
Interest rate derivatives:							
Cross-currency swaps	-	77,949	155,897	-	233,846	289	(289)
Interest rate swaps	367,010	1,074,575	837,469	846,592	3,125,646	59,330	(58,067)
Forwards	6,434	-	9,495	-	15,929	368	(368)
	373,444	1,152,524	1,002,861	846,592	3,375,421	59,987	(58,724)
Credit derivatives:							
Credit swaps	-	-	312,348	-	312,348	4,507	-
Bond derivatives:							
Forwards	-	790,000	-	-	790,000	710	(6,363)
Options	-	-	-	-	-	-	-
	-	790,000	-	-	790,000	710	(6,363)
Precious metal derivatives:							
Forwards	1,303,465	-	-	-	1,303,465	658	-
	13,913,884	9,938,263	1,315,209	846,592	26,013,948	106,539	(115,930)

(In RMB'000)

33. COMMITMENTS

(a) Capital commitments

	31-12-2007	31-12-2006
Approved, but not contracted for	329,491	31,250
Contracted, but not provided for	529,927	420,939
	859,418	452,189

(b) Operating lease commitments

At the balance sheet date, the Company had total future minimum lease payments in respect of non-cancellable operating leases falling due as follows:

	31-12-2007	31-12-2006
Within one year	405,627	275,902
In the second to fifth years, inclusive	1,009,158	653,406
After five years	521,595	239,139
	1,936,380	1,168,447

(c) Bond under-writing commitments

	31-12-2007	31-12-2006
Bond under-writing commitments	-	60,000

34. LOAN COMMITMENTS AND CONTINGENT LIABILITIES

	31-12-2007	31-12-2006
Bank acceptance	86,717,367	85,954,096
Irrevocable letters of credit issued	8,805,468	7,612,824
Guarantees issued	5,188,248	3,936,645
Irrevocable loan commitments	640,000	31,200

The Company grants credit facilities to certain customers. However, in the opinion of management, the Company is not committed to the undrawn credit facilities and they are all revocable at the discretion of the Company.

35. FIDUCIARY TRANSACTIONS

	31-12-2007	31-12-2006
Entrusted loans	23,650,951	16,108,470
Entrusted deposits	23,650,951	16,108,470
Fiduciary wealth management assets	39,055,176	20,281,637
Fiduciary wealth management funds	39,055,176	20,281,637

Entrusted deposits represent funds which depositors have instructed the Company to use to grant loans to third parties designated by them. The credit risk remains with the depositors.

Fiduciary wealth management business means that the Company acts in a fiduciary capacity as a custodian or as an agent for customers and is responsible for running and managing customers' assets. Fiduciary wealth management funds represent the funds that the Company obtained from customers while fiduciary wealth management assets represent the investment sum that the Company invests using entrusted funding from its customers.

As at 31 December 2007, the difference between entrusted deposits and entrusted loans amounted to RMB694 million (31 December 2006: RMB278 million). The depositors have not yet advised the Company to whom the surplus entrusted deposits should be granted, which were included in customer deposits.

36. CONTINGENT LIABILITIES

(a) Legal proceedings

As at 31 December 2007, the pending legal proceedings against the Company or its branches involved claims amounting to RMB20 million (2006: RMB32 million). In the opinion of the management, these legal proceedings do not have a significant adverse impact on the Company's financial position and its operating result.

(b) Redemption commitments of government voucher type bonds

As an underwriting agent of the PRC government, the Company underwrites PRC government voucher type bonds and sells the bonds to the general public. The Company is obliged to redeem the bonds at the discretion of the holders. As at 31 December 2007, the Company has sold bonds with an accumulated amount of RMB4, 471 million (31 December 2006: RMB5,202 million) to the general public that have not yet matured and have not been redeemed. Management expects that the early redemption amount of government bonds through the Company before maturity will not be material.

37. RELATED PARTY TRANSACTIONS

(a) Shareholders and related companies

The Company does not have a controlling shareholder. Shareholders and related companies mentioned below refer to those holding more than 5% of the Company's shares.

Name	Relationship
The Finance Bureau of Fujian Province	Shareholders
Hang Seng Bank Co., Ltd.	Shareholders

(In RMB'000)

37. RELATED PARTY TRANSACTIONS *continued*

(a) Shareholders and related companies *continued*

Related party transactions with shareholders and their related companies holding more than 5% of the Company's shares are as follows:

	2007	2006
Interest income	-	6,720
Interest expense	117,811	92,111
Due from and placements with banks and other financial institutions	16,670	455,000
Reverse repurchase agreements	-	99,000
Customer deposits	7,501,455	6,842,144
Foreign exchange derivative contracts	-	390,560

(b) Related party transactions with other companies upon which the key executives have controlling or significant influence are as follows:

	2007	2006
Interest income	51,831	39,763
Interest expense	7,751	4,476
Reverse repurchase agreements	194,000	100,000
Loans	1,000,000	400,000
Customer deposits	159,170	154,492
Due from and placements with banks and other financial institutions	146,092	-
Interest rate derivative contracts	80,000	-
Foreign exchange derivative contracts	586,088	-

(c) Related party transactions between the Company and its key executives and their relatives are as follows:

	2007	2006
Interest income	133	83
Interest expense	179	198
Loans	6,291	2,246
Customer deposits	24,734	9,201

Related party borrowings are negotiated on commercial terms. Borrowers are requested to provide guarantees and collateral according to their financial conditions. Loan interest is calculated based on the market interest rate set by the PBOC.

(d) Key management personnel remuneration

The key management personnel are those persons who have the authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly, including members of the supervisory board, directors and other senior officers.

	2007	2006
Salaries and other short-term employee benefits	15,933	7,887
Post-employment benefits	80	77

38. SEGMENT INFORMATION

Geographical segment information mainly shows the seven largest business regions of the Company.

2007

	Head office	Fujian	Beijing	Shanghai	Guangdong	Zhejiang	Jiangsu	Others	Elimination	Total
Interest income	13,102,746	8,318,392	4,585,744	7,101,362	7,975,953	5,308,440	2,318,485	12,777,837	(21,291,310)	40,197,649
Interest expense	(11,476,768)	(4,359,458)	(2,771,059)	(4,252,758)	(5,387,614)	(3,372,956)	(1,443,368)	(7,578,985)	21,291,310	(19,351,656)
Net interest income	1,625,978	3,958,934	1,814,685	2,848,604	2,588,339	1,935,484	875,117	5,198,852	-	20,845,993
%	12.4	47.6	39.6	40.1	32.5	36.5	37.7	40.7		
Net fee and commission income	343,888	204,304	116,783	64,094	134,012	186,527	54,677	413,570	-	1,517,855
Other income/(expenses), net	(403,603)	69,041	(15,708)	(15,465)	(8,938)	34,169	4,740	37,275	-	(298,489)
Operating income	1,566,263	4,232,279	1,915,760	2,897,233	2,713,413	2,156,180	934,534	5,649,697	-	22,065,359
Staff costs	(867,156)	(738,201)	(280,625)	(375,831)	(382,034)	(284,178)	(105,320)	(716,077)	-	(3,749,422)
General & administrative expenses	(777,933)	(463,871)	(268,740)	(284,434)	(561,768)	(346,150)	(166,285)	(994,434)	-	(3,863,615)
Depreciation	(93,607)	(79,170)	(18,327)	(37,039)	(47,590)	(22,799)	(13,234)	(80,388)	-	(392,154)
Business tax and	(42,418)	(272,858)	(125,402)	(147,766)	(196,885)	(183,522)	(72,043)	(430,260)	-	(1,471,154)
Provision for loan losses	(20,315)	(200,389)	(94,393)	(186,306)	(257,536)	(236,202)	(55,569)	(540,686)	-	(1,591,396)
Provision for impairment of other assets	(79,682)	5,920	28	(1,989)	(6,816)	(118)	50	(4,839)	-	(87,446)
Profit before income tax	(314,848)	2,483,710	1,128,301	1,863,868	1,260,784	1,083,211	522,133	2,883,013	-	10,910,172
Loan	5,109,017	73,141,571	31,835,441	40,876,392	56,603,615	48,160,205	19,836,641	124,579,894	-	400,142,776
Total assets	334,484,251	112,189,249	80,505,387	131,900,071	103,497,238	59,678,003	42,207,621	199,487,709	(212,614,260)	851,335,269
Total liabilities	(306,598,102)	(109,839,149)	(79,269,807)	(130,091,499)	(102,262,706)	(58,635,429)	(41,699,899)	(196,655,862)	212,614,260	(812,438,193)
Capital expenditure	255,899	102,441	260,003	20,476	53,481	138,617	21,655	360,308	-	1,212,880
Credit commitment	-	12,151,141	2,938,589	3,720,596	9,720,109	23,647,128	7,629,886	41,543,634	-	101,351,083

(In RMB'000)

38. SEGMENT INFORMATION *continued*

2006

	Head office	Fujian	Beijing	Shanghai	Guangdong	Zhejiang	Jiangsu	Others	Elimination	Total
Interest income	6,133,555	3,988,241	2,192,644	2,965,512	3,633,702	3,010,133	1,351,063	6,751,069	(5,086,894)	24,939,025
Interest expense	(5,087,112)	(1,364,639)	(976,026)	(1,631,107)	(1,799,337)	(1,545,931)	(770,155)	(3,556,951)	5,086,894	(11,644,364)
Net interest income	1,046,443	2,623,602	1,216,618	1,334,405	1,834,365	1,464,202	580,908	3,194,118	-	13,294,661
%	17.1	65.8	55.5	45.0	50.5	48.6	43.0	47.3		
Net fee and commission income	6,542	74,636	43,124	56,659	60,529	77,748	28,730	84,639	-	432,607
Other income/(expenses), net	(289,098)	52,807	35,174	68,550	21,436	46,088	4,335	24,862	-	(35,846)
Operating income	763,887	2,751,045	1,294,916	1,459,614	1,916,330	1,588,038	613,973	3,303,619	-	13,691,422
Staff costs	(496,751)	(480,540)	(197,507)	(203,150)	(190,417)	(207,046)	(107,505)	(408,189)	-	(2,291,105)
General & administrative expenses	(429,196)	(350,544)	(202,510)	(226,310)	(399,215)	(266,641)	(119,632)	(624,685)	-	(2,618,733)
Depreciation	(76,873)	(77,743)	(18,024)	(42,980)	(39,315)	(22,127)	(13,745)	(61,620)	-	(352,427)
Business tax and surcharges	(7,504)	(184,216)	(89,604)	(110,012)	(138,327)	(134,747)	(50,982)	(265,146)	-	(980,538)
Provision for loan losses	(37,188)	(424,596)	(91,144)	(233,564)	(636,947)	(156,974)	(82,223)	(691,563)	-	(2,354,199)
Provision for impairment of other assets	(3,730)	7,226	42	(41,650)	3,299	(628)	(148)	(12,629)	-	(48,218)
Profit before income tax	(287,355)	1,240,632	696,169	601,948	515,408	799,875	239,738	1,239,787	-	5,046,202
Loan	4,088,111	57,570,086	27,687,821	38,055,911	45,839,133	39,202,908	16,938,600	94,994,261	-	324,376,831
Total assets	241,645,094	87,844,921	63,511,622	74,579,188	87,910,474	56,611,407	26,505,288	147,658,825	(168,806,422)	617,460,397
Total liabilities	(230,475,157)	(86,714,244)	(62,787,067)	(73,961,155)	(87,575,006)	(55,811,135)	(26,252,175)	(146,491,214)	168,806,422	(601,260,731)
Capital expenditure	131,665	64,268	469,582	19,947	41,044	198,108	11,723	126,001	-	1,062,338
Credit commitment	-	10,580,211	2,906,330	3,987,888	12,733,904	21,203,692	9,276,029	36,846,711	-	97,534,765

39. FINANCIAL INSTRUMENTS RISK POSITION

The Company accepts deposits of various terms at fixed or floating rates. It uses the funds obtained for investments or granting loans to earn profit. In these processes, the Company encounters different types of risk. A description and analysis of the major risks faced by the Company is as follows:

(1) Credit risk

Credit risk is the risk of loss from default by an obligor or counterparty when payments fall due.

Credit risk is often greater when counterparties are concentrated in a single industry or geographical location or have common economic characteristics.

The Company operates its lending business in Mainland China only. Major off-balance sheet items such as bank drafts and acceptance are due from domestic enterprises. However, there are different economic development characteristics in the different regions in China, and credit risks are therefore different. For the geographical concentration of the loan portfolio and major off-balance sheet items, please refer to note 38. For an analysis of the concentration of loans by industry, please refer to note 14(a).

The credit risk of the Company mainly comes from loans, placements, discounted bills, letters of credit, letters of guarantee, etc. The Company manages and controls credit risk according to the following processes: customer investigation before granting of credit limits, loan review and approval and post-disbursement loan monitoring and collection.

Several departments of the Company are responsible for the management of credit risk, including the Risk Management Department, Credit Approval Department, and Special Assets Management Department. These departments are responsible for the following duties: drafting credit risk management policies and operating manuals; developing risk management technology and the application of risk management tools; monitoring credit risk and inspection and supervision, etc.

The Credit Approval Department has four regional approval centers, including Beijing, Shanghai, Guangzhou and Fujian. The regional approval centers centrally review and approve loan applications submitted by the relevant branches. In addition, the Company also sets up several specialised committees such as Credit Approval Committee and Credit Accountability Committee. The former is responsible for the review and approval of the credit related business within its authority. The latter is responsible for determining the responsibility of credit related business.

The Company established a set of standard processes on the approval and management of credit related business. The management process of corporate and retail loans can be separated into the following segments: investigation, review, approval, loan disbursement, post-disbursement loan monitoring and collection. In addition, the Company has the credit policy to distinguish the responsibility of every segment of the credit management process so as to control the credit risk effectively and strengthen the monitoring of credit compliance works.

The Company strengthened the post-disbursement loan monitoring works so as to control the credit risk effectively. It is implemented both on the portfolio level and the single client level to investigate risk signals before it really happens.

Based on five tier classification policy established by CBRC, the Company classified credit assets into nine tiers, which are Pass 1, Pass 2, Pass 3, Special Mention 1, Special Mention 2, Special Mention 3, Substandard, Doubtful and loss. According to the different tiers, the Company adopted different management policies and made provision correspondingly.

(In RMB'000)

39. FINANCIAL INSTRUMENTS RISK POSITION *continued*

(1) Credit risk *continued*

Collateral

The amount and types of the collateral the Company needs to acquire depends on the credit risk evaluation of the counter parties. The Company carried out related guidelines on the types of collateral and the evaluation parameter.

Following are the main types of collateral:

- For reverse repurchase agreements, collateral mainly includes bills, loans and securities;
- For commercial loans, collateral mainly includes land, properties, equipment and shares, etc.; and
- For retail loans, collateral mainly includes properties.

The management will monitor the market value of the collateral periodically and ask the borrowers to add collateral if necessary according to the agreements.

The Company disposed of the settled assets orderly. Proceeds from disposal are used to offset against outstanding loans. Normally, the Company does not use settled assets for commercial purpose.

The book value of settled assets the Company obtained during 2007 amounted to RMB91 million, which mainly included land, properties and equipment.

The maximum credit risk exposure without consideration of any collateral and other credit enhancements

As at the balance sheet date, the maximum credit risk exposure of the Company without taking account of any collateral and other credit enhancements is set out below:

	31-12-2007	31-12-2006
Balances with the central bank	91,701,024	75,011,781
Due from banks and other financial institutions	42,289,887	11,127,752
Placements with banks and other financial institutions	4,016,673	10,486,118
Reverse repurchase agreements	169,955,558	56,360,611
Loans	393,028,777	318,101,164
Investments	134,298,708	135,240,399
Other assets	5,534,504	2,723,361
	840,825,131	609,051,186
Bank acceptance	86,717,367	85,954,096
Irrevocable letters of credit issued	8,805,468	7,612,824
Guarantees issued	5,188,248	3,936,645
Irrevocable loan commitments	640,000	31,200
Maximum credit risk exposure	**942,176,214**	**706,585,951**

The credit quality by class of financial assets of the Company is analysed as follows:

	31-12-2007(RMB million)				
	Neither past due nor impaired				
	High quality	Standard quality	Past due but not impaired	Impaired	Total
Balances with the central bank	91,701	-	-	-	91,701
Due from banks and other financial institutions	42,289	-	-	23	42,312
Placements with banks and other financial institutions	4,017	-	-	120	4,137
Reverse repurchase agreements	169,956	-	-	-	169,956
Loans	383,693	11,155	712	4,583	400,143
Investments	134,234	-	-	146	134,380
Other assets	5,536	-	-	96	5,632
Total	831,426	11,155	712	4,968	848,261

	31-12-2006(RMB million)				
	Neither past due nor impaired				
	High quality	Standard quality	Past due but not impaired	Impaired	Total
Balances with the central bank	75,012	-	-	-	75,012
Due from banks and other financial institutions	11,127	-	-	23	11,150
Placements with banks and other financial institutions	10,486	-	-	125	10,611
Reverse repurchase agreements	56,361	-	-	-	56,361
Loans	311,644	6,990	764	4,980	324,378
Investments	135,240	-	-	-	135,240
Other assets	2,716	-	-	93	2,809
Total	602,586	6,990	764	5,221	615,561

(In RMB'000)

39. FINANCIAL INSTRUMENTS RISK POSITION *continued*

(1) Credit risk *continued*

Loans

As at 31 December 2007, neither past due nor impaired loans included Pass and Special Mention loans of RMB395 billion (31 December 2006: RMB319 billion). The management considered that these loans are only with normal business risk without objective evidence of impairment.

The aging analysis of past due but not impaired loans is shown below:

31-12-2007

	Less than 90 days	90 days to 360 days	360 days to 3 years	More than 3 years	Total	Covered by fair value of collateral
Loans	648,863	62,695	-	-	711,558	586,479

31-12-2006

	Less than 90 days	90 days to 360 days	360 days to 3 years	More than 3 years	Total	Covered by fair value of collateral
Loans	437,448	144,356	182,509	-	764,313	490,585

The carrying amount of loans that would otherwise be past due or impaired if not restructured is as follows:

	31-12-2007	31-12-2006
Loans	789,311	1,069,699

(2) Liquidity risk

The Asset and Liability Management Committee monitors the liquidity risk on behalf of the Company to ensure that liquidity is being managed effectively. The committee normally carries out the following works: (1) reviewing and authorising (a) policies on liquidity risk management, (b) liquidity risk monitoring and alarming limits, and (c) liquidity risk management measures; (2) discussing liquidity risk reports submitted periodically.

The administrative office of Assets and Liabilities Management Committee (the "administrative office") is responsible for: (1) drafting liquidity risk management policies and measures and (2) monitoring different types of liquidity ratios and exposure indicators. The administrative office monitors the liquidity risk ratios monthly by reviewing the assets and liabilities structure. If there are any ratios close to or over alarming limits, it has to investigate the reasons and made recommendations to adjust the assets and liabilities structure accordingly. That means the administrative office should analyse the liquidity risk and reports to the Assets and Liability Management Committee regularly.

The Financial Markets and the Planning and Financial Department are responsible for the daily operation of the liquidity management. Both departments are responsible for establishing a cash position forecast system at the Company's level; in order to meet the Company's cash payment needs and assure the liquidity of the business development needs.

A maturity analysis of assets and liabilities of the Company at the balance sheet date is as follows:

	31-12-2007 (RMB million)						
	Overdue	On demand	Less than 3 months	3 months to 1 year	1 to 5 years	More than 5 years	Total
ASSETS							
Cash and balances with the central bank	-	72,964	6,567	9,281	4,875	176	93,863
Due from and placements with banks and other financial institutions	-	26,176	8,938	7,390	3,602	201	46,307
Reverse repurchase agreements	-	-	146,960	18,579	3,716	700	169,955
Loans	2,426	-	53,471	142,337	73,877	120,918	393,029
Investments	-	78	2,935	14,291	84,032	33,129	134,465
Deferred tax assets	-	-	-	257	22	770	1,049
Other assets	2	2,261	1,699	2,381	1,364	4,960	12,667
TOTAL ASSETS	2,428	101,479	220,570	194,516	171,488	160,854	851,335
LIABILITIES							
Due to and placements from banks and other financial institutions	-	168,612	12,246	8,233	2,452	571	192,114
Repurchase agreements	-	-	35,997	7,145	-	-	43,142
Customer deposits	-	324,040	56,983	80,524	42,300	1,524	505,371
Subordinated bonds issued	-	-	-	-	3,000	3,000	6,000
Long-term debt securities issued	-	-	-	10,000	31,963	12,000	53,963
Deferred tax liabilities	-	-	-	19	-	-	19
Other liabilities	-	1,828	6,909	1,784	1,180	128	11,829
TOTAL LIABILITIES	-	494,480	112,135	107,705	80,895	17,223	812,438
NET LIQUIDITY GAP	2,428	(393,001)	108,435	86,811	90,593	143,631	38,897
LOAN COMMITMENTS	-	-	59,236	39,982	2,130	3	101,351

39. FINANCIAL INSTRUMENTS RISK POSITION *continued*

(2) Liquidity risk *continued*

	31-12-2006(RMB million)						
	Overdue	On demand	Less than 3 months	3 months to 1 year	1 to 5 years	More than 5 years	Total
ASSETS							
Cash and balances with the central bank	-	64,228	4,230	5,386	2,545	90	76,479
Due from and placements with banks and other financial institutions	-	4,968	13,322	2,925	169	230	21,614
Reverse repurchase agreements	-	-	43,849	8,383	3,129	1,000	56,361
Loans	2,906	-	41,452	129,294	81,016	63,433	318,101
Investments	-	21	8,640	29,387	62,745	34,578	135,371
Deferred tax assets	-	-	-	211	51	764	1,026
Other assets	2	1,492	864	1,541	587	4,022	8,508
TOTAL ASSETS	2,908	70,709	112,357	177,127	150,242	104,117	617,460
LIABILITIES							
Due to and placements from banks and other financial institutions	-	86,019	10,333	7,617	2,161	350	106,480
Repurchase agreements	-	-	17,720	5,471	-	-	23,191
Customer deposits	-	245,658	61,295	78,057	36,884	1,303	423,197
Subordinated bonds issued	-	-	-	-	3,000	3,000	6,000
Long-term debt securities issued	-	-	-	-	23,000	12,000	35,000
Deferred tax liabilities	-	-	-	54	-	-	54
Other liabilities	-	2,645	3,261	1,111	312	10	7,339
TOTAL LIABILITIES	-	334,322	92,609	92,310	65,357	16,663	601,261
NET LIQUIDITY GAP	2,908	(263,613)	19,748	84,817	84,885	87,454	16,199
LOAN COMMITMENTS	-	-	51,906	44,266	1,353	10	97,535

(3) Market risk

Market risk is the risk of loss, in respect of the Company's on and off-balance sheet activities, arising from adverse movements in market rates including interest rates, foreign exchange rates and commodity prices, etc. Market risk arises from both the Company's trading and non-trading business. The Company's market risk management objective is to control the market risk within a reasonable scope in order to achieve the risk adjusted optimising yield.

The Company has built up the market risk management system, including setting up the market risk management policy and processes; market risk identification, measurement, monitoring and control processes; establishing internal control and auditing system, market risk limit system and market risk reporting system, etc.

According to the Company's market risk management structure, market risk management is critical for the management of the Company's assets and liabilities. Any major events should be reported to the Asset and Liability Management Committee for review and then authorised by the Company's president.

The Planning and Financial Department is responsible for implementing the Company's assets and liabilities management policy, analyzing and monitoring the implementation status of each type of indicators, and managing the assets and liabilities mismatch, etc. The Planning and Financial Department also acts as an administrative office for the Asset and Liability Management Committee to discharge its daily market risk management function and determine market risk limits which are allocated to each business unit for implementation.

In order to enhancing the sensitivity and responsiveness to market risk management, the Risk Management Department has set up middle office within the Financial Markets to monitor the operating status of the Financial Markets timely and make risk evaluation report regarding the operating status regularly.

(4) Currency risk

The Company is mainly exposed to currency risk resulting from currency mismatches of assets and liabilities, foreign currency transactions and foreign currency capital, etc.

The Financial Markets of the Company centrally manages the currency risk. The currency risk arisen from all types of foreign exchange transactions at branch level should be centralised to head office which will manage the risk exposure and square positions.

The currency risk exposure between foreign currencies, are managed through "overnight position limit" and "day time self-trading positions". The positions are centralised to the Financial Markets timely and managed centrally. This kind of position is relatively small compared to the Company's asset scale and is controllable.

Regarding the currency risk exposure between RMB and foreign currencies, the Company is mainly exposed to currency risk resulting from the comprehensive positions of the RMB market maker and the position of the foreign currency capital. As an active RMB market maker, the Company controls the position limit properly. To avoid the risk of RMB appreciation, the comprehensive positions of the market maker is managed close to zero and the overnight positions are kept at low level. The position arisen from the foreign currency capital is the largest currency risk position between RMB and foreign currency. Since the foreign currency capital is the necessity for the Company to develop its foreign currency business, the Company adopts the risk bearing strategy for this part of position. The main method adopted by the Company to control the position is to apply to State Administration of Foreign Exchange for the settlement of foreign currency capital and the foreign currency profit.

The Company is established in the PRC and the majority of the Company's operations are conducted in Mainland China.

39. FINANCIAL INSTRUMENTS RISK POSITION *continued*

(4) Currency risk *continued*

A breakdown of relevant assets and liabilities by currency is as follows:

	31-12-2007(RMB million)			
	RMB	USD	Others	Total
ASSETS				
Cash and balances with the central bank	92,762	888	213	93,863
Due from and placements with banks and other financial institutions	42,577	2,730	1,000	46,307
Reverse repurchase agreements	169,955	-	-	169,955
Loans	387,791	4,836	402	393,029
Investments	129,297	4,898	270	134,465
Deferred tax assets	1,049	-	-	1,049
Other assets	11,536	1,086	45	12,667
TOTAL ASSETS	834,967	14,438	1,930	851,335
LIABILITIES				
Due to and placements from banks and other financial institutions	186,192	3,308	2,614	192,114
Repurchase agreements	43,142	-	-	43,142
Customer deposits	496,756	6,574	2,041	505,371
Subordinated bonds issued	6,000	-	-	6,000
Long-term debt securities issued	53,963	-	-	53,963
Deferred tax liabilities	19	-	-	19
Other liabilities	11,396	344	89	11,829
TOTAL LIABILITIES	797,468	10,226	4,744	812,438
NET POSITION	37,499	4,212	(2,814)	38,897
LOAN COMMITMENTS	93,202	7,351	798	101,351

	31-12-2006(RMB million)			
	RMB	USD	Others	Total
ASSETS				
Cash and balances with the central bank	75,559	702	218	76,479
Due from and placements with banks and other financial institutions	15,463	5,446	705	21,614
Reverse repurchase agreements	56,361	-	-	56,361
Loans	314,916	2,865	320	318,101
Investments	129,631	5,658	82	135,371
Deferred tax assets	1,026	-	-	1,026
Other assets	8,301	173	34	8,508
TOTAL ASSETS	601,257	14,844	1,359	617,460
LIABILITIES				
Due to and placements from banks and other financial institutions	101,190	4,530	760	106,480
Repurchase agreements	22,926	265	-	23,191
Customer deposits	414,249	6,910	2,038	423,197
Subordinated bonds issued	6,000	-	-	6,000
Long-term debt securities issued	35,000	-	-	35,000
Deferred tax liabilities	54	-	-	54
Other liabilities	7,132	162	45	7,339
TOTAL LIABILITIES	586,551	11,867	2,843	601,261
NET POSITION	14,706	2,977	(1,484)	16,199
LOAN COMMITMENTS	89,870	6,862	803	97,535

(In RMB'000)

39. FINANCIAL INSTRUMENTS RISK POSITION *continued*

(4) Currency risk *continued*

The Company adopts sensitivity analysis to assess the possible impact on profit of the Company due to exchange rate changes of the currencies. The following table shows the result of exchange rate sensitivity analysis of assets and liabilities on 31 December 2007 and 31 December 2006 respectively.

	31-12-2007 Change in exchange rate(%)		31-12-2006 Change in exchange rate(%)	
	(1)	1	(1)	1
(RMB'million)				
Effect on profit	(25)	25	(21)	21

The above sensitivity analysis is measured on the basis that all assets and liabilities have static currency risk structure. The relevant assumptions are shown below: (1) the exchange rate sensitivity represents the exchange gains or losses arisen from a 1% change of the closing exchange rates (middle price) of the different foreign currencies against RMB at the balance sheet date; (2) the exchange rate change of the different foreign currencies against RMB moves in the same direction simultaneously; (3) the foreign currency position has included both spot and forward positions. Based on the above-mentioned assumptions, the actual effect on the Company's profit due to change in exchange rate may be different as compared with the result of the sensitivity analysis.

(5) Interest rate risk

The interest rate risk of the Company includes repricing risk, yield curve risk, benchmark rate risk, and option risk, for which the repricing risk is the main risk. It is the risk caused by the mismatch between the contractual maturity date and the repricing date of the interest bearing assets and interest bearing liabilities. At present, the Company has fully adopted internal transfer pricing for foreign currencies, and gradually adopted internal transfer pricing for mid-term and long-term RMB funding and utilisation. Through the internal transfer pricing arrangement by products and by terms, the Company gradually centralized the interest rate risk management at head office in order to enhance the effectiveness and efficiency of managing the interest rate risk positions.

As for the interest rate risk management of the banking book, the Company mainly evaluates the interest rate risk of the balance sheet through gap analysis. The Company monitors and controls the gap of the interest rate sensitive assets and liabilities through information systems like asset and liability management system. Based on the gap analysis, the Company can simply calculate the interest rate sensitivity of income and economic value due to change in interest rate. The income analysis focuses on the effect of the interest rate change to the short-term income while the economic value analysis focuses on the effect of the interest rate change to the net present value of the Company's future cash flow.

As for the interest rate risk management of the trading book, the Company controls those bonds by setting up specific indicators. The main indicators include duration of portfolio, value of basis point, investment scale and distribution of major terms, etc. These limits are communicated to each business unit for execution through annual treasury business authorization plan and annual treasury investment plan. Meanwhile, the Company also uses derivatives, such as swaps, forwards and options, to hedge the interest rate risk exposures.

The following table summarises the contractual repricing or maturity date, whichever is earlier, of the Company's financial assets and liabilities as at 31 December 2007:

	31-12-2007(RMB million)							
	Less than 3 months	3 months to 1 year	1 to 2 years	2 to 3 years	3 to 5 years	Over 5 years	Overdue/ non-interest-bearing	Total
ASSETS								
Cash and balances with the central bank	81,405	8,489	562	592	650	3	2,162	93,863
Due from and placements with banks and other financial institutions	35,236	7,669	3,402	-	-	-	-	46,307
Reverse repurchase agreements	146,960	18,579	2,966	450	300	700	-	169,955
Loans	263,227	115,449	3,424	2,917	2,036	2,322	3,654	393,029
Investments	15,114	32,874	25,096	28,779	19,536	12,822	244	134,465
Deferred tax assets	-	-	-	-	-	-	1,049	1,049
Other assets	-	185	-	-	-	-	12,482	12,667
TOTAL ASSETS	541,942	183,245	35,450	32,738	22,522	15,847	19,591	851,335
LIABILITIES								
Due to and placements from banks and other financial institutions	182,595	7,799	400	-	1,320	-	-	192,114
Repurchase agreements	35,997	7,145	-	-	-	-	-	43,142
Customer deposits	416,034	73,654	4,874	5,141	5,644	24	-	505,371
Subordinated bonds issued	3,000	1,140	1,860	-	-	-		6,000
Long-term debt securities issued	4,990	11,000	-	6,987	19,986	11,000	-	53,963
Deferred tax liabilities	-	-	-	-	-	-	19	19
Other liabilities	-	-	-	-	-	-	11,829	11,829
TOTAL LIABILITIES	642,616	100,738	7,134	12,128	26,950	11,024	11,848	812,438
INTEREST RATE RISK EXPOSURE	(100,674)	82,507	28,316	20,610	(4,428)	4,823	7,743	38,897

39. FINANCIAL INSTRUMENTS RISK POSITION *continued*

(5) Interest rate risk

The following table summarises the contractual repricing or maturity date, whichever is earlier, of the Company's financial assets and liabilities as at 31 December 2006:

	31-12-2006(RMB million)							
	Less than 3 months	3 months to 1 year	1 to 2 years	2 to 3 years	3 to 5 years	Over 5 years	Overdue/ non-interst-bearing	Total
ASSETS								
Cash and balances with the central bank	69,315	4,807	338	163	299	90	1,467	76,479
Due from and placements with banks and other financial institutions	18,437	3,032	50	95	-	-	-	21,614
Reverse repurchase agreements	43,847	8,385	1,679	1,000	450	1,000	-	56,361
Loans	173,700	122,487	7,349	4,817	4,630	2,207	2,911	318,101
Investments	14,586	40,784	8,896	22,781	22,300	25,893	131	135,371
Deferred tax assets	-	-	-	-	-	-	1,026	1,026
Other assets	-	185	-	-	-	-	8,323	8,508
TOTAL ASSETS	319,885	179,680	18,312	28,856	27,679	29,190	13,858	617,460
LIABILITIES								
Due to and placements from banks and other financial institutions	97,570	7,800	40	520	500	50	-	106,480
Repurchase agreements	17,720	5,471	-	-	-	-	-	23,191
Customer deposits	340,652	69,657	4,892	2,361	4,332	1,303	-	423,197
Subordinated bonds issued	3,000	1,140	-	1,860	-	-	-	6,000
Long-term debt securities issued	-	1,000	10,000	-	13,000	11,000	-	35,000
Deferred tax liabilities	-	-	-	-	-	-	54	54
Other liabilities	-	-	-	-	-	-	7,339	7,339
TOTAL LIABILITIES	458,942	85,068	14,932	4,741	17,832	12,353	7,393	601,261
INTEREST RATE RISK EXPOSURE	(139,057)	94,612	3,380	24,115	9,847	16,837	6,465	16,199

The Company adopts sensitive analysis to assess the possible effect of interest rate change to the net interest income. The following table shows the result of the interest rate sensitive analysis of the assets and liabilities as at 31 December 2007 and 31 December 2006.

	31-12-2007 Interest rate change (basic point)		31-12-2006 Interest rate change (basic point)	
	(100)	100	(100)	100
(RMB'million)				
Effect on net interest income	572	(572)	862	(862)
Effect on equity	596	(596)	1,122	(1,122)

The above sensitive analysis is measured on the basis that all assets and liabilities have static interest rate risk structure. The analysis measures the interest rate change in one year and reflects the effect on the profit of the Company due to repricing of the assets and liabilities. The relevant assumptions are shown below: (1) all assets and liabilities repriced again at the middle of the period for within 3 months and 3-12 months. (2) The yield curve moves parallel with the change of interest rate. (3) The portfolio of assets and liabilities has no other change. Based on the above-mentioned assumptions, the actual effect on the Company's profit due to change in interest rate may be different as compared with the result of the sensitivity analysis.

Based on the assumption of parallel movement of the yield curve, the sensitivity analysis of the equity is derived by re-evaluate the ending balance of the available-for-sale financial assets as a result of interest rate change.

40. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is the amount for which an asset could be exchanged, or a liability could be settled, between knowledgeable and willing parties at an arm's length transaction. Subject to the existence of an active market, such as an authorised securities exchange, the market value is the best reflection of the fair values of financial instruments. As there is no available market value for part of the financial assets and liabilities held and issued by the Company, the discounted cash flow method or other valuation methods described below are adopted to determine the fair value of these assets and liabilities. However, the value determined by such methods is subject to the impact of future cash flows, time assumption and discount rates used.

Financial assets

The Company's financial assets mainly include cash, due from central bank, due from and placement with banks and other financial institutions, loans and investments.

Due from central bank, due from and placements with banks and other financial institutions

These are mainly priced at market interest rates and mainly mature within one year. Accordingly, their carrying values approximate their fair values.

40. FAIR VALUE OF FINANCIAL INSTRUMENTS *continued*

Loans

Loans are mostly priced at floating rates close to the PBOC benchmark rates. Accordingly, their carrying values approximate their fair values.

Investments

Available-for-sale investments and investments at fair value through profit or loss are stated at fair value in the financial statements. Available-for-sale equity investments, that do not have a quoted market price in an active market and whose fair value cannot be measured, shall be measured at cost.

Financial liabilities

The Company's financial liabilities mainly include due to and placement from banks and other financial institutions, customer deposits, subordinated bonds issued and long-term debt securities issued.

Due to and placements from banks and other financial institutions

These are mainly priced at market interest rates and mainly due within one year. Accordingly, their carrying values approximate their fair values.

Customer deposits

Customer deposits mainly represent deposits with repricing dates or maturity dates less than one year. Accordingly, their carrying values approximate their fair values.

The following table discloses the carrying values and the fair values of held-to-maturity investments, loans and receivables investments, subordinated bonds issued and long-term debt securities issued, all of which are not stated at fair values.

	Carrying value	Fair value
31 December 2007		
Held-to-maturity investments	61,429,225	60,325,647
Loans and receivables investments	21,125,699	21,030,743
Subordinated bonds issued	6,000,000	6,147,336
Long-term debt securities issued	53,962,608	50,696,887
31 December 2006		
Held-to-maturity investments	49,714,374	49,845,294
Loans and receivables investments	6,057,502	6,048,001
Subordinated bonds issued	6,000,000	6,133,917
Long-term debt securities issued	35,000,000	34,664,660

The following methods and assumptions have been used in estimating fair values:

(i) Available-for-sale financial assets are stated at fair value by reference to the quoted market prices when available. If quoted market prices are not available then fair values are estimated on the basis of pricing models or discounted cash flows. The carrying amount of these assets is its fair value.

(ii) The fair values of liquid assets and other assets maturing within 12 months are assumed to be approximately equal to their carrying amounts. This assumption is applicable to liquid assets and all other short-term financial assets and financial liabilities.

(iii) The fair value of fixed rate loans is estimated by comparing the market interest rates offered when the loans are granted, with the current market rates offered on similar loans. The applicable interest rates of most loans are repriced once every year for any changes in the market interest rate and accordingly their fair values approximate to their carrying amounts. Changes in the credit quality of loans within the portfolio are not taken into account in determining the gross fair values as the impact of credit risk is recognised separately by deducting the amount of impairment provision from the carrying amount.

(iv) The interest rates of deposits from customers, floating or fixed, depend on the types of products. The fair values of demand deposits and saving deposits without specific maturity date represent the amounts payable to customers at any moment. Due to the short-term nature of most fixed deposits, the fair values of the fixed deposits approximate to their carrying values.

(In RMB'000)

40. FAIR VALUE OF FINANCIAL INSTRUMENTS *continued*

Customer deposits *continued*

(v) The fair values of the substandard bonds and the long-term debts issued are determined with reference to the available market value. If quoted market prices are not available, then fair values are estimated on the basis of the pricing model or the discounted cash flow method.

All the assumptions and methods mentioned above provide a consistent basis for the calculation of fair value of the Company's assets and liabilities. However, other institutions may use different assumptions and methods. Therefore, the fair values disclosed by different financial institutions may not be entirely comparable.

The Company considers that loans, investments and customer deposits are the Company's major assets and liabilities. In the opinion of the management, the difference between the fair value and the carrying amount of loans, investments and customer deposits arising from changes in interest rates and other factors is not material at the end of each balance sheet date.

41. CAPITAL MANAGEMENT

The primary objectives of the Company's capital management are to ensure that the Company complies with the regulatory capital requirements to support the continuous business development and to maximise the share-holders' value. According to the relevant capital adequacy regulatory requirements, the Company has made up a business development plan and capital supplementary plan for future years in order to strengthen the capital management. In addition, the comprehensive performance evaluation system has been established based on the economic value added methodology in order to enhance the mechanism of the capital management and achieve a healthy development. The Company should achieve the operating objective of maximising the share-holders' value by increasing returns on equity through further business development, risk control and investments. In addition, the Company will adjust the capital structure properly according to the changes of the business environment and the risks faced by the Company. The adjustment of the capital structure can be done through adjusting dividends distribution plan, capital increment and issuance of new bonds, etc. During the year, the Company's capital management objective and method were consistent with that of last year.

According to the relevant regulations issued by CBRC, the Company has calculated and disclosed core capital and supplementary capital as follows:

	31-12-2007	31-12-2006
Core capital	37,027,428	14,728,236
Supplementary capital	11,931,779	12,727,507

Core capital includes share capital shares, capital surplus, surplus reserves and retained earnings. Supplementary capital includes general reserve, subordinated bonds issued and hybrid bonds issued.

42. SIGNIFICANT EVENTS

The new enterprise income tax law

During the 5th Session of the 10th National People's Congress, which was concluded on 16 March 2007, the PRC Corporate Income Tax Law ("the New Corporate Income Tax Law") was approved and has been effective since 1 January 2008. The New Corporate Income Tax Law introduced a wide range of changes which include, but are not limited to, the unification of the income tax rate for domestic-invested and foreign-invested enterprises at 25%. Consequently, regarding to the tax effect accounting treatment, the Company re-measured the deferred tax asset and liability using the new tax rate of 25% for the reversed temporary difference estimated after 1 January 2008. Except for the transactions or events directly recorded into equity, the remaining deferred tax adjustments were recorded into current year income tax expense.

43. POST BALANCE SHEET EVENTS

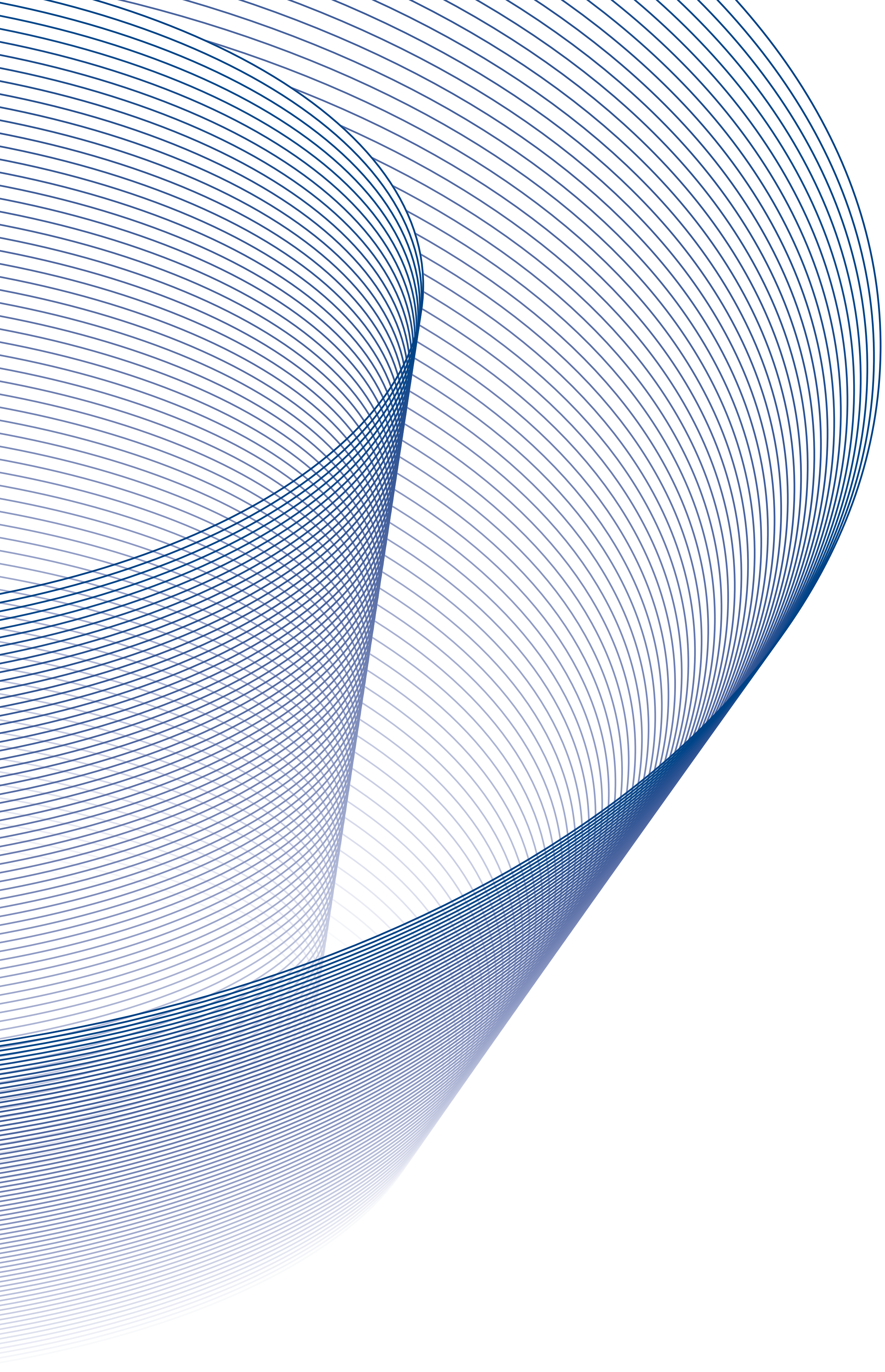
As at the approval date of these financial statements, there is no material post balance sheet event which is required to be disclosed.

44. COMPARATIVE FIGURES

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

45. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorized for issue by the board of directors on 18 March 2008.



Appendix III

Self Assessment Report on Internal Control of Industrial Bank Co.,Ltd.

Under the principle of "comprehensiveness, prudence, validity and independence", and in accordance with the Guidelines for the Internal Control of Commercial Banks issued by the China Banking Regulatory Commission (CBRC), the Company is committed to strengthen internal control measures and improve the internal control mechanism in the internal control environment, credit granting, treasury business, intermediary business, accounting, computer information system control, supervision and correction mechanism and compliance system construction to continuously standardize the operation and management and effectively control the operating risk. The Company has established an internal control mechanism with a clear structure and effective control, and has implemented the internal control requirements in the important links.

I. INTERNAL CONTROL ENVIRONMENT

i. Establishment of a scientific corporate governance structure

The Company has established a corporate governance structure with a clear division of rights and responsibilities, effective checks and balances and accountability, which is centered by the General Shareholders' Meeting, the Board of Directors, the Board of Supervisors and the senior management, and has introduced independent directors and external supervisors in accordance with the Guidelines on Independent Directors and External Supervisors Systems for Joint Stock Commercial Banks and Guidelines on Corporate Governance of Joint Stock Commercial Banks ([2002] No. 15) issued by the People's Bank of China("PBOC"). The Board of Directors has set up several special committees as its deliberative organs, namely, Executive Committee, Risk Management Committee, Audit and Related Party Transaction Control Committee, Nomination Committee, Remuneration and Evaluation Committee to improve its operating efficiency and the scientificity of decision-making. The Company has set up the Internal Control Committee at the managerial level to implement internal control requirements set by the Board of Directors.

I. INTERNAL CONTROL ENVIRONMENT *continued*

ii. Formation of scientific modern enterprise organization system

Under the principle of "defined responsibilities and cooperation, checks and balances, consistent right and responsibility, concision and high-efficiency", the Company clearly defines the duties among the head office and branches, relevant departments, posts, superior and inferior institutions in its organization settings, and stipulates that changes of important matters involving assets, liabilities, finance and personnel, shall not be determined solely by a single person, and has established a mechanism of a clear division of responsibilities and horizontal and vertical checks and balances, and has formed a check and balance mechanism with a clear division of risk control responsibilities among functional departments. In addition, relevant departments such as the Risk Management Department, Audit Department and Supervision Department have established independence and authority in the process of their duty performance. The Company has set up an operation and management system covering credit granting, treasury business, intermediary business, accounting business and computer information system management, which has laid a solid foundation for the compliant operation and long term healthy development of the Company.

iii. Establishment of prudent business authorization system

The Company applies business authorization under the principle of "limited authorization, differentiated authorization, timely adjustment and consistent rights and responsibilities", and implements examination separated from lending and graded examination & approval. At the head office level, different examination & approval authorities are allocated to the head office Credit Approval Committee, Credit Control Department, Regional Examination & Approval Centers and other authorized personnel; at branch level, except for low risk projects and single credit under authorized external credit extension, which are examined and approved by the operating units, the other projects are collectively examined at the branch-level Credit Examination Departments and then submitted to relevant authorized personnel for approval. The branches have set up lending centers which are responsible for examining the legitimacy, validity and integrity of lending conditions, legal documents and guarantee procedures before loan lending.

iv. Formation of reasonable employee management system

The human resources management of the Company follows the concept of human-orientated, regards its employees as the most important assets, and endeavors to provide good working environment in cultural atmosphere, work satisfaction, development opportunity and welfare for the common development of the employees and the bank. In response to the needs of the transformation of the business development mode and profit-making mode, and in line with the requirements of standard modern corporate governance, the Company is committed to improve the human resources management and incentive-constraint mechanism. In virtue of experiences and external professional institutions, in recent years, the Company has introduced advanced concepts, measures and tools of modern human resources management, carried out a series of exploring reform in the remuneration management system, cadre selection and appointment system, employee development and training, etc, and established a market-oriented and performance-based human resources management system, as well as a reasonable graded human resources structure.

II. RISK EVALUATION

The Company has formulated long-term strategic plan and objectives, divided its operating objectives into detailed strategies and business process planning, which have been assigned to specific posts and clearly delivered to every employee. In combination with its own characteristics, the Company has established relevant regulations to regulate risk evaluation and control, and has set up special departments or personnel to identify and deal with any potential changes of the important influencing factors such as operating risk, environmental risk and financial risk.

The Company adopts measures such as customer credit ratings, risk degree calculation, classification of credit assets risk for quantitative risk identification and evaluation management. The Company has established a credit ratings system covering corporate, personal, and inter-bank customers, reviews comprehensively and systematically all the factors influencing the payment capacity of the customers and their trend of changes, and evaluates the credit risk and debt serving capacity of the customers based on quantitative and qualitative analysis. The Company requires the calculation of risk degree according to the extent of potential loss on the credit business. In calculation, major relevant factors are converted into coefficients to estimate the degree of potential loss. The result of the calculation is an important reference for decision-making upon credit granting investigation, examination and balancing of risk and returns. According to the inherent risk degree and possibility of payment, the Company classifies its credit assets into nine categories with different risk degrees to accurately and effectively identify the credit assets risk and charge loss provision accordingly in a timely manner in line with the classification result. During the reporting period, the Company carried out a special stress test on real estate loans. Based on the professional experiences and subjective judgement, the Company conducted the test under the set risk factors, stress circumstances and assumptive conditions, accumulating a certain experiences for further stress test.

III. CONTROL ACTIVITIES

i. Internal control of credit granting

The Company formulates the Regulations on Credit Granting of Industrial Bank, Regulations on the Risk Management of Group Customer Credit Granting Business of Industrial Bank, Regulations on Related Party Transactions between Industrial Bank and Insiders or Shareholders, and adopts the principle of "unified credit granting, differentiated management, credit limit, reasonable examination and determination, and timely adjustment" to extend credit to its customers. In the process of credit extension, taking the safety of credit capital as a criterion, the Company evaluates the customers' loan payment capacity and risk degree according to their operation and management levels, conditions of assets and liabilities, operating cash flows, credit conditions and market environments to determine the general credit line to them. The Company also includes the credit line to the same legal person customer or group customers in different currencies or categories into the general credit line to the specific customer, so as to implement unified control on the risks. The Company strengthens the management on related party transactions, controls the risk of related party transactions, and regulates the authorized personnel and institutions in charge of the examination and approval of relevant transactions in corresponding categories.

In accordance with the Guidelines on Commercial Banks' Due Diligence in the Credit Granting by the CBRC, the Company formulates a series of regulations on due diligence in credit granting like the Regulations on Investigation Preceding Corporate Customer Credit Granting of Industrial Bank, Regulations on Due Diligence in Corporate Customer Credit Granting Examination of Industrial Bank, Regulations on Due Diligence in Decision Making on Corporate Customer Credit Granting Examination & Approval of Industrial Bank, Regulations on Due Diligence in Lending Examination & Approval of Industrial Bank, Regulations on Due Diligence after Corporate Customer Credit Granting of Industrial Bank and Regulations on Due Diligence in Personal Customer Credit Granting of Industrial Bank, further standardizes the duties of every link and post in credit granting investigation, credit granting examination, decision-making of examination & approval, lending examination & approval, post-credit-granting management to form a cooperative and restrictive mechanism. The Company identifies and controls the credit assets risk by implementing customer credit ratings, classification of credit assets risk and calculation of loan risk degree.

ii. Internal control of treasury business

The Company formulates policies and procedures on the internal control of treasury business, and implements reasonable and effective internal control by adopting the risk management measures like transaction limit, risk limit, stop-loss limit and defines department functions under the principle of "limit management, stop-loss management and risk diversificationi". The Planning and Financial Department of the head office prepares the fund allocation scheme according to the objectives set by the Assets and Liabilities Committee; the Planning and Financial Department has treasurer to be in charge of comprehensive arrangement of funds under control, daily cash transfer and fund circulation; the Financial Markets, as the front desk of transaction, is in charge of every fund transaction within the scope of its authorization, management and supervision, and the system entry and voucher delivery of transaction information after completion of transactions; the Risk Management Department supervises independently the risk of treasury business by setting up risk management middle desk and adopting the measures such as risk examination preceding large-amount transaction, case-after-case examination in the process of transactions, and collectively analyzing and reporting of risk exposure after the transactions; the Payment and Settlement Department provides back desk settlement and clearance support by setting up accounting back desk, carries out independent fund clearance and accounting settlement and re-supervision on the risk of treasury business according to the transaction bills and documents, which are submitted by the treasury business front desk and signed by the risk management middle desk with the deal confirmation from the counterparty of transaction. The Company follows the basic concept of "evidence-based market operations, double checking business transactions, case-after-case examination by authorized signing persons and dual management of proprietary and agent business", and formulates strict regulations, detailed rules for implementation and accounting rules of the specific types of market investment and transactions, to ensure the transaction process of every business line is standardized and reasonable, and the market operations and accounting comply with rules and regulations.

iii. Accounting control of savings and counter business

The Company implements strict, prudent and effective control and management on savings and counter business. First, the control on savings and counter business covers the process and operational stages of every business like account management, cash basis, fund transfer, loss report, password change, seal management, key management, important blank voucher and valuable papers management, account monitoring and checking, all links of which require clear rules and regulations, strict operation criterion and effective prevention measures. Second, the Company implements the RMB and foreign currency core business system to integrate the service functions of tellers, implements clear division of authorization and in-the-process control, divides the operation personnel into operation teller, operation chief and operation director with different authority in line with the types of business, types of transactions and amounts to ensure effective control on special business and large-amount business in advance and in-the-process. Third, the Company strengthens the post-transaction supervision on accounting business, separates the space and personnel of front desk business from post-transaction supervision, and reinforces the management and supervision on important business and high-risk business.

iv. Internal control of intermediary business

All the intermediary business offered by the Company are controlled within the business scope as approved by the commercial bank regulatory authorities, and have been launched upon approval after being reported to the regulatory authorities for filing in accordance with the Provisional Rules on the Intermediary Services of Commercial Banks. The Company is able to control operational risk and management risk of its intermediary business, and has established corresponding risk control modes for the examination of bills or settlement vouchers in the payment and settlement business, examination, approval, operation and accounting records of foreign exchange trading and settlement business, as well as the management of agent business. Under the principle of "regulation first", when launching a new business line, the Company formulates strict business regulations and detailed operational procedures, clarifies the duties of every department and relevant posts, strictly regulates the operation of important stages like fund settlement, account checking management, account correction and adjustment, strictly restricts the transaction authorization of application and operation personnel, prevents the operational risk and internal management risk, and clarifies the commission and agent cooperative relationship between the bank and cooperative parties, the bank and customers in relevant agreements to control the legal risk and ensure the fund security of the bank and customers.

III. CONTROL ACTIVITIES *continued*

v. Internal control of accounting

The Company promulgates the accounting regulations like the Regulations on Grading of Basic Accounting Work, Basic Accounting Regulations, Teller Regulation, Accounting Accountability Regulation, Regulations on Reporting of Material and Abnormal Accounting Matters, Important Points of Internal Accounting Control, Regulations on Accounting Transaction and Authority Division, Regulations on RMB and Foreign Currencies Core Business System and Tellers, Regulations on Accounting Seals, Regulations on Valuable Vouchers and Blank Ledgers, Regulations on General Business Accounting Operations, Notes to Accounting Items, Regulations on Accounting Archives, and Provisional Regulations on Account Checking. The Company follows the principle of "clear division of responsibilities and checks and balances" in setting the accounting posts, and strictly prohibits a single person taking non-compatible posts. There are clear regulations on the responsibilities and authorities of the accounting departments and accounting personnel, and accounting departments and accounting personnel at different levels shall process the accounting affairs within their authorization and those beyond their authorization shall be processed with further authorization. The Company implements appointment system for accounting directors in the fundamental institutions, improves the accounting internal control management system featuring "accounting transaction and authority division, post-transaction supervision, inspection and guidance, graded management and accountability", regulates the management and operation of accounting business, ensures the independence of accounting and supervision function, effectively prevents the accounting risk, and has established a strict accounting internal control system.

vi. Internal control of computer information system

In accordance with the Guidelines on Risk Management of Information System for Banking Financial Institutions by the CBRC, under the basic principles of "active defense and comprehensive prevention" and "quantitative management, compliant operation and accountability", the Company formulates regulations on the internal control of information technology covering the stages of project research & development, system maintenance, equipment management, internet management, anti-virus, data maintenance, user and password management, network management, reporting of security matters and outsourcing management. It reinforces the application data maintenance management, establishes a security evaluation mechanism, implements information security grading protection, enhances software research & development management level, introduces quantitative management and accountability mechanisms, and conducts special examination on information technology risk to strengthen the prevention and control of information system risk and implement relevant regulations. It endeavors to establish a professional, elaborate and standardized information technology risk management system to prevent, control and release the information technology risk in an effective and timely manner, further improves the soundness and reliability of the information system, promotes the security and effectiveness of the operation of information system and ensures the safe and stable operation of the information system of the whole bank.

vii. Internal control measures relevant to implementation of new accounting standards

The Company strictly implements the Enterprise Accounting Standards (2006) to strengthen the internal control of accounting.

In the accounting of bonds investment, the Company formulates Provisional Regulations on Classification of Bonds Investment Assets, amends the Relevant Investment Items and Rules of Bonds Investment Accounting of Industrial Bank, and Regulations on Operational Procedures of Bonds Investment Business, and reforms the accounting system to follow the new accounting standards in the accounting of bonds investment business.

In line with the new accounting standards, the Company amends the Basic Financial Systems of Industrial Bank, issues the Notice on Regulating the Accounting of Employee Remuneration and Notice on the Adjustment of Accounting Treatment of Equity Debt Payment Assets, to reinforce the internal financial accounting of employee remuneration.

In the recognition of fair value of assets, the Company recognizes the fair value of the assets that has an active market at the market value, and estimates the fair value of the assets that don't have the active market by setting up a evaluation model; the Company issues the Notice on the Adjustment of the Accounting of the Fair Value of Foreign Exchange Trading to regulate the accounting of forward foreign exchange trading (including swap transaction).

In the loan depreciation testing, the Company formulates the standards of large amount for every single loan, and carries out case-after-case examination on the every single loan in large amount, and determines the depreciation loss if there is objective evidence showing occurrence of depreciation, or groups the loans with similar credit risk for collective depreciation test if there is no objective evidence showing occurrence of depreciation. For loans not in a large amount, the Company adopts individual or collective test for depreciation to determine the occurrence of depreciation loss.

In the accounting of financial assets transfer, the Company formulates the Accounting Procedures of Credit Assets Securitization Business to regulate the accounting of credit assets securitization business.

IV. SUPERVISION AND CORRECTION OF INTERNAL CONTROL

The Company implements the supervision and correction mechanism featuring "unified leadership, vertical management, graded authorization and independent responsibility", which includes the following content: first to improve the management level of the Company's various institutions by implementing control on their operation and management, internal control, audit and supervision system; second to investigate the infringement of rules and regulations and bad behaviors of staff discovered in the audit and daily monitoring and hand the problems to relevant departments for responsibility recognition and investigation; third to report in a timely manner the issues discovered in the examination or supervision to the Board of Directors and senior management, and report to the Audit Committee of the Board of Directors periodically for timely correction and enforcement of execution of regulations and management level of operating institutions. The Company takes the following measures to improve the effectiveness of internal control of internal audit and supervision:

IV. SUPERVISION AND CORRECTION OF INTERNAL CONTROL *continued*

i. To strengthen the establishment of independence and authority of internal audit

The Company's internal audit reports to the Board of Directors, and Head of the Internal Audit Department is appointed by the Board of Directors. The internal audit discovers problems and reports them to the Board of Directors and senior management in a timely manner, reports to the Audit Committee of the Board of Directors periodically, and communicates the audit results with relevant functional departments. On the other hand, the internal audit provides management assistance for operating institutions to improve the execution of regulations. The Audit Department of the Company has two levels of management system: the head office set up the Audit Department to take charge of the whole bank's auditing work as well as the auditing supervision and appraisal of all institutions and head office departments; Five regional audit sub-departments led by the head office's Audit Department were set up in Beijing, Shanghai, Shenzhen, Wuhan and Xiamen to take charge of the auditing supervision and appraisal of the institutions under control. As institutions designated by the head office, the sub-departments are accountable and report to the head office's Audit Department.

ii. To strengthen the establishment of administrative regulations on internal audit

The Company formulates a series of regulations like the Regulations on Internal Audit of the Industrial Bank, Basic Standards of Internal Audit of Industrial Bank, No.1-11 Detailed Standards of Internal Audit of Industrial Bank, On-site Audit Guidance of Industrial Bank, Regulations on Appraisal of Auditing Items, Operational Procedures of Examination of Auditing Items, in order to regulate the procedures, measures, tasks and objectives of the auditing work, and define the responsibilities of auditing personnel. In order to promote the operation, management and risk control capacity of various institutions, the Company formulates Regulations on Post-leaving Audit of Industrial Bank, Regulations on Internal Control Ratings of Industrial Bank, Detailed Rules of the Implementation of Internal Control Ratings of Industrial Bank, Regulations on Rules of Subsequent Audit of Industrial Bank and Regulations on Internal Audit Supervisors of Industrial Bank, specifies different auditing measures in the audit and supervision system according to different issues, and reports the auditing results to the decision-making institutions to form a timely feedback mechanism in decision-making system and implementation system and ensure the integrity and effectiveness of internal control.

iii. To strengthen accountability and take all-around measures to cure both the symptoms and the underlying cause

In accordance with the concept of "curing both the symptoms and the underlying cause, integrating punishment with prevention, and emphasis on prevention", the Company formulates a series of corrective regulations like Rules of Investigation and Handling of Disciplinary Cases, Regulation of Handling Procedures and Punishment Approval Authority of Disciplinary Cases, Provisional Rules of Deportation of Significant Cases Violating Rules and Regulations Discovered in the Business Examination, Credit Responsibility Investigation System, Rules of Dealing with Behaviors Violating Financial Regulations, delivers the requirements for adjustment and correction in responses to the problems discovered in audit and supervision, and carries out necessary subsequent examinations. Meanwhile, the Company takes the audit and daily supervision results as an important basis for the annual comprehensive assessment of the branches.

V. SELF ASSESSMENT OF INTERNAL CONTROL

Through continuous establishment and improvement, the Company's present internal control system is comprehensive, reasonable and effective, and various regulations have been implemented completely and effectively. It can meet the requirements for present management and needs for development, and ensure the operation and overall implementation of development strategies and complete achievement of operation objectives; it can ensure the authenticity, legitimacy and integrity of the accounting information of the Company, the safety and integrity of all of the Company's assets; it can accomplish accurate, timely and complete information disclosure to ensure open, fair and just treatment to all investors and protect the interests of the Company and investors.

With the gradual perfection of the national laws, rules and regulations, changes of external and internal environments and the requirements for sustainable and rapid development, the Company will further improve its internal control system and implement it effectively.

Industrial Bank Co., Ltd.

Legal Representative:

March 18, 2008

President:

INDUSTRIAL BANK CO.,LTD. ANNUAL REPORT 2007

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(Ended March 31, 2008.)

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