2006
ANNUAL REPORT

兴业银行股份有限公司
INDUSTRIAL BANK CO.,LTD.

盛世興業

The precipitous and distant mountains with winding paths imply the development process the Company has experienced, and summits of ranges well represent the achievements it has recorded and its aspiration for new horizons.

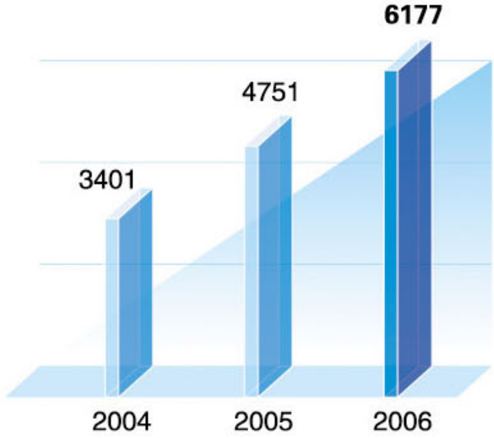
Blue sky and white clouds make of a serene and broad picture, which reflects the Company's commitment to be always trustworthy, to stand by and grow together with its stakeholders in harmony.

The dynamic and upward revolving track reflects the Company's determination to ascend to new heights and its dedication to forge a top-grade Industrial Bank with centuries of reputation.

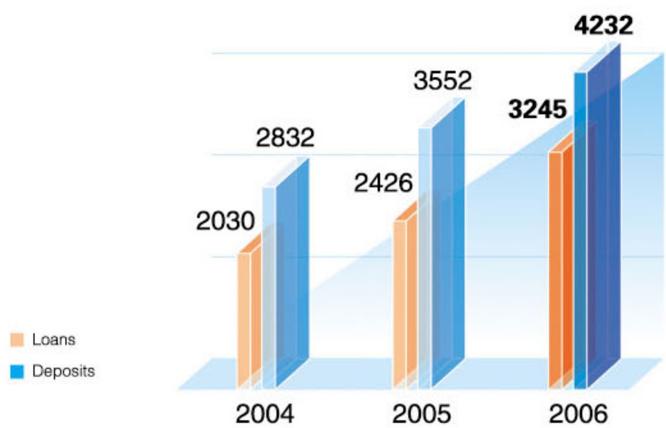
The flaming Chinese seal symbolizes trust and responsibilities. The Company solemnly delivers earnest promise to excel through diligence and perseverance.

—Reflections on Cover

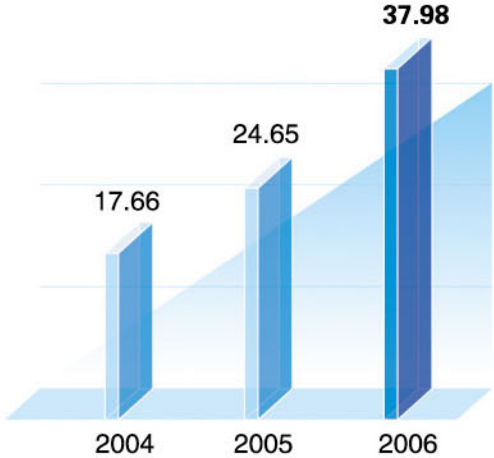
TOTAL ASSETS GROWTH IN RECENT THREE YEARS
(in RMB 100 million)



DEPOSITS AND LOANS GROWTH IN RECENT THREE YEARS
(in RMB 100 million)



NET PROFIT GROWTH IN RECENT THREE YEARS
(in RMB 100 million)



兴业银行
INDUSTRIAL BANK CO.,LTD.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Chairman: Gao Jianping

Chairman's Statement

In 2006, the Chinese economy recorded sustainable, steady and robust growth, and the capital market witnessed profound reform in its fundamental structure. Under the new circumstances, taking initial public offering as top priority, the Company proactively seized opportunities, responded to challenges, and promoted the strategic transformation in business development and profit-making modes. The Company's business structure was further optimized, profit-making ability was greatly enhanced, a business development mode in line with its characteristics was gradually formed, and its leading position in Chinese banking industry was further solidified.

The Company's overall competitiveness improved substantially. As at the end of 2006, the Company's total assets reached RMB 617.704 billion with an increase of 30.02% compared with that of the year beginning. With non-performing loans ratio dropping to 1.53% based on five-category classification, both the balance and ratio of non-performing loans were decreased, thus the asset quality outperformed that of domestic peers. Profit-making ability was significantly strengthened with net profit for the year rising by 54.09% to a record of RMB 3.798 billion as well as return on total assets and net assets reaching 0.61% and 23.45% respectively. Meanwhile, the Company's market presence was further consolidated. The Company was ranked by *The Banker* magazine No. 164 in its latest Top 1000 World Banks for total assets, ascending to the group of top 200 world banks; No. 1 in terms of return on average assets in its first Top 100 Chinese Banks published in June 2006, and Top 10 domestic banks in terms of tier-one capital and total assets. Moreover, the Company was ranked No. 42 in *Asia Week*'s Top 300 Asian Banks in terms of total assets, up 19 places over last year, getting the fastest ranking boost among domestic banks.

Attributable to relentless efforts made by all staff, the Company was successfully listed on domestic A-share market, and raised nearly RMB 16 billion of core capital, setting a very important milestone in its history of development. The landmark public listing not only contributed a sustainable capital replenishment channel, but also greatly enhanced the Company's brand awareness. Meanwhile, the supervision and restriction mechanism in capital market would also prompt the Company to continuously improve operation and management, reinforce internal control, and strengthen core competitiveness.

All these achievements should be attributable to correct guidance of departments in charge and regulatory authorities at all levels, to strong support from our customers and shareholders, and to dedication and arduousness of all staff. Here, on behalf of the Board of Directors, I would like to extend our heartfelt thanks to them.

After our listing, market, regulatory and competition environment around the Company would continue to undergo profound changes. Faced with new opportunities and challenges, the Company will uphold scientific concept of development, forge ahead with the goal of "Building A Top-grade Industrial Bank with Centuries of Reputation", and strive to standardize operation and management, improve professional competence, perform social responsibilities, so as to deliver better results to its shareholders, better service to its customers, and more outstanding performance to the country and society.

Chairman


Director, President: Li Renjie

President's Report

In 2006, upholding the goal of "building a comprehensive bank boasting prudent development, standard management, rapid growth, leading service, distinguished characteristics and excellent return", the Company implemented resolutions made by the Board of Directors, pushed forward strategic transformation in business development and profit-making modes, and achieved a sustained, rapid, balanced and healthy development in every business line, thus laid a solid foundation for a new round of five-year development.

Every business line maintained robust growth. As at the end of 2006, the Company's total assets rose by 30.02% to RMB 617.704 billion; deposit balance in RMB and foreign currencies increased by 19.14% to RMB 423.197 billion, and loan balance in RMB and foreign currencies grew by 33.78% to RMB 324.512 billion. Asset quality and profit-making ability were further improved. As the first domestic bank to issue RMB 4 billion hybrid capital bonds, the Company strengthened its capital base with year-end capital adequacy ratio of 8.71%.

Operating transformation and management saw continued improvement. With the introduction of balanced scoring card, overall budget management and managerial accounting, the Company's risk management framework and internal control assessment and management were further strengthened. With the establishment of Retail Banking Headquarters in Shanghai, systematic reform and business process reengineering attained good progress. Its information technology was further improved, while practical usability of key production systems was substantially enhanced. Institution business foundation was consolidated with broader core customer base. Leap-forward development was achieved in strategically key businesses, such as retail lending and credit card. The growth extent and speed of retail lending exceeded other domestic commercial banks. New businesses like wealth management expanded rapidly, and the Company's overall competitiveness was substantially strengthened.

Business innovation gained good results, while service network underwent further expansion. Second-phase bank-bank platform system and third party custody system were successfully developed. The Company gained qualifications to conduct overseas wealth management business as agents, handle social security fund custody business, be gold clearing bank and undertake personal gold investment in Shanghai Gold Exchange, thus further extended business fields. The Company rolled out various innovative products like "Golden Sesame" financial services for small and medium-sized enterprises, "Easytrade", and focused on "Bank-Union Pay Link Online Fund Trade", which won wide recognition in the market. Mobile phone banking service was launched, while the service quality of online and phone banking was improved. Meanwhile, Nanchang Branch, Hefei Branch and Urumchi Branch were successfully set up and opened.

In the year ahead, taking national macro-economic control and financial regulatory policies as guidance, and leveraging the opportunity of public listing, the Company will be committed to further advancing transformation in business development and profit-making modes, promoting steady growth in every business line through business innovation, structural adjustment and management enhancement, improving its service quality and market competitiveness, and accomplishing every target set by the Board of Directors.

President


Chief Supervisor: Bi Zhonghua

Director, Vice President: Kang Yukun

Director, Vice President: Chen Dekang


Meticulousness in every step
leads to complete success.

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 of this annual report.

The Company's Annual Report 2006 and its abstract were approved at the nineteenth session of the fifth Board of Directors on March 26, 2007. The meeting should have been attended by 14 directors, and was in fact attended by 14 directors. Independent director Mr. Gu Gongyun authorized independent director Mr. Wang Guogang to exercise his voting right. 7 supervisors of the Company were present at the meeting. There was no director, supervisor or senior management who could not warrant, or disagreed on the truthfulness, accuracy and completeness of the contents of this annual report.

Since the Company has launched its initial public offering of A-shares and was listed in Shanghai Stock Exchange on February 5, 2007, to ensure the completeness of the statement of its significant events, Annual Report 2006 contains information in relation to IPO and changes in share capital as at February 5, 2007, while the financial statements were for the year ended December 31, 2006.

The Company's Financial Statements 2006 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' report.

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

The Company's Chairman Mr. Gao Jianping, President Mr. Li Renjie, and Financial Director Mr. Li Jian, hereby warrant the truthfulness and completeness of the financial statements contained in Annual Report 2006.

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, Fujian, P.R.China
Postcode: 350003
Tel: (86)591-87824863
Fax: (86)591-87842633
Investor Email: irm@cib.com.cn

IV. Registered Address: 154 Hudong Road, Fuzhou, Fujian, P.R.China

Office Address: 154 Hudong Road, Fuzhou, Fujian, P.R.China
Postcode: 350003
Website: http://www.cib.com.cn

V. Newspapers Selected for Information Disclosure:

China Securities Journal, Shanghai Securities News
Website Designated by China Securities Regulatory Commission ("CSRC") for Publishing Annual Reports: http://www.sse.com.cn
Place Where the Annual Report Is Prepared and Placed: 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 Change of Registration: May 20, 2004
Place of Change of Registration: Fujian Provincial Administration Bureau of Industry and Commerce
Business License No.: 3500001000202
Taxation Registration No.: State Tax Rongtai Zi 350100158142711
Local Tax Fujian Zi 350102158142711
Custodian for Non-tradable Shares: China Securities Depository & Clearing Co., Ltd., Shanghai Branch
Domestic Certified Public Accountants Engaged by the Company:
Fujian Huaxing Certified Public Accountants Ltd.
Office Address: 7-9 Floor, B# Zhongshan Building, 152 Hudong Road, Fuzhou
International Certified Public Accountants Engaged by the Company: Ernst & Young
Office Address: 18th 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. KEY FINANCIAL DATA AND INDICATORS IN THE REPORTING PERIOD

In RMB '000

Item	CAS	IAS
Total profit	5,046,201	5,046,202
Net profit	3,798,256	3,798,256
Net profit, less non-recurring gains and losses	3,766,657	3,798,256
Operating profit	5,004,362	5,046,202
Investment income	4,002,795	4,002,795
Net non-operating income and expenses	41,840	0
Net increase in cash and cash equivalents	16,429,904	16,429,904
Net cash flow arising from operating activities	10,911,263	10,952,725

Note: Investment income included bonds interest income, net gains and losses from trading of bonds, and long term equity investment income.

Non-recurring gains and losses were determined and calculated according to No.1 Question-and-Answer Concerning Standards on Information Disclosure by Companies Issuing Securities to the Public (Revised in 2004,CSRC [2004] No. 4). The items of non-recurring gains and losses deducted were as follows:

In RMB '000

Item	Amount
Non-operating income and expenses, less daily withdrawal of impairment provision	41,840
Recovery of assets written off in previous years	4,868
Income tax relevant to non-recurring gains and losses	-15,109
Total	31,599

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

In RMB '000

Item	2006		2005		Increase/decrease in 2006 compared with 2005(%)		2004	
	CAS	IAS	CAS	IAS	CAS	IAS	CAS	IAS
Operating income	13,649,582	13,691,422	9,736,591	9,978,445	40.19	37.21	7,417,954	7,361,567
Total profit	5,046,201	5,046,202	3,544,722	3,770,113	42.36	33.85	2,802,925	2,739,497
Net profit	3,798,256	3,798,256	2,464,968	2,615,980	54.09	45.19	1,765,590	1,728,862
Net profit, less non-recurring gains and losses	3,766,657	3,789,256	2,458,643	2,615,980	53.20	45.19	1,727,555	1,728,862
Total assets	617,704,342	617,664,545	475,094,101	474,760,896	30.02	30.10	340,064,707	340,062,114
Shareholders' equity(excluding minority shareholders' equity)	16,199,667	16,199,666	12,785,385	12,785,384	26.70	26.70	10,083,900	9,932,887
Net cash flow arising from operating activities	10,911,263	10,952,725	82,951,280	82,989,527	-86.85	-86.80	13,593,076	13,585,776
Earnings per share (RMB)	0.95	0.95	0.62	0.65	53.23	46.15	0.44	0.47
Earnings per share based on the latest share capital (RMB) (Ended January 29, 2007)	0.76	0.76	-	-	-	-	-	-
Earnings per share, less non-recurring gains and losses (RMB)	0.94	0.95	0.61	0.65	54.10	46.15	0.43	0.47
Net assets per share (RMB)	4.05	4.05	3.20	3.20	26.56	26.56	2.52	2.48
Adjusted net assets per share (RMB)	4.03	4.03	3.18	3.18	26.73	26.73	2.51	2.47
Net cash flow per share from operating activities (RMB)	2.73	2.74	20.74	20.75	-86.84	-86.80	3.40	3.40
Return on net assets (%)	23.45	23.45	19.28	20.46	up 4.17 percentage points	up 2.99 percentage points	17.51	17.41
Return on net assets, less non-recurring gains and losses (%)	23.25	23.45	19.23	20.46	up 4.02 percentage points	up 2.99 percentage points	17.13	17.41

Notes:

1. Relevant indicators were calculated in accordance with Standard No. 2 on the Contents and Format of Information Disclosure Regarding Companies Issuing Securities to the Public-Contents and Format of the Annual Report (2005 Amendment), and No. 9 Rule for Report Preparation in Information Disclosure for Companies Issuing Securities to the Public: Calculation and Disclosure of Return on Net Assets and Earnings Per Share.
2. Earnings per share under IAS was calculated according to International Accounting Standards No.33 - Earnings per Share.
3. Operating income included net interest income, net fee and commission income, net gains and losses from changes in fair value, and net gains and losses from other businesses.
4. In accordance with the capital verification report (MHXS (2007) YZ G-002) presented by Fujian Huaxing Certified Public Accountants Ltd., as at January 29, 2007, the Company's total share capital increased from 3,999,000,000 shares to 5,000,000,000 shares after its A-share issuance, thus earnings per share based on the latest share capital was calculated as RMB 0.76.

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

In RMB '000

Item	Net profit		Net assets	
	2006	2005	2006 year-end	2005 year-end
Stated based on PRC GAAP	3,798,256	2,464,968	16,199,667	12,785,385
Adjustments:				
Interest income and expenses of bills business		225,390		
Effects of deferred tax and income tax		-74,378		
Stated based on IFRS	3,798,256	2,615,980	16,199,666	12,785,385

Reasons:

1. Interest income and expenses of bills business

The difference was actually the difference between different accounting standards. In accordance with the actual process of bills business, the Company took the difference between the maturity value of discounted bills and discounted value of bills actually paid to applicants as the discount interest, and recorded it into the gains and losses of reporting period. However, according to related regulations of IFRS, the interest income and expenses shall adopt effective interest rate method and be recognized in proportion to time, that is, to amortize interest income and expenses over relevant periods. The Company had recognized the interest income and expenses of bills business on accrual basis at the end of 2005; therefore, the difference of 2005 was the effect of previous years' difference on the gains and losses of 2005.

2. Effects of deferred tax and income tax

The difference was the deferred tax and income tax effects resulting from the above adjustments.

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

In RMB '000

Item	CAS	IAS
Opening balance	5,111,552	5,111,552
Withdrawal during the reporting period(+)	2,348,710	2,348,710
Reversal of interests on impaired loans(-)	189,588	189,588
Recoveries of loans written-off in previous years(+)	4,868	4,868
Write-offs during the reporting period(-)	989,900	989,900
Transfer-out during the reporting period(-)	9,975	9,975
Closing balance	6,275,667	6,275,667

Note: 'Transfer-out during the reporting period' referred to the simultaneous transfer of relevant provision for idle loans when loans were transferred out or into 'debt repayment assets to be disposed of'.

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

In RMB '000

Item	2006 year-end		2005 year-end		Increase/decrease in 2006 compared with 2005 (%)		2004 year-end	
	CAS	IAS	CAS	IAS	CAS	IAS	CAS	IAS
Total liabilities	601,504,675	601,464,879	462,308,716	461,975,512	30.11	30.19	329,980,808	330,129,227
Placements with banks and other financial institutions	716,100	716,100	403,510	403,510	77.47	77.47	903,503	903,503
Total deposits	423,196,711	423,196,711	355,218,109	355,218,109	19.14	19.14	283,186,511	283,186,511
Total loans	324,511,919	324,511,920	242,571,507	242,571,507	33.78	33.78	203,010,818	203,010,818
of which:								
Corporate loans	252,594,401	252,594,402	199,376,814	199,376,814	26.69	26.69	172,924,191	172,924,191
Personal loans	64,618,425	64,618,425	30,575,841	30,575,841	111.34	111.34	17,403,926	17,403,926
Discount	7,299,093	7,299,093	12,618,852	12,618,852	-42.16	-42.16	12,682,701	12,682,701

VI. APPENDIX TO INCOME STATEMENT FOR THE CURRENT YEAR

i. Audited under CAS

In RMB '000

Item	Profit for reporting period	Return on net assets (%)		Earnings per share (RMB)	
		Fully diluted	Weighted average	Fully diluted	Weighted average
Operating profit	5,004,362	30.89	34.08	1.25	1.25
Net profit	3,798,256	23.45	25.87	0.95	0.95
Net profit, net of non-recurring gains and losses	3,766,657	23.25	25.65	0.94	0.94

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

VI. APPENDIX TO INCOME STATEMENT FOR THE CURRENT YEAR *continued*

ii. Audited under IAS

In RMB '000

Item	Profit for reporting period	Return on net assets (%)		Earnings per share (RMB)	
		Fully diluted	Weighted average	Fully diluted	Weighted average
Operating profit	5,046,202	31.15	34.36	1.26	1.26
Net profit	3,798,256	23.45	25.87	0.95	0.95
Net profit, less non-recurring gains and losses	3,798,256	23.45	25.87	0.95	0.95

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

Unit: %

Key indicator		Standard value	2006 year-end	2005 year-end	2004 year-end
Capital adequacy ratio		⩾ 8	8.71	8.13	8.07
Non-performing loan ratio		⩽ 15	1.53	2.33	2.50
Deposits to loans ratio	Translated into RMB	⩽ 75	72.41	64.80	67.19
Assets liquidity ratio	RMB	⩾ 25	37.94	32.22	37.75
	Foreign currencies	⩾ 60	61.04	60.41	65.68
Inter-bank placement ratio	Borrow in RMB	⩽ 4	0.16	0.00	0.07
	Lend out RMB	⩽ 8	2.30	0.30	0.77
Proportion of international commercial borrowings		⩽ 100	0.00	0.00	1.00
Interest recovery rate			98.57	97.07	98.72
Proportion of loans to top single borrower		⩽ 10	4.17	5.77	6.17
Proportion of loans to top ten borrowers		⩽ 50	28.52	39.43	42.35

Notes:

1. The above indicators, except non-performing loan ratio, were all the data required to be reported to regulatory authorities.
2. Non-performing loan ratio was calculated on five-category classification basis.
   Non-performing loan ratio = (substandard loan + doubtful loan + loss loan)/ total loan balance *100%.

VIII. CHANGES IN SHAREHOLDERS' EQUITY DURING THE REPORTING PERIOD

In RMB '000

Item	Opening balance		Increase		Decrease		Closing balance	
	CAS	IAS	CAS	IAS	CAS	IAS	CAS	IAS
Share capital	3,999,000	3,999,000					3,999,000	3,999,000
Capital surplus	2,839,214	2,839,214					2,839,214	2,839,214
General reserve for risk	2,400,000	2,400,000	1,226,865	1,226,865			3,626,865	3,626,865
Surplus reserve	1,026,309	999,755	379,826	406,380			1,406,135	1,406,135
of which: Statutory public welfare fund	296,621	288,103		8,518	296,621	296,621		
Retained earnings	2,030,721	2,057,274	3,798,256	3,798,256	1,606,691	1,633,245	4,222,286	4,222,285
Unrealized gains and losses on available-for-sale investments (after tax)	490,141	490,141	93,667	93,667	477,641	477,641	106,167	106,167
Foreign currency translation difference								
Total shareholders' equity	12,785,385	12,785,384	5,498,614	5,525,168	2,084,332	2,110,886	16,199,667	16,199,666

IX. CAPITAL COMPOSITION AND CHANGES

In RMB 100 million

Item	2006 year-end	2005 year-end	2004 year-end
Net capital	288.01	200.77	165.45
of which: Core capital	158.64	121.12	104.08
Supplementary capital	129.37	79.65	61.37
Deductions	0	0	0
Risk-weighted assets	3261.26	2469.91	2049.70
Capital at market risk	3.64	0	0
Capital adequacy ratio (%)	8.71	8.13	8.07
Core capital adequacy ratio (%)	4.80	4.90	5.08

Changes in Share Capital and Information on Shareholders

I. CHANGES IN SHARES DURING THE REPORTING PERIOD

Unit: share

	Opening balance	Increase/decrease	Closing balance
1 State-owned shares	1,207,699,863	-58,232	1,207,641,631
2 State-owned legal person shares	1,101,133,636	8,680,648	1,109,814,284
3 Domestic legal person shares	691,166,501	-8,622,416	682,544,085
4 Overseas legal person shares	999,000,000	0	999,000,000
Total	3,999,000,000	0	3,999,000,000

Note: "Increase/ decrease" referred to the netting balance of changes.

II. SHAREHOLDERS DURING THE REPORTING PERIOD

i. Number of shareholders and shareholding structure

As at the end of the reporting period, the Company had a total of 145 shareholders, which held 3.999 billion shares of the Company.

ii. Shares held and pledged by top ten shareholders

Unit: share

No.	Shareholders	Opening balance	Increase/ decrease	Closing balance	Proportion (%)
1	The Finance Bureau of Fujian Province	1,020,000,000		1,020,000,000	25.51
2	Hang Seng Bank Limited	639,090,000		639,090,000	15.98
3	Tetrad Ventures Pte Ltd	199,950,000		199,950,000	5.00
4	China National Cereals, Oils & Foodstuffs Corporation	170,000,000		170,000,000	4.25
5	International Finance Corporation	159,960,000		159,960,000	4.00
6	China Electronic Information Industry Group Corporation	150,000,000		150,000,000	3.75
7	Baosteel Group Corporation	70,000,000	75,000,000	145,000,000	3.63
8	Fujian Tobacco Company	133,333,334		133,333,334	3.33
9	Shanghai Guoxin Investment & Development Co., Ltd.	88,000,000		88,000,000	2.20
10	Sept-wolves Investment Co., Ltd.	85,333,333		85,333,333	2.13
	Total	2,715,666,667	75,000,000	2,790,666,667	69.78

Notes:

1. Among the Company's top ten shareholders, the Finance Bureau of Fujian Province held the state-owned shares on behalf of the State, and Hang Seng Bank Limited, Tetrad Ventures Pte Ltd and International Finance Corporation were foreign legal person shareholders.
2. As at the end of the reporting period, all shares held by China Electronic Information industry Group Corporation were pledged, and 75 million shares held by Sept-wolves Investment Co., Ltd. were pledged.
3. There was no co-relationship among the top ten shareholders.

iii. Share transfers of top ten shareholders

During the reporting period, 75 million shares held by UDC Development & Investment Co., Ltd. were transferred to Baosteel Group Corporation. After the transfer, Baosteel Group Corporation held a total of 145 million shares of the Company.

iv. Shareholders holding over 5% of the Company's shares

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

   Legal representative: Mr. Ma Lusheng

   Legal address: No. 5 Zhongshan Road, Gulou District, Fuzhou, P.R.China

   Post Code: 350003

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

   Legal Representative: Mr. Raymond OR Ching Fai

   Registered capital: HKD 11 billion

   Legal address: 83 Dex Voeux, Central Hong Kong

   Date of Incorporation: March 3, 1933

3. Tetrad Ventures Pte Ltd: a private Singapore company

   Legal representative: Mr. Kunna Chinniah, Mr. Ng Koon Siong

   Legal address: 168 Robinson Road, #37-01 Capital Tower, Singapore 068912

   Time of Incorporation: 1995

III. CHANGES IN SHARE CAPITAL AND SHAREHOLDERS FROM THE END OF THE REPORTING PERIOD TO FEBRUARY 5, 2007

i. A-share IPO in 2007

Approved by China Banking Regulatory Commission("CBRC")'s Circular on Approving Industrial Bank's First Initial Public Offering (YJFXZ [2007] No. 10), the Company launched an initial public offering of 1001 million RMB-denominated ordinary shares (A shares) in 2007, and was listed in Shanghai Stock Exchange on February 5, 2007. After the IPO, the Company's total share capital increased from 3.999 billion to 5 billion shares.

ii. Changes in shares after A-share IPO

	Pre-IPO (December 31, 2006)		Increase/ decrease (share)	Post-IPO (February 5, 2007)	
	Quantity (share)	Proportion (%)		Quantity (share)	Proportion (%)
I Shares with sale restriction	**3,999,000,000**	**100**	**550,250,000**	**4,549,250,000**	**91.00**
i Shares before IPO	3,999,000,000	100		3,999,000,000	79.98
of which:					
State-owned and state-owned legal person shares	2,317,455,915	57.95		2,317,455,915	46.35
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 Issued shares			550,250,000	550,250,000	11.01
iii Employees' shares					
iv Preferred shares					
II Shares without sale restriction			**450,750,000**	**450,750,000**	**9.00**
i RMB ordinary shares			450,750,000	450,750,000	9.00
ii Foreign shares listed domestically					
iii Foreign shares listed overseas					
iv Others					
III Total	**3,999,000,000**	**100**	**1,001,000,000**	**5,000,000,000**	**100**

iii. Shares held by top ten shareholders of the Company as at February 5, 2007

Unit: share

No.	Shareholder name	Quantity	Proportion (%)
1	The Finance Bureau of Fujian Province	1,020,000,000	20.40
2	Hang Seng Bank Limited	639,090,000	12.78
3	Tetrad Ventures Pte Ltd	199,950,000	4.00
4	China National Cereals, Oils & Foodstuffs Corporation	170,000,000	3.40
5	International Finance Corporation	159,960,000	3.20
6	China Electronic Information Industry Group Corporation	150,000,000	3.00
7	Baosteel Group Corporation	145,000,000	2.90
8	Fujian Tobacco Company	133,333,334	2.67
9	Shanghai Guoxin Investment & Development Co., Ltd.	88,000,000	1.76
10	Sept-wolves Investment Co., Ltd.	85,333,333	1.71
	Total	2,790,666,667	55.82

iv. Top ten shareholders of tradable shares as at February 5, 2007

Unit: share

No.	Shareholder name	Quantity of tradable shares	Share type
1	Industrial and Commercial Bank of China-Lion Securities Investment Fund	5,600,000	A share
2	Shanxi Haixin Industrial Co., Ltd.	5,417,000	A share
3	China's Construction Bank-Fortune SGAM Baokang Series Securities Investment Fund	4,777,182	A share
4	Bank of China-Fortune SGAM Advanced Growth Securities Investment Fund	4,514,024	A share
5	China's Construction Bank-Xincheng Quintessential Growth Securities Investment Fund	4,000,000	A share
5	China AMC Growth Securities Investment Fund	4,000,000	A share
7	Industrial and Commercial Bank of China - Gf Jufu Open-end Securities Investment Fund	3,500,000	A share
8	Industrial and Commercial Bank of China-Harvest Strategy & Growth Hybrid Securities Investment Fund	3,080,000	A share
9	China Life Insurance Co., Ltd.-Dividend-Individual Diviend-005L-FH002 Shanghai	3,079,000	A share
9	China Life Insurance (Group) Corporation-Traditional-Ordinary Insurance Products	3,079,000	A share

III. CHANGES IN SHARE CAPITAL AND SHAREHOLDERS FROM THE END OF THE REPORTING PERIOD TO FEBRUARY 5, 2007 *continued*

v. Issuance of subordinated debts, subordinated bonds and hybrid capital bonds as at end of the reporting period

According to CBRC's reply document YJF [2003] No.133, the Company issued a total of RMB 3 billion subordinated debts with a term of 5 years and 1 month in the way of private placement on December 31, 2003, which were to mature on January 31, 2009. These debts adopted floating interest rate based on the interest rate quoted by People's Bank of China ("PBOC") for lump-sum savings deposits of one-year term, with a basic margin of 2.01%. This interest rate would be adjusted according to PBOC's adjustment of interest rate on savings deposits and loans. By December 31, 2003, the funds of the RMB 3 billion subordinated term debts had been transferred in full into the Company's account, of which, RMB 1.8 billion had been recorded as the supplementary capital of the Company pursuant to relevant regulations.

In accordance with CBRC's reply document YJF [2004] No.209, the Company issued a total of RMB 3 billion subordinated bonds on the national inter-bank bond market, including RMB 1.86 billion of bonds with fixed interest rate and an initial issuing rate of 5.1%, and RMB 1.14 billion of bonds with floating interest rate adjusted on an annual basis. The annual coupon rate of the bonds with floating interest rate was the sum of benchmark interest rate and basic margin. The benchmark interest rate was the interest rate quoted by PBOC for lump-sum savings deposits of one-year term, while the initial basic margin was 2.4%. The term of the subordinated bonds issued this time was 10 years, with interest to be paid once a year. By December 30, 2004, the funds of the RMB 3 billion of subordinated bonds had been transferred in full into the Company's account, marking the end of this issuance. Pursuant to relevant regulations, the RMB 3 billion of raised funds had been recorded as the supplementary capital of the Company.

Under PBOC's Administrative Licensing Decision Letter (YSCXZYZ[2006] No. 16) and CBRC's reply document YJF [2005] No. 324, the Company issued a total of RMB 4 billion hybrid capital bonds with a 15-year term on the national inter-bank bond market. From the date 10 years after the issuance to the maturity date, the Company had an option to wholly or partly redeem the bonds at par value in one go subject to CBRC's approval. The bonds issued this time were divided into two categories, i.e. those with fixed interest rate and those with floating interest rate. The bonds with fixed interest rate amounted to RMB 3 billion with initial interest rate of 4.94%. If the Company does not exercise its redemption option, the interest rate will be raised by 280BP in the final 5 years from the initial interest rate prevailing in the prior 10 years. The bonds with floating interest rate, which is adjusted on an annual basis, amounted to RMB 1 billion. The annual coupon rate of such bonds was the sum of benchmark interest rate and basic margin. The benchmark interest rate was the interest rate quoted by PBOC for lump-sum savings deposits of one-year term, while the initial basic margin was 1.82%. If the Company does not exercise its redemption option, the basic margin will be raised by 100BP from the initial basic margin in each of the subsequent interest calculation years starting from the 11th year. By September 29, 2006, the funds of RMB 4 billion had been transferred in full into the Company's account, marking the ending of the issuing. The funds of RMB 4 billion had been booked as the Company's supplementary capital in accordance with relevant regulations.

Directors, Supervisors, Senior Management and Employees

I. DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

i. Basic information and total remuneration (after tax) withdrawn from the Company during the reporting period

Name	Position	Gender	Date of Birth	Office Term	Remuneration (in RMB '0000)
Gao Jianping	Chairman	Male	1959.07	2004.06.28-2007.06.27	105.70
Liao Shizhong	Director	Male	1962.10	2004.06.28-2007.06.27	-
Patrick K W Chan	Director	Male	1956.05	2004.06.28-2007.06.27	-
Chua Phuay Hee	Director	Male	1953.09	2004.06.28-2007.06.27	-
John Law	Director	Male	1950.09	2006.06.27-2007.06.27	-
Fan Qingwu	Director	Male	1963.05	2005.05.20-2007.06.27	-
Li Renjie	Director, President	Male	1955.03	2004.06.28-2007.06.27	101.40
Kang Yukun	Director, Vice President	Male	1954.05	2004.06.28-2007.06.27	89.10
Chen Dekang	Director, Vice President	Male	1954.09	2006.06.27-2007.06.27	76.70
Wang Guogang	Independent Director	Male	1955.11	2004.06.28-2007.06.27	11.56
Deng Liping	Independent Director	Male	1954.11	2004.06.28-2007.06.27	10.56
Lin Jingyao	Independent Director	Male	1935.09	2004.06.28-2007.06.27	11.56
Gu Gongyun	Independent Director	Male	1957.07	2004.06.28-2007.06.27	11.56
Ba Shusong	Independent Director	Male	1969.08	2005.09.21-2007.06.27	11.06
Bi Zhonghua	Chief Supervisor	Female	1952.07	2006.05.26-2007.06.27	94.30
Wu Xiaohui	Supervisor	Female	1961.01	2006.06.27-2007.06.27	-
Huang Kongwei	Supervisor	Male	1966.10	2006.06.27-2007.06.27	-
Huang Dazhan	Supervisor	Male	1958.07	2004.06.28-2007.06.27	-
Wang Xiaobin	Supervisor	Male	1969.11	2004.06.28-2007.06.27	-
Liu Peiyuan	Supervisor	Male	1951.07	2004.06.28-2007.06.27	48.70
Hua Bing	Supervisor	Male	1966.11	2004.06.28-2007.06.27	41.60
Li Shuang	External Supervisor	Male	1944.08	2004.06.28-2007.06.27	9.56
Zhang Yichun	External Supervisor	Male	1933.06	2004.06.28-2007.06.27	9.56
Tang Bin	Secretary to the Board of Directors	Male	1957.02	2004.06.28-2007.06.27	67.70

I. DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT *continued*

i. Basic information and total remuneration (after tax) withdrawn from the Company during the reporting period *continued*

Notes:

1. Directors, supervisors and senior management did not hold any shares of the Company.
2. Remuneration for directors and supervisors was verified and granted according to Administrative Measures on Remuneration for Directors of Industrial Bank, Remuneration Scheme for Supervisors of Industrial Bank, Engagement Contract of Independent Directors of Industrial Bank and Engagement Contract of External Supervisors of Industrial Bank. Specific remuneration criteria were as follows: directors and supervisors holding full-time positions in the Company shall receive remuneration according to their posts, and no cross or repeated withdrawal 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 working units; the yearly remuneration for independent directors and external supervisors is RMB 75,600 per year each. In addition, independent directors and external supervisors shall be paid with meeting investigation fees of no more than RMB 10,000 and RMB 5,000 per quarter respectively in proportion to their personal attendance to the meetings of the Board of Directors, Board of Supervisors and relevant special committees.
3. Remuneration Scheme for the Senior Management was determined by the Nomination, Remuneration and Evaluation Committee under the Board of Directors according to the Administrative Measures on the Remuneration for the Senior Management of Industrial Bank, and Measures on the Performance Evaluation of the Senior Management of Industrial Bank.

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
Wu Xiaohui	China National Cereals, Oils & Foodstuffs Corporation	Chief Accountant
Huang Kongwei	Baosteel Group Corporation	Vice Director of Assets Operation Department
Wang Xiaobin	Xishui Strong Year Co.,Ltd., Inner Mongolia	General Manager of Capital Operation Department

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

iii. Major working experience 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 worked successively as Deputy General Manager of the Executive Office of Industrial Bank, Director of the Industrial Bank's Office in Fuzhou Economic and Technological Development Zone, General Manager of the Executive Office of Industrial Bank, Preparatory Team Leader of Shanghai Branch, Vice President of Industrial Bank and President of Shanghai Branch, Vice President of Industrial Bank (in charge of overall management), President of Industrial Bank, and currently as Chairman of Industrial Bank.

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

Mr. Liao Shizhong, Director

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

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

Mr. Patrick K W Chan, Director

Master degree. He has worked successively as Accounting Head of Ernst & Young (Hong Kong), Director of the 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 Limited, and currently as Executive Director and Chief Financial Officer of Hang Seng Bank Limited.

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

Mr. Chua Phuay Hee, Director

Master degree. He has worked successively 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 Director and Chief Financial Officer of Wilmar Trading Pte Ltd.

Appointment or concurrent-appointment in companies other than shareholders: Director and Chief Financial Officer of Wilmar Trading Pte Ltd.

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 worked successively as Business Risk Reviewer in Asia Pacific Region and Business Manager in North China Region of Citibank, Training Head in Asia Pacific Region, Risk Manager in Greater China Region and Senior Credit Officer in Asia Pacific Region for Euroclear Operation Center of J.P. Morgan & Co., Regional Credit Officer of Asia Pacific Financial Markets of Citibank, and currently as Principal Banking Specialist of Global Financial Markets of International Finance Corporation, and Director of Bank of Nanjing.

Appointment or concurrent-appointment in companies other than shareholders: Director of Bank of Nanjing.

Mr. Fan Qingwu, Director

Master degree, assistant research fellow. He has worked successively as Assistant Research Fellow of National Research Center for the Promotion of China's Science & Technology Development of the State Science and Technology Commission, International Research Fellow of SRI International, Senior Manager of China Securities Market Research and Design Center, Standing Associate Director of Securities Training Center of China, General Manager and Chief Economist of Investment Banking Department of China Electronic Information Industry Group Co., Ltd., Deputy General Manager of China Electronic Industry Engineering Co., Ltd., and currently as Executive Director and General Manager of China Electronics Corporation Holdings Company Limited.

Appointment or concurrent-appointment in companies other than shareholders: Executive Director and General Manager of China Electronics Corporation Holdings Company Limited.

Mr. Li Renjie, Dierctor, President

Bachelor degree, senior economist. He has worked successively as Director of Planning Division of the PBOC Fujian Branch, Executive Director and Deputy General Manager of Hong Kong Jiang Nan Finance Ltd., Chairman of Great Wall Securities Co., Ltd., Preparatory Team Leader and President of Industrial Bank Shenzhen Branch, Vice President of Industrial Bank, and currently as President of Industrial Bank.

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

Mr. Kang Yukun, Director, Vice President

Bachelor degree, senior economist. He has worked successively as Deputy General Manager of Industrial Bank's Credit Department, Vice President of Industrial Bank Putian Branch, Vice President and President of Industrial Bank Fuzhou Branch, and currently as Vice President of Industrial Bank.

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

Mr. Chen Dekang, Director, Vice President

Bachelor degree, senior economist. He has worked successively as Vice President of Industrial Bank Ningde Branch, Deputy General Manager and General Manager of Industrial Bank Operational Department, Vice President (in charge of overall management) of Industrial Bank Xiamen Branch, President of Industrial Bank Xiamen Branch, and currently as Vice President of Industrial Bank.

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

Mr. Wang Guogang, Independent Director

PhD degree, research fellow. He has worked successively as teacher of Fujian Normal University, Professor of Nanjing University International Business School, General Manager of Jiangsu Xingda Securities Investment Service Co., Ltd., Chairman of Jiangsu Xingda CPA Office, Vice President of China Huaxia Securities Co., Ltd., research fellow of Chinese Academy of Social Sciences, and currently as Vice Director of Institute of Finance & Banking, Chinese Academy of Social Sciences.

Appointment or concurrent-appointment in companies other than shareholders: Vice Director of Institute of Finance & Banking, Chinese Academy of Social Sciences.

Mr. Deng Liping, Independent Director

PhD degree, doctoral advisor. He has worked successively as Professor of Canada Mount Allison University Department of Economics (tenure-track), Professor and Doctoral Advisor of Xiamen University School of Economics, Director of Xiamen University Department of International Trade, Deputy Dean of Xiamen University School of Economics, Dean of Xiamen University School of Online Education, Assistant to President and Vice President of Xiamen University, and currently as Dean of Xiamen National Accounting Institute, Professor and Doctoral Advisor of Xiamen University.

Appointment or concurrent-appointment in companies other than shareholders: Dean of Xiamen National Accounting Institute, Professor and Doctoral Advisor of Xiamen University.

Mr. Lin Jingyao, Independent Director

Bachelor degree, senior economist. He has worked successively as Governor and Secretary of Communist Party Leadership Group of PBOC Fuzhou Branch, Governor and Secretary of Communist Party Leadership Group of PBOC Fujian Branch (Concurrent Director of Fujian Province Administration Bureau of Foreign Exchange), Member of the Standing Committee of Fujian Province Political Consultative Conference, Deputy Director of Fujian Province Economic and Scientific Committee, Director of China National Securities Repurchase & Clearing Office organized by PBOC, Ministry of Finance and State Council Securities Committee, Counselor of PBOC, President of Fujian Province Association of Credit Cooperation, and currently as Independent Trustee of Xiamen Credit Cooperatives Union.

Appointment or concurrent-appointment in companies other than shareholders: Independent Trustee of Xiamen Credit Cooperatives Union.

Mr. Gu Gongyun, Independent Director

Bachelor degree, doctoral advisor. He has worked successively as Lecturer of affiliated school of Fudan University, Associate Professor and Professor of East China University of Politics and Law, Vice Director and Director of Economic Law Department of East China University of Politics and Law, Assistant to President of East China University of Politics and Law, and currently as Vice President of East China University of Politics and Law.

Appointment or concurrent-appointment in companies other than shareholders: Vice President of East China University of Politics and Law; Independent Director of Ganyue Expressway Co., Ltd., Dazhong Public Utilities Co., Ltd. and Pudong Development Co., Ltd..

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. Ba Shusong, Independent Director

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

Appointment or concurrent-appointment in companies other than shareholders: Vice Director of Financial Research Institute of Development Research Center of the State Council of PRC, Independent Director and Chairman Director of Audit Committee of Huishang Bank, Independent Director of Baoying Fund Management Co., Ltd., Da'an Gene Co., Ltd. of Sun Yat-Sen University.

Ms. Bi Zhonghua, Chief Supervisor

Bachelor degree, senior economist. She has worked successively as Deputy General Manager and General Manager of Industrial Bank's International Business Department, Assistant to President of Industrial Bank and General Manager of International Business Department and Operational Department, Director and Vice President of Industrial Bank, and currently as Chief Supervisor of Industrial Bank.

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

Ms. Wu Xiaohui, Supervisor

Master degree, senior accountant. She has worked successively 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 & 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: 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., Director of Citic Securities Co., Ltd. and Huatai Insurance Co., Ltd..

Mr. Huang Kongwei, Supervisor

Master degree, senior engineer & economist. He has worked successively as Business Executive and General Business Supervisor of Investment Management Division of Planning & Finance Department, General Supervisor and Enterprise Investment Supervisor of Assets Operation Department, 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.

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

Mr. Huang Dazhan, Supervisor

PhD degree. He has worked successively as Director of Union Bank of Hong Kong Co., Ltd., Director of BOC China Fund Limited, Supervisor of Ping An Insurance Co. of China Ltd., and currently as Managing Director of China Merchants Finance Holdings Co., Ltd., Chairman of China Merchants China Direct Investment Ltd., China Merchants Holdings (UK) Ltd., China Merchants Insurance Co., Ltd., Houlder Insurance Brokers (China) Ltd., Shenzhen China Merchants Finance Investment Holdings Ltd., etc..

Appointment or concurrent-appointment in companies other than shareholders: Managing Director of China Merchants Finance Holdings Co., Ltd., Chairman of China Merchants China Direct Investment Ltd., China Merchants Holdings (UK) Ltd., China Merchants Insurance Co., Ltd., Houlder Insurance Brokers (China) Ltd., Shenzhen China Merchants Finance Investment Holdings Ltd., etc..

Mr. Wang Xiaobin, Supervisor

Bachelor degree, economist. He has worked successively in PBOC Harbin Branch Funding Division as General Manager of Business Department of Harbin Securities Company, Assistant to General Manager of Northeast Administration Department and Assistant of Investment Banking H.O. of United Securities Co., Ltd., General Manager of Daton Securities Co., Ltd. Business Department, and currently as General Manager of Capital Operation Department of Xishui Strong Year Co., Ltd Inner Mongolia.

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

Mr. Liu Peiyuan, Supervisor

College degree, senior accountant. He has worked successively as Vice Director and Deputy General Manager of Industrial Bank Audit Department, Deputy General Manager and General Manager of Industrial Bank Financial Accounting Department, and currently as General Manager of Industrial Bank Accounting and Settlement Department.

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

Mr. Hua Bing, Supervisor

Master degree, economist. He has worked in Guangdong Province Lingnan Law Firm, Guangzhou Lide Law Firm affiliated to Guangzhou Municipal Judicial Bureau, and has successively worked as Deputy General Manager of Industrial Bank Law Affairs Office, Deputy General Manager of Risk Management Department, Director of Legal Affairs Centre, and Deputy General Manager of Secretariat of Board of Directors of Industrial Bank, and currently as General Manager of Board of Supervisors Office, Deputy General Manager of Risk Management Department, and Director of Law Affairs Center of Industrial Bank.

He had 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. Li Shuang, External Supervisor

Master degree, doctoral advisor. He has worked successively 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 of Chinese Institute of Certified Public Accountants, Consultant of Chinese Institute of Certified Public Accountants, and currently as Professor and Doctoral Advisor of School of Accounting, Central University of Finance and Economics.

Appointment or concurrent-appointment in companies other than shareholders: Professor and Doctoral Advisor of School of Accounting, Central University of Finance and Economics; Independent Director of Chengde Xinxin Vanadium and Titanium Co., Ltd., Beijing Wangfujing Department Stores (Group) Co., Ltd., Shenyin and Wanguo Securities Co., Ltd. and Jiangsu Shuangdeng Group Co., Ltd..

Mr. Zhang Yichun, External Supervisor

Bachelor degree, doctoral advisor. He has worked successively as Administrative Secretary of Finance & Trade Department, Fu'an Committee of the Chinese Communist Party, Director, Professor and Doctoral Advisor of Department of Economics of Xiamen University, Dean of School of Economics of Xiamen University, and currently as Director of Research Institute of Finance of School of Economics, Professor of Department of Finance, and Doctoral Advisor of Xiamen University.

Appointment or concurrent-appointment in companies other than shareholders: Director of Research Institute of Finance of School of Economics, Professor of Department of Finance, and Doctoral Advisor of Xiamen University, and Independent Director of Everbright Pramerica Fund Management Co., Ltd., Zhengzhou Gas Co., Ltd. and Fujian Zhonghe Co., Ltd..

Mr. Tang Bin, Secretary to the Board of Directors

MBA, senior economist. He has worked successively as Vice Director of Trade Statistics Division and Foreign Economic Statistics Division of Statistics Bureau of Fujian Province, Vice Director of Overall Planning Division and Director of Assignment System Division of Fujian Province System Reform Committee, General Manager of the Executive Office, Business Development Department, Corporate Finance Department of Industrial Bank, Preparatory Team Leader of Hangzhou Branch, General Manager of Secretariat of 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 had no appointment or concurrent-appointment in companies other than shareholders.

iv. Changes of directors, supervisors and senior management

Mr. Ludwig Chang and Mr. Song Li resigned from the position of Director according to the approval of the tenth session of the fifth Board of Directors on March 18, 2006.

Ms. Bi Zhonghua's resignation from the position of Director and Vice President was approved at the eleventh session (extraordinary) of the fifth Board of Directors on May 25, 2006.

Mr. John Law and Mr. Chen Dekang were elected as Director of the fifth Board of Directors at the 2005 annual general shareholders' meeting on June 27, 2006.

Mr. Dong Binggen's resignation from the position of Supervisor was approved at the ninth session of the third Board of Supervisors on May 8, 2006.

Ms. Bi Zhonghua was elected as Staff-representative Supervisor of the third Board of Supervisors at the third session of the second Staff Representative Conference on May 19, 2006.

Mr. Huang Guangtong's resignation from the position of Chief Supervisor and Supervisor was approved(He withdrew a total of RMB 567 thousand for January-June, 2006 from the Company), and Ms. Bi Zhonghua was elected as Chief Supervisor of the third Board of Supervisors at the tenth session of the third Board of Supervisors on May 26, 2006.

Ms. Wu Xiaohui and Mr. Huang Kongwei were elected as Supervisor of the third Board of Supervisors at the 2005 annual general shareholders' meeting on June 27, 2006.

II. EMPLOYEES

As at the end of the reporting period, the Company had a total of 9788 employees on-the-job, with relevant composition as follows:

i. By educational degrees

Educational degree	Number	Proportion (%)
Master and above	884	9.03
Bachelor	5623	57.45
College	2542	25.97
Secondary college and below	739	7.55
Total	9788	100.00

ii. By positions

Type	Number	Proportion (%)
Management	1339	13.68
Business	7181	73.37
Logistics	1268	12.95
Total	9788	100.00

The Company had 98 retired employees.


Running for better performance.


天道酬勤

Corporate Governance Structure

I. CORPORATE GOVERNANCE OVERVIEW

In consideration of actual situation, the Company kept standardizing and improving the basic systems of corporate governance, gradually established and perfected the transmission mechanism of corporate governance, and further clarified and enhanced the function of each level of corporate governance in strict accordance with new Corporate Law, Law of Commercial Banks, Code of Corporate Governance for Listed Companies, 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. Details were as follows:

i. Standardizing and perfecting fundamental regulations of corporate governance

During the reporting period, in accordance with laws and regulations such as new Corporate Law, Securities Law and Guidelines on Articles of Association of Listed Companies, the Company made overall revision on its Articles of Association, Rules of Procedure of General Shareholders' Meeting, Board of Directors and Board of Supervisors. Meanwhile, in conformity with relevant supervisory guidelines of regulatory authorities like CBRC, the Company worked out a series of internal regulations, measures and rules, such as Regulation on Internal Audit of Industrial Bank, thus providing system guarantee for standardized operation of its corporate governance.

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 2006, the Company convened two general shareholders' meetings, which reviewed and approved 14 proposals including Work Report of Board of Directors for 2005, Work Report of Board of Supervisors for 2005, Annual Report 2005, issuance of financial bonds and subordinated bonds, changes of directors and supervisors, financial budget and final account, profit distribution, etc., which played 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 one of the goals of optimizing corporate governance structure, and whether a related party transaction is fair or impairing the interests of the Company and all the shareholders is an important part of supervision by regulatory authorities. The Company set down the Administrative Measures on Related Party Transactions between Industrial Bank and Insiders or Shareholders, and Detailed Rules for the Implementation of Administrative Measures on Related Party Transactions between Industrial Bank and Insiders or Shareholders, according to Administrative Measures on Related Party Transactions between Commercial Banks and Insiders or Shareholders issued by CBRC and the Articles of Association of the Company.

In the management of related party transactions, every subject of the corporate governance structure has clear division of authority and responsibilities. The senior management, Board of Directors and General Shareholders' Meeting administer, examine and approve related party transactions according to their authorities. The Office of the Related Party Transaction Control Committee of the Board of Directors reports periodically the situation of related party transactions to the Related Party Transaction Control Committee of the Board of Directors; the independent directors express independent opinions on significant related party transactions to the Board of Directors; the Board of Supervisors faithfully supervises 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 14 directors, including 6 shareholder-representative directors, 3 senior management directors and 5 independent directors. All directors were responsible and diligent, attended meetings, reviewed and approved proposals in real earnest, effectively assumed the function of decision-making, and protected the whole interests of all shareholders and the Company. In 2006, 7 sessions of Board of Directors (including 3 meetings held in the form of voting by correspondence) were convened by the Company, at which, the Board respectively reviewed and approved 41 proposals including the revision of Articles of Association of the Company, A share listing application documents, issuance of financial bonds and subordinated bonds, financial budget and final account, profit distribution, development of branches and changes in shareholding, and listened periodically to reports on the business performance of the Company, ideas of business development in 2007, and the progress of capital replenishment, etc.. These significant decisions have created positive conditions for the Company to raise its capital adequacy ratio and break through the choke point of scale development, and pointed out the important and scientific direction for the Company to implement its five-year development plan and promote business development.

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 2006, effectively exerting their professional function, these special committees held totally 15 meetings to review or listen to 47 proposals including 2006 annual operation plan, 2006 annual business authorization and financial authorization plan, establishment of branches, write-off of bad debts, status of risk evaluation, situation of related party transactions, reports of internal audit, etc..

I. CORPORATE GOVERNANCE OVERVIEW *continued*

iv. Supervisors and Board of Supervisors

1. Structure of 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 outside supervisors. Highly responsible for shareholders, all supervisors diligently supervised the performance of Board of Directors and senior management as well as the Company's financial position to protect legal rights and interests of shareholders. In 2006, the Board of Supervisors convened 5 meetings, reviewed or listened to 24 proposals including Annual Report 2005, report of financial final account, report on performance evaluation of supervisors, reports of internal audit, phased operation of the Company, etc.. In addition, the Board of Supervisors organized two special inspections on several operating units.

2. 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 2006, totally 3 meetings were held by each committee to review proposals including financial statements and notes of last year and report on performance evaluation of supervisors, etc..

II. INVESTOR RELATIONS MANAGEMENT AND INFORMATION DISCLOSURE

During the reporting period, in strict accordance with relevant laws, regulations, rules and normative documents, the Company stipulated the Administrative Measures on Investor Relations Management, improved its investor relations management work. The Company specially set a consulting hot line and mailbox for investors, designed and gradually perfected the column of Investor Relations on its website both in Chinese and English, and adopted the forms of investigations and holding symposiums to actively keep in touch with investors, building up investors' understanding and trust on the Company. According to supervisory provisions, the Company also revised and improved its Administrative Measures on Information Disclosure, and further optimized internal reporting procedures of information disclosure. Periodic reports and current reports were issued via internet, and the obligation of information disclosure was fulfilled truthfully, accurately, completely and timely. The Company paid great attention to improve its information disclosure, to treat all investors equally, and to protect the interests of investors.

III. PERFORMANCE OF INDEPENDENT DIRECTORS

The Board of Directors has 5 independent directors, who account for more than one third of the total directors. With specialty covering finance, accounting and law, independent directors' specialty structure was reasonable. In 2006, adhering to the principles of objectivity, independence and prudence, in order to protect the benefits of investors and other stakeholders, independent directors fully took advantage of their specialties, actively attended meetings of the Board of Directors and those of 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 distribution plan and significant related party transactions, etc., playing a positive role in ensuring the Board of Directors to make scientific decisions and promoting the continuous and healthy development of the Company's business.

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

Unit: time

Name	Meeting	Personal attendance	Entrusted attendance	Absence
Wang Guogang	7	7		
Deng Liping	7	6	1	
Lin Jingyao	7	7		
Gu Gongyun	7	7		
Ba Shusong	7	6	1	

Notes:

1. Mr. Deng Liping entrusted Mr. Wang Guogang to perform his voting right on the tenth session of the fifth Board of Directors.
2. Mr. Ba Shusong entrusted Mr. Wang Guogang to perform his voting right on the fourteenth session of the fifth Board of Directors.

ii. Independent directors' objection to relevant events

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

IV. DECISION-MAKING MECHANISM

General Shareholders' Meeting is the supreme organ of the Company; the Board of Directors is responsible for making decisions on significant events and setting annual business plan for the Company; the Board of Supervisors is responsible for supervising the Board of Directors and senior management; while the senior management is responsible for managing the Company under the guidance of the Board of Directors. A clear division of responsibilities and a sound checks and balances mechanism have been formed among 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.

The Company adopts unified corporate legal person management system, and delegates authority to branches and sub-branches in accordance with the principle of "limited and differentiated authority delegation, timely adjustment and integration of power and responsibility".

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 Administrative Measures on Performance Evaluation of Senior Management, and Administrative Measures on Remuneration for Senior Management. By setting appropriate evaluation indicators, the Company has built up an effective evaluation mechanism linking the senior management's remuneration with their responsibilities, risk and performance to encourage their subjective initiative. Meanwhile, adhering to the unification of incentive and restriction, the Company optimized the remuneration structure of senior management to ensure senior management performing in the interest of the Company.

General Shareholders' Meetings

The Company held two general shareholders' meetings in 2006, with details as follows:

I. 2005 ANNUAL GENERAL SHAREHOLDERS' MEETING

Notice on Convening 2005 Annual General Shareholders' Meeting of Industrial Bank was published in *China Securities Journal* and *Financial News* on May 26, 2006 and June 12, 2006 respectively.

2005 Annual general shareholders' meeting of the Company was held in Fuzhou on June 27, 2006.

90 shareholders attended the meeting, representing a total of 3,782,493,878 voting shares and accounting for 94.59% of the Company's 3.999 billion shares. It was in compliance with PRC Corporate Law and Articles of Association of the Company.

The following proposals were reviewed and approved at this meeting through open ballot voting: Work Report of the Board of Directors for 2005, Work Report of the Board of Supervisors for 2005, Proposal on Issuing Financial Bonds, Proposal on Revising Industrial Bank's Articles of Association, Annual Report 2005, Report on Performance Evaluation of Directors for 2005, Proposal on Changes of Directors, Report on Performance Evaluation of Supervisors for 2005, Proposal on Changes of Supervisors, Final Financial Report for 2005 and Financial Budget Plan for 2006, Profit Distribution Plan for 2005, Proposal on Engagement of Public Accountant Firms for 2006, and Proposal on Distribution of Retained Earnings and Net Profit for the Year of the IPO.

Beijing King & Wood PRC Lawyers on-site witnessed the legitimacy and validity of convocation procedures of the meeting, qualifications of shareholders attending the meeting, proposals and voting procedures, and issued legal opinions.

II. 2006 FIRST EXTRAORDINARY GENERAL SHAREHOLDERS' MEETING

Notice on Convening 2006 First Extraordinary General Shareholders' Meeting of Industrial Bank was published in *Financial News* on September 16, 2006 and October 9, 2006 respectively.

2006 first extraordinary general shareholders' meeting of the Company was held in Fuzhou on October 17, 2006.

73 shareholders attended the meeting, representing an aggregate of 3,770,639,182 voting shares and accounting for 94.29% of the Company's total 3.999 billion shares. It was in compliance with PRC Corporate Law and Articles of Association of the Company.

The Proposal on Issuing Subordinated Bonds was reviewed and approved at the 2006 first extraordinary general shareholders' meeting through open ballot voting.

Beijing King & Wood PRC Lawyers on-site witnessed the legitimacy and validity of convocation procedures of the meeting, qualifications of shareholders attending the meeting, proposals and voting procedures, and issued legal opinions.

Report of the Board of Directors

I. MANAGEMENT DISCUSSION AND ANALYSIS

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

The Company's scope of business included: absorbing public deposits; issuing short term, medium term and long term loans; arranging settlement of both domestic and overseas; handling the acceptance and discount of negotiable instruments; issuing financial bonds; issuing, cashing, and selling government bonds as agents; buying and selling government bonds and financial bonds; doing inter-bank lending and borrowing; buying and selling foreign exchanges per se or as agents; engaging in bank card business; providing letter of credit (L/C) service and guarantee; handling receipts and payments and insurance business as agents; providing safe boxes; and undertaking other businesses approved by the banking regulatory agency of the State Council. In addition, approved by PBOC, the Company can undertake the settlement and sale of foreign exchanges.

1. General operating status

During the reporting period, the Company seriously implemented operating targets set by the Board of Directors at the year beginning, adhered to the concept of scientific development, proactively pushed forward the steady development in business, and promoted transformation of business development mode and profit-making mode, thus laid a solid foundation for a new round of five-year development.

(1) Good progress in every business line

As at the end of the reporting period, the Company's total assets rose by 30.02% to RMB 617.704 billion; deposit balance in RMB and foreign currencies increased by 19.14% to RMB 423.197 billion; loan balance in RMB and foreign currencies grew by 33.78% to RMB 324.512 billion. Asset quality was further improved, and according to the five-category classification approach, the balance of non-performing loans dropped by RMB 667 million to RMB 4,980 million, and non-performing loan ratio was 1.53%, down by 0.8 percentage points. Loan loss provision was sufficient with a provision coverage ratio of 126.02%. The Company enjoyed relatively superior asset quality and high provision coverage among domestic banks. After-tax profit for the reporting period reached RMB 3.798 billion with an increase of 54.09%. As the first domestic bank to issue a total of RMB 4 billion hybrid capital bonds, the Company's capital base was further strengthened. As at the end of the reporting period, the Company's net capital amounted to RMB 28.801 billion, and its capital adequacy ratio reached 8.71%. The Company enjoyed a reasonable asset-to-liability ratio, and every regulatory indicator met relevant regulatory requirements.

(2) Operational transformation was underway

Strategically important businesses developed robustly, and business structure was further optimized. In corporate banking segment, the layered customer management was strengthened, and a differentiated marketing system was established, thus further solidifying its customer base. A series of new products and services were rolled out, such as "Golden Sesame" financial services specially tailored for small and medium-sized enterprises, Local Solving Scheme of Enterprises' Overall Risk Management, and Easytrade. The Company entered into an agreement with International Finance Corporation on Utility-Based Energy Efficiency Finance Program with innovation of loss sharing mechanism. International payment and settlement handled during the reporting period increased by 38.18% to USD 25.762 billion. The total amount of foreign exchange settlement and sale rose by 33.64% to USD 18.586 billion. In institutional banking

I. MANAGEMENT DISCUSSION AND ANALYSIS *continued*

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

1. General operating status *continued*

(2) Operational transformation was underway *continued*

segment, great progress was made in marketing of bank-bank platform, which brought 35 new contract customers during the reporting period, and got total 66 contract customers, 15 online-linked customers and 3736 linked cooperative outlets. Bank-securities cooperation developed rapidly. During the reporting period, total securities funds settlement volume reached RMB 1549.966 billion, and the Company established overall bank-securities cooperation relationship with 7 pilot securities companies, and signed letters of intent with 34 securities companies for providing third party custody services for customers' transactional funds. Important businesses such as retail lending and credit card business recorded breakthrough growth. During the reporting period, the Company's retail loans increased by RMB 34.042 billion, while the total balance rose by 111.34% to RMB 64.618 billion. The total number of newly-issued wealth management cards reached 7716.6 thousand, up 29.98%, while the newly-issued credit cards totaled 676.3 thousand, with the total number of 1071.2 thousand. With stronger momentum in business innovation, the Company obtained the ability of Shibor outward pricing and quoting, and successively gained qualifications to conduct overseas wealth management business as agents, to handle social security fund custody business, to be gold clearing bank and to undertake personal gold investment in Shanghai Gold Exchange. Continuing exploration was made in business field, and comprehensive operational capacity was substantially improved. As at the end of the reporting period, the Company acted as custodian of 6 securities investment funds and 60 collective fund trust plan programs. Short term financial notes business developed smoothly, and the Company issued 16 batches of short term financial notes for 12 enterprises, involving a total of RMB 10.67 billion.

(3) Enhancement in refined management

The Company introduced the overall budget management, pushed forward the construction of managerial accounting system, and studied cost amortization system and internal funds transfer pricing system, so as to improve its budget management and financial accounting capability. Business reengineering and transformation of marketing organizational system was carried out steadily; Retail Banking Headquarters was successfully established; branch and sub-branch marketing organizational reform was carried out in pilot units; construction of transaction processing center and reengineering of mortgage process and corporate lending process were started up.

(4) Support capability was further strengthened

With successful establishment and operation of Nanchang, Hefei and Urumchi branches, the Company's branch network further expanded. Construction of self-service machines was advanced, and the total number of ATMs increased by 53% to 407 during the reporting period. Service quality of online banking and telephone banking was improved, and online customer number and transaction volume continued to grow. As at the end of the reporting period, the number of online enterprise customers totaled 20,708, up 44.4% with accumulated transactional fund rising by 200.33% to RMB 2248.422 billion, while the number of online individual customers increased by 109.78% to 250.7 thousand with accumulated transactional fund growing by 689.57% to RMB 35.255 billion.

National Check Image Exchange System was successfully developed, and small-sum payment system was upgraded and promoted widely, which ensured the Company's fluent fund remittance channel. Input in technology was continuously increased to improve the application, stability and safety of technology systems. The Company's disaster backup system met the fifth grade of internationally acknowledged disaster backup standards and relevant requirements of PBOC, and was awarded the "Best Award of Disaster Recovery and Business Continuity" in Top 500 Chinese Enterprises for Informationization Summit.

(5) Great enhancement in brand awareness and market presence

The Company witnessed substantial enhancement in its brand awareness and market presence in 2006. It was ranked by *The Banker* magazine No. 164 in its latest Top 1000 World Banks for total assets, thus ascending to the group of top 200 world banks, and No. 1 in terms of return on average assets in its first Top 100 Chinese Banks published in June 2006, and No.10 in terms of tier-one capital and total assets, thus putting itself among top 10 Chinese banks. Moreover, the Company was ranked No. 42 in *Asia Week*'s Top 300 Asian Banks in terms of total assets, up 19 places over last year, and it was the fastest ranking boost among domestic banks. The Company was awarded the "Most Influential Enterprise in China for 2006" by All-China Federation of Industry & Commerce and Phoenix Satellite TV (Chinese Channel), "People's Reliable Brand" by People.com.cn, "Bank of Innovation 2006" by Sina.com, and "Bank of Outstanding Service 2006" by Hexun.com.

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

During the reporting period, the Company's operating income was RMB 13.650 billion, and its operating profit was RMB 5.004 billion.

Pursuant to the principle of importance and comparability, geographical regions where the Company operated were divided into eight segments: head office (including headquarters and its operating institutions), Fujian, Beijing, Shanghai, Guangdong, Zhejiang, Jiangsu and others.

Operating income and operating profit of different geographical regions were stated as follows:

In RMB '000

Region	Operating income	Operating profit
Head office	747,249	-303,992
Fujian	2,734,317	1,223,904
Beijing	1,294,442	695,696
Shanghai	1,458,989	601,323
Guangdong	1,909,415	508,493
Zhejiang	1,588,847	800,683
Jiangsu	613,700	239,465
Others	3,302,623	1,238,790
Total	**13,649,582**	**5,004,362**

I. MANAGEMENT DISCUSSION AND ANALYSIS *continued*

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

3. Financial position and operating results of the Company

(1) Changes in major financial indicators and reasons

In RMB '000

Item	2006	Increase/ decrease (%)	Brief reason
Total assets	617,704,342	30.02	Growth in every business line
Total liabilities	601,504,675	30.11	Growth in every business line
Shareholders' equity	16,199,667	26.70	Net profit realized in current year
Net profit	3,798,256	54.09	Growth in every business line
Net increase of cash and cash equivalents	16,429,904	-54.97	Decrease of non-profit-making assets

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

In RMB '000

Item	2006	Increase/ decrease (%)	Brief reason
Cash and balances due from the central bank	76,478,741	93.43	Rapid increase of relevant short term liabilities
Due from banks and other financial institutions	11,127,752	-39.87	Decrease in due from banks and other financial institutions
Precious metals	1,203,704	Balance as at end of last year was 0	Proprietary and agency trading of gold
Placements with banks and other financial institutions	10,486,118	1403.67	Increase in placements with banks and other financial institutions
Derivative financial assets	106,538	-36.81	Changes in fair value of derivative financial instruments
Held-for-trading investments	9,186,318	1307.01	Increase in held-for-trading investment business
Available-for-sale investments	70,282,206	-41.43	Decrease in available-for-sale investment business
Held-to-maturity investments	49,714,374	Balance as at end of last year was 0	Increase in held-to-maturity investment business
Investments in loans and receivables	6,057,502	Balance as at end of last year was 0	Increase in investments in loans and receivables

Item	2006	Increase/ decrease (%)	Brief reason
Loans to customers	318,236,252	34.02	Normal business growth
Due to banks and other financial institutions	105,764,197	61.64	Growth in securities transactional fund custody business
Placements from banks and other financial institutions	716,100	77.47	Increase in placements from banks and other financial institutions
Salaries and staff welfare payable	1,539,582	31.67	Increase in salaries and staff welfare payable due to branch expansion and increase in employees
Tax payable	879,312	33.68	Increase in tax payable
Bonds receivable	41,000,000	156.25	Increase in bonds receivable
Deferred income tax liabilities	53,978	-83.82	Changes in fair value of financial instruments such as available-for-sale investments.
Other liabilities	2,970,032	49.78	Increase in other liabilities
Surplus reserve	1,406,135	37.01	Increase in net profit
Unrealized gains and losses from available-for-sale investments, after-tax	106,167	-78.34	Changes in fair value of available-for-sale investments
General reserve for risk	3,626,865	51.12	Withdrawing from net profit for the current year
Retained earnings	4,222,286	107.92	Transferred from net profit for the current year
Interest income	24,953,866	44.69	Increase in profit-making assets
Interest expenses	11,702,900	47.38	Increase in interest-bearing liabilities
Fee and commission income	607,562	92.23	Growth in fee and commission based business
Fee and commission expenses	174,799	121.71	Growth in fee and commission based business
Net gains and losses from changes in fair value	-89,577	-235.36	Changes in fair value of trading financial assets
Net gains and losses from other businesses	55,430	-56.60	Decrease in net gains and losses from other business
Operating tax and surcharges	980,538	32.57	Proportional increase of operating income
Operating expenses	5,262,265	35.36	Increase of operating expenses
Asset impairment provision expenses	2,402,417	51.96	Withdrawal of asset impairment provision was recognized in accordance with Accounting Standards for Business Enterprises and "Provisional Regulations on Recognition and Measurement of Financial Instruments (Trial).
Non-operating income	64,677	86.43	Increase in non-operating income

I. MANAGEMENT DISCUSSION AND ANALYSIS *continued*

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

4. Changes in composition of the Company's assets and profit

(1) Profit-making assets accounted for 98.66% of the total assets, up by 0.24 percentage points from a year before, of which, loans accounted for 52.54% of the total assets, up by 1.48 percentage points, and investment accounted for 21.90% of the total assets, down by 3.51 percentage points. In recent years, under certain risk tolerance, the Company proactively adjusted and optimized the structure of its credit assets, and actively controlled non-operating assets and non-interest-earning assets, so that the proportion of profit-making assets, like loans with higher yield, to total assets had been going up year by year, effectively ensuring the asset profitability level of the Company. In the meantime, the Company strived to suit the changes in market environment and lead similar banks in terms of the proportion of bond investments to total assets.

Pursuant to the requirements of the Provisional Regulations on Recognition and Measurement of Financial Instruments (Trial) of the Ministry of Finance, the Company classified its bond investments into four categories at the time of initial recognition according to the purpose for which the bonds were held, i.e. held-for-trading investments, available-for-sale investments, held-to-maturity investments, and investments in loans and receivables. Also pursuant to the requirements thereof, the bond investments were subsequently measured with fair value method or amortized cost method. At the end of 2006, the balance of the bond investments of the Company was RMB 135.24 billion, including RMB 9.186 billion of held-for-trading investments measured at fair value, RMB 70.282 billion of available-for-sale investments measured at fair value, RMB 49.714 billion of held-to-maturity investments measured at amortized cost and RMB 6.058 billion investments in loans and receivables measured at amortised cost.

(2) Operating expenses rose by 35.36% from the year before, mainly due to the setting up of 3 branches and 20 sub-branches in the year. With organizational expansion, staff increase and business growth, operating expenses also increased at a rate slightly lower than that of business scale.

5. Major shareholding activities and equity investment

The Company made an equity investment in China Union Pay Co., Ltd. at cost of RMB 50 million, which represented 3.03% of the registered capital of China Union Pay Co., Ltd..

ii. Prospect for future development

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

During the 11th Five-year Plan period, China's national economy will keep a rapid and healthy development, and the financial aggregate of the economy will maintain a fast expansion and the speed of economic growth will be moderate. The coordination of the fluidity of the currency market and the appreciation of interest rate and exchange rate will be an important task in the regulation and control exercised by the central bank for a long period. Commercial banks will find themselves under the dual pressure of excessive fluidity and restricted growth of credit scale. The conclusion of the transition period after the accession to WTO has led to a full-range expansion of economic and financial opening to the outside world as well as quickened steps in the reform of the economic system and finance. Sustained and profound changes will take place in the financial industry, with focus on the following aspects:

(1) Financial marketization will be continuously developed. The market-oriented reform of the micro financial subjects will speed up, while that of interest rate will deepen in an all-round way; the reform of exchange rate formation mechanism will further accelerate; the tools and means for the national financial regulation and control will be enriched even more; financial marketization will be continuously developed. All these will result in fiercer market competition for the banking industry and profound changes in the financing behaviour of the micro subjects of market, which will produce a significant impact on the business makeup and marketing mode of banks as well as the pattern of the entire financial market.

(2) All-round deepening of financial internationalisation. After the implementation of the Regulation of the People's Republic of China on the Administration of Foreign-funded Banks started on December 11, 2006, RMB business was fully opened to foreign-funded banks of legal entity. This will make the competition in the financial industry even fiercer. Foreign financial institutions are expanding their investment in the Chinese banking industry in different ways, e.g. equity investment and establishment of more affiliates. Domestic banks will have opportunities to learn from and cooperate with advanced international banks and be faced with the challenge of competing with the international counterparts on the same stage.

(3) Deepening explorations in comprehensive financial business. The profound changes in the demand of the financial market, the steady rising ratio of direct financing, the gradual relaxing of financial regulation and the tide of merger, acquisition and reorganization between different financial subjects will make it possible for domestic banks to continuously extend their business fields through financial innovations and steadily step toward the goal of comprehensive operation. The business structure and operation mode of banks will become more diversified and differentiated to gradually break the existing pattern of homogeneous business operation.

I. MANAGEMENT DISCUSSION AND ANALYSIS *continued*

ii. Prospect for future development *continued*

1. Development trend of the industry and market competition pattern facing the Company *continued*

(4) Because of excessive market fluidity, commercial banks will face increasing macro-economic control pressure of monetary policy. Since the out-of-balance economic structure of the country cannot be solved in a short period of time, the situation of excessive fluidity mainly caused by the rapid increase of foreign exchange reserves will not be changed in the near term. The central bank will recover the fluidity and control monetary supply mainly by means of issuing central bank bills, raising reserve ratio, adjusting the interest rate of deposits and loans and providing credit "window guidance", which will affect the profit-making assets of commercial banks to some extent and increase the pressure on their fluidity management.

2. Problems and difficulties existing in business operation and countermeasures

During the reporting period, the Company was faced with the following problems and difficulties in its business operation: (1)With State-owned commercial banks getting listed after systematic transformation and the conclusion of the transition period for the opening of financial industry after the accession to WTO, competition among banks was getting fiercer. Meanwhile, the development of capital market and the increase of direct financing was squeezing market shares of the banking industry; (2)Stricter state macro-economic control imposed stricter restrictions on banks' credit extension; (3)Sharp fluctuation of market fund supply and market interest rate intensified pressure on the management of fluidity and interest rate risks; (4)Before the Company's IPO, the contradiction between sustained and rapid business development and deficient capital base had remained a difficulty in its business management.

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

(1) Promoting the adjustment and optimization of business structure. The Company consolidated and developed the corporate banking, insisted on paying equal attention to big, medium and small-sized enterprises, steadily set up differentiated marketing and service system, implemented layered marketing management, and actively developed various target enterprise customers; taking the reform of system and mechanism as the breakthrough, based on efficient resources input, and targeting at the potential city individual customers and private enterprise owners, the Company emphasized on consumer credit business mainly composed of mortgage loans and credit cards, and achieved the rapid development of retail business.

(2) Perfecting risk management and internal control. The Company further improved the organizational system of risk management and internal control, which consists of the Board of Directors, Board of Supervisors, Senior Management and Operation Layer, clarified managerial function and working mechanism of each level, and strengthened the integrity, compactness and availability of risk management and internal control; perfected the internal function setting of head office's risk management department based on different business lines such as corporate banking, personal banking, financial institutional (market) banking, and enhanced the division of professional work; brought credit risk, market risk, operational risk, compliance risk and other kinds of risk into the scope of risk management, and carried out overall risk monitoring; adhered to national macro-economic control policies, intensified the research on industrial and regional economy and the comprehensive plan of

overall credit business development, strengthened the guidance of credit orientation on industries like real estate, government credit, road construction, electricity and securities company, timely released risk warnings, and effectively avoided relevant business risks; with greater efforts on anti-money laundering, established and perfected the working mechanism of anti-money laundering, and has basically formed a relatively sound anti-money laundering system.

(3) Enhancing financial management and optimizing resource allocation. The Company established a comprehensive economic-value-added-centered evaluation system of business operation and development, effectively guided and standardized the behavior of resource allocation, intensified the capital restriction, and actualized the intensive development; through overall introduction of the managerial concept of balanced scoring card, the Company improved its evaluation system to strengthen the guidance and incentive on the business operation transformation, and further promote the management capability oriented at "Value Management"; in response to market changes, the Company ameliorated its dual-line expenses allocation, and further refined its budget management and financial accounting; the Company also actively developed liabilities business, made great efforts to develop core customers thereby drove the steady development of liabilities, strictly managed the deposits from banks and other financial institutions, enhanced the classification and term structure management of these deposits, adjusted and optimized the scale of investment in bonds and their structure, and strengthened the management of liquidity risk and interest rate risk.

(4) Reengineering business process and improving operational efficiency. The Company improved its front office service, and enhanced service efficiency and value through reengineering of counter business process, mortgage business process and the service process of small and medium-sized enterprise customers; by vertical management and professional operation, the Company further strengthened the support capability of middle office such as risk management, examination and approval, and product support; the Company also expedited the construction of back office operating centre such as fund liquidation, document processing, customer information processing and back office processing of accounting, and improved the back office's centralized processing capability and efficiency.

(5) Steadily advancing the construction of staff and corporate culture. Great efforts were made to transform the service strategy, improve the human resource management, and reinforce the staff construction; through various ways like cooperation with professional headhunter companies, recommendation from experts and social recruitment, the Company enlarged recruitment channels to attract more talents of diversified specialties; the Company further perfected the remuneration system to strengthen the incentive function of remuneration allocation, held various position-related trainings guided by qualification examinations to improve the professional quality of the staff; the Company also explored the way of combining concepts of enterprise culture with the business process reengineering to advance cultural re-establishment through process reengineering.

3. Operation plan for 2007

In 2007, the Company will follow the State macro-economic control and financial regulatory policies, adhere to the five-year development plan, promote the strategic transformation of business development mode and profit making mode, maintain a rapid growth in all business lines and strive for a 20% or higher increase in total assets over the previous year and a further improvement in asset quality.

I. MANAGEMENT DISCUSSION AND ANALYSIS *continued*

ii. Prospect for future development *continued*

4. Requirement, utilization plan and sources of funds for realizing future development strategy

The Company will continue to optimize its asset structure, rapidly expand its asset scale, increase credit extension to quality small and medium enterprises and retail customers, strengthen investment operation in bonds, and develop new asset products. To match asset scale and structure, the Company will further develop its liabilities business and optimize liabilities structure, expand sources of liabilities applying legal interest rate, such as enterprise deposits and savings deposits, increase active liabilities by ways like issuing financial bonds and absorbing large negotiated deposit, and develop large negotiable certificates of deposit to broaden the channel of liabilities source.

5. Analysis of risks and countermeasures

The risks facing the Company include credit risk, market risk, operational risk, IT risk, etc.. During the reporting period, the Company has strengthened the control of each kind of risk, continuously lifted its risk management level and propelled the harmonious development between business operation and risk control. The countermeasures taken were as follows:

To address credit risk, the Company adhered to State macro-economic control, made timely adjustment to its credit orientation policy and optimized credit structure by sticking to unified credit management, establishing a sound credit authorization and approval mechanism, intensifying the control over credit extension process, standardizing the due diligence requirements for all links of credit extension, reinforcing the monitoring of risks, providing risk early warning in time, improving the quantified management of risk practicing the classification and meticulous management of the risk of credit assets and enhancing the capability of screening the credit risk of enterprises through corporate financial analysis system.

To address market risk, the Company has formulated and implemented a series of rules designed to tighten the control of market risk in the aspects of investment decision making, business authorization, exposure quota and flow monitoring. Through information systems, e.g. asset liability management system, the Company dynamically monitors and controls key fluidity ratio indicators and the risk exposure of interest rate and exchange rate, and steps up the analysis and prediction in respect of the changes and impacts of market fluidity, interest rate and exchange rate. By expanding stable liability sources and issuing long term bonds, the Company rationally configures the structure of long term investment and short term capital utilization, practices the FTP management of foreign exchanges, vigorously promotes the structural adjustment of assets and liabilities, and lowers the market risk exposure of the entire business to effectively fend off market risk.

To address operational risk, the Company has established the rules and flow system that cover all links of business operation, realized the mutual supervision and restraint between departments, positions and processes; promoted overall quality control; gradually achieved the standardization of business operation; developed a wide range of business systems and information management systems and improved the compulsory restraints of the systems; practiced the chief accountant appointment mechanism, supervised the sub-branches in strictly implementing the financial accounting regulations and accounting operation rules, and intensified after-event supervision and punishment through internal audit and accountability mechanism.

To address IT risk, the Company has taken measures to safeguard the R&D and operation safety of information systems in the aspects of organizational structure, personnel management, technical support and supervised implementation; established and improved rules, regulations and internal control flow; perfected IT risk management system; strengthened the internal control of data security and the security protection of information system; enhanced the R&D, operating and maintenance ability of information system; set up local and remote disaster backup centres; implemented business continuity plan; conducted information security class protection; built up the IT risk control framework; performed security evaluation and audit to better the stability and reliability of the information systems.

6. Changes that may take place in accounting policies and estimates after implementing the new accounting standards and their impact on the financial position and operating results of the Company

(1) Adjustment of shareholders' equity at the end of reporting period under new and old accounting standards

In accordance with the Circular of the Ministry of Finance on Printing and Distributing 38 Specific Standards Including 'Accounting Standards for Business Enterprises No. 1 - Inventories' (CK [2006] No. 3) promulgated on February 15, 2006 by the Ministry of Finance of the People's Republic of China and CBRC's Circular on Disclosure of Financial Accounting Information under the New Accounting Standards (ZJF [2006] No. 136), the Company prepared Adjustment Form of Discrepancies in Shareholders' Equity Prepared by Industrial Bank Co.,Ltd. According to the New Accounting Standards on the basis of the closing balance of shareholders' equity at the end of the reporting period. According to the adjustment form, there was no difference between the shareholders' equity of the Company on December 31, 2006 (under the Provisional Regulations on Recognition and Measurement of Financial Instruments (Trial)) and that on January 1, 2007 (under the new accounting standards). The form has been reviewed by Fujian Huaxing Certified Public Accountants Ltd., which has issued a special verification report.

(2) Changes that may take place in accounting policies and estimates after implementing the new accounting standards for business enterprises in 2007 and their impact on the financial position and operating results of the Company

In accordance with the Circular on Printing and Distributing the Provisional Regulations on Recognition and Measurement of Financial Instruments (Trial) (CK [2005] No.14) promulgated by the Ministry of Finance in August 2005, the Provisional Regulations on Recognition and Measurement of Financial Instruments (Trial) ("Provisional Regulations") started to be implemented in listed and to-be-listed commercial banks since January 1, 2006. The Company implemented the Provisional Regulations for its Financial Statements 2006. The Provisional Regulations are substantially consistent with the Accounting Standards for Business Enterprises No. 22 - Recognition and Measurement of Financial Instruments in respect of accounting policies and accounting estimates. Meanwhile, the Company had given adequate considerations to the linkage with the new accounting standards for business enterprises in its comparative statements, in which the major accounting policies and estimates accorded with new requirements.

Therefore, the implementation of the new accounting standards will not lead to major changes in the accounting policies and estimates of the Company or significantly impact on its financial position and operating results. In addition, relevant accounting policies or important assertion adopted by the Company in its Financial Statements 2007 may be adjusted in accordance with Ministry of Finance's further interpretation on the new accounting standards.

II. BUSINESS OPERATION OF THE COMPANY

i. Branch network information

Institution	Address	Sub-branch	Employees (person)	Asset scale (in RMB'000)
Headquarters	No. 154 Hudong Road, Fuzhou	-	1176	71,287,540
Financial Markets	No. 168 Jiangning Road, Shanghai			169,572,360
Credit Card Center	14th Floor, Dongchen Building, No. 60 Mudan Road, Pudong New District, Shanghai			839,194
Asset Custody Department	No. 168 Jiangning Road, Shanghai			615,563
Investment Banking Department	No. 9 Chegongzhuang Street, West City District, Beijing			2,038
Beijing Branch	No.11, 3rd Block, Anzhen Xili, Chaoyang District, Beijing	25	587	63,514,563
Tianjin Branch	Senmiao Business Square B, Wujiayao Street, Hexi District, Tianjin	7	208	12,167,944
Taiyuan Branch	No. 209 Fudong Street, Taiyuan	1	84	9,904,578
Shenyang Branch	No. 36 Shiyiwei Road, Heping District, Shenyang	7	208	19,080,167
Shanghai Branch	No. 168 Jiangning Road, Shanghai	26	679	74,601,696
Nanjing Branch	No. 63 Zhujiang Road, Nanjing	16	399	26,504,339
Hangzhou Branch	No. 286 Yan'an Road, Hangzhou	25	630	40,777,535
Ningbo Branch	No. 676 Zhongxing Road, Ningbo	7	246	15,802,063
Hefei Branch	No. 319 Central Changjiang Road, Hefei	1	56	3,823,412
Fuzhou Branch	Yuanhong Building, No. 32 Wuyizhong Road, Fuzhou	32	641	34,489,006
Xiamen Branch	Xingye Building, No. 78 Hubin North Road, Xiamen	24	406	16,145,131
Putian Branch	No. 22 Xueyuan South Road, Chengxiang District, Putian	5	111	3,069,852
Sanming Branch	Xingye Building, No. 1 Liedong Street, Meilie District, Sanming	7	162	2,717,177
Quanzhou Branch	Xingye Building, Fengze Street, Quanzhou	25	546	18,924,693
Zhangzhou Branch	Longmen Building, Shengli West Road, Zhangzhou	11	187	5,397,605
Nanping Branch	Guanlin Building, No. 399 Binjiang Road, Nanping	8	165	2,138,517

Institution	Address	Sub-branch	Employees (person)	Asset scale (in RMB'000)
Longyan Branch	Xingye Building, No. 46 Jiuyi South Road, Longyan	6	152	3,267,945
Ningde Branch	No. 11 Jiaocheng South Road, Ningde	6	139	2,020,350
Nanchang Branch	Tianhe Building, No. 119 Dieshan Road, Nanchang	1	54	2,609,909
Ji'nan Branch	No. 71 Jingshi Road, Ji'nan	7	349	17,658,457
Zhengzhou Branch	Xingye Building, No. 22 Agriculture Road, Zhengzhou	4	149	9,300,457
Wuhan Branch	No. 156 Zhongbei Road, Wuchang District, Wuhan	10	240	17,138,825
Changsha Branch	4th Floor, Zhongtian Power Building, No. 521 Laodong West Road, Changsha	11	287	10,830,318
Guangzhou Branch	5A 3rd Block, Runyue Building, No. 15 Tianhe Road, Guangzhou	18	451	
Foshan Branch	No. 45 Jihuawu Road, Chancheng District, Foshan	18	226	51,154,081
Dongguan Branch	Xingye Finance Building, No. 31 Huangcun Section, Guantai Road, Dongguan	2	72	
Shenzhen Branch	Industrial Bank Building, No. 4013 Shennan Road, Futian District, Shenzhen	18	467	36,760,318
Chongqing Branch	Hejing Building B, No. 108 Minzu Road, Yuzhong District, Chongqing	12	299	15,747,062
Chengdu Branch	No. 206 Shuncheng Street, Chengdu	5	157	17,633,541
Kunming Branch	Tuodong Building, No. 138 Tuodong Road, Kunming	1	52	4,484,509
Xi'an Branch	Huangcheng Building, No. 258 Dongxin Street, Xincheng District, Xi'an	4	154	8,881,290
Urumchi Branch	Ruida International Building, No. 152 Renmin Road, Urumchi	1	49	1,424,344
Netting and summation adjustment within the system				-172,582,037
Total		351	9788	617,704,342

II. BUSINESS OPERATION OF THE COMPANY *continued*

ii. Five-category loan classification and loan loss provision

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

In RMB '000

Item	2006 year-end	Proportion(%)
Pass	312,237,809	96.22
Special mentioned	7,294,435	2.25
Substandard	2,119,555	0.65
Doubtful	2,399,835	0.74
Loss	460,285	0.14
Total	324,511,919	100.00

An assessment was made at each balance sheet date to examine the book value of loans. If there was objective evidence of impairment of financial assets, provision for impairment should be withdrawn. In order to confirm whether there was objective evidence of impairment, the Company individually examined loans that were individually significant, and individually or collectively examined loans that were not individually significant. The Company classified the loans into different groups with similar credit risk characteristics, and then collectively assessed whether there was impairment of loans. If it was confirmed there was no objective evidence of impairment for a single loan, the loan would still be included into a group with similar credit risk characteristics to be assessed collectively. Loans that had been individually examined, and for which an impairment loss was or continued to be confirmed, were not to be examined collectively.

Loan loss provision made by the Company was in compliance with regulatory authorities' requirements. As at the end of the reporting period, the Company's loan loss provision balance was RMB 6.276 billion, and provision coverage ratio reached 126.03%.

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

In RMB '000

Loan classification	2005 year-end		Changes during the period		2006 year-end	
	Balance	Proportion (%)	Balance	Proportion (%)	Balance	Proportion (%)
Substandard	2,642,211	1.09	-522,656	-0.44	2,119,555	0.65
Doubtful	2,153,560	0.89	246,275	-0.15	2,399,835	0.74
Loss	851,305	0.35	-391,020	-0.21	460,285	0.14
Total	5,647,076	2.33	-667,401	-0.80	4,979,675	1.53

iii. 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, transportation, storage and postal industry, wholesale and retail. Details were as follows:

In RMB '000

Industry	Amount	Proportion(%)
Agriculture, forestry, animal husbandry, fishery	865,200	0.27
Mining	7,093,480	2.19
Manufacturing	55,564,570	17.12
Electricity, gas and water supply	15,357,969	4.73
Construction	11,916,689	3.67
Transport, storage and postal service	24,858,314	7.66
Telecommunications, computer and software services	4,793,476	1.48
Wholesale and retail trade	23,881,277	7.36
Hotels and catering	960,722	0.30
Finance	1,411,695	0.44
Real estate	53,990,649	16.63
Lease and commercial service	18,822,393	5.80
Scientific research, technical services and geologic prospecting	1,300,521	0.40
Hydro-engineering, environmental and public facilities administration	20,698,223	6.38
Residential services and other services	1,668,310	0.51
Education	2,662,590	0.82
Health, social security and other community services	1,121,102	0.34
Culture, sports and entertainment	1,778,089	0.55
Public administration and social organizations	3,849,132	1.19
Personal loans	64,618,425	19.91
Discount	7,299,093	2.25
Total	324,511,919	100.00

II. BUSINESS OPERATION OF THE COMPANY *continued*

iii. Loan Distribution *continued*

2. Loan distribution by geographical regions

In RMB '000

Region	Loan balance	Proportion (%)
Head office	4,142,486	1.28
Fujian	57,561,337	17.74
Beijing	27,690,762	8.53
Shanghai	38,078,419	11.73
Guangdong	45,843,058	14.13
Zhejiang	39,166,791	12.07
Jiangsu	16,933,291	5.22
Others	95,095,775	29.30
Total	324,511,919	100.00

iv. Loans to top ten borrowers

As at the end of the reporting period, top ten borrowers of the Company were as follows: Beijing Automobile City Investment & Management Co., Ltd., Expressway Operation & Management Center of Jiangsu Province, Guangzhou Mingsheng Real Estate Co., Ltd., Shanghai Municipal Land Reserve Center, Henan Zhongyuan Expressway Co., Ltd., Lianzhong Stainless Steel Co., Ltd., Fujian Telecom Co., Ltd., Bairong Investment Holding Group Co., Ltd., Fuzhou Municipal State-owned Assets Operation Company, Communications Department of Shanxi Province. Balance of loans to the top ten borrowers amounted to RMB 8.215 billion, accounting for 2.53% of the Company's total loan balance as at the end of the reporting period.

v. Discount loans accounting for over 20% (inclusive) of total loans at year-end

The Company offered no discount loan during the reporting period.

vi. Balance of restructured loans at year-end and overdue loans herein

Balance of restructured loans (including rollover loans and refinancing loans) at year-end was RMB 4.236 billion, of which, RMB 1.344 billion was overdue for over 90 days.

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

In RMB '000

Item	Amount
Average loan balance	295,425,379
Corporate loans	237,731,869
Personal loans	43,521,476
Discount	14,172,034
Average annual interest rate on loans (%)	5.88

viii. Top five government bonds held at year-end (including central bank bills)

In RMB '000

Bond type	Par value	Maturity	Coupon rate (%)
04 Treasury bond 03	6,576,690	2009-4-20	4.42
06 Central bank bill 31	4,500,000	2007-5-18	Discount
05 Treasury bond 03	4,383,020	2010-4-26	3.30
06 Treasury bond 03	3,691,600	2016-3-27	2.80
01 Treasury bond 05	3,384,000	2008-6-22	3.71
Total	22,535,310		

ix. Interest receivable and withdrawal of loss provision for other receivables

In RMB '000

Item	Amount	Provision	Withdrawal basis
Provision for other receivables	537,089	85,932	An assessment on other receivables was made at end of accounting period to estimate possible bad debts and withdraw loss provision accordingly.

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

In RMB '000

Item	Amount
Average balance of deposits	370,086,082
Corporate deposits	274,481,427
Personal deposits	34,982,646
Other deposits	60,622,009
Average annual interest rate on deposits (%)	1.67

xi. Overdue liabilities at the end of the reporting period

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

II. BUSINESS OPERATION OF THE COMPANY *continued*

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

In RMB '000

Item	2006 year-end	2005 year-end
B/A draft	85,954,096	81,257,416
Issued bank guarantee	4,450,091	3,586,177
Issued L/C	7,612,824	6,454,035

xii. Debt repayment assets

As at end of the reporting period, balance of the Company's debt-repayment assets was RMB 708 million, and relevant impairment provision was RMB 150 million. Among debt-repayment assets, real estate was RMB 593 million, accounting for 83.76%; share equity was RMB 99 million, accounting for 13.98%; and automobiles were RMB 16 million, accounting for 2.26%.

xiii. Risk management on credit extension to group customers

The Company strengthened risk management on credit extension to group customers, effectively guarded against the risk of credit extension business to group customers, and carried out unified credit extension management, chose enterprises with material assets and projects with stable cash flow as credit extension targets to prevent the occurrence of multi-channel financing and excessive financing by some enterprises. Total credit line was be ratified rationally on the basis of customer risks and the risk withstanding capability of the Company itself to prevent multi-channel and excessive credit extension to group customers.

xiv. Non-performing loans and the countermeasures taken

At the end of the reporting period, balance of the non-performing loans of the Company was RMB 4.98 billion, down from the beginning of the year by RMB 667 million, and non-performing loan ratio was 1.53%, down by 0.8 percentage points.

During the reporting period, the Company took the following measures to improve its asset quality: (1)further promoted the reform of credit system and improved organizational construction; (2)further classified credit asset risks to reflect the real quality status of loans in a prudent and objective manner, drew sufficient provision and ascertain gains or losses; (3)adopted a proactive and flexible credit exit mechanism to effectively defuse latent risks in loan stock; (4)made self-check in all business lines in response to the special rectification campaign organized by CBRC to reinforce weak links in daily management and eliminate possible occurrence of criminal cases; (5)strengthened risk warning system, collected, analysed and distributed typical cases, clarified key points of risk prevention in all links of credit extension; (6)promoted the reform aiming at the professionalized operation and management of special assets, concentrated on the liquidation and recovery of non-performing loans and improved the efficiency of disposing non-performing loans;(7)further intensified the verification and writing-off of bad debts to truthfully reflect the quality of assets and accurately calculate equity.

xv. Integrity, rationality and effectiveness of the Company's internal control system

In accordance with the Law of the People's Republic of China on Commercial Banks, the Guidance on Internal Control of Commercial Banks, the Guidance on Corporate Governance of Joint Stock Commercial Banks, the Guidelines on Risk Management of Information System for Banking Financial Institutions and other relevant laws and regulations, the Company adhered to the goal of risk prevention and prudent operation, intensified internal control measures and perfected internal control mechanism in the aspects of internal control status, credit extension business, treasury operation business, fee and commission based business, accounting business, security management, IT management and system control, supervision and correction mechanism. The Company's operational management has been further standardized, operational risks were kept under effective control, all business lines developed rapidly on a lawful, compliant, secure and steady basis, an effective internal control mechanism with a clear-cut structure has been established, and internal control requirements were met effectively on all critical links.

As audited by Fujian Huaxing Certified Public Accountants Ltd. and Ernst & Young, the internal control system of the Company did not have any significant defects in respect of completeness, rationality and effectiveness.

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

i. Meetings of the Board of Directors

Seven sessions of the Board of Directors were held during the reporting period, details of which were as follows:

The tenth session of the fifth Board of Directors was held in Shanghai on March 18, 2006. At this meeting, the following 15 proposals were reviewed, approved, and become resolutions: revised A-share listing prospectus, financial statements for 2003-2005, distribution of retained earnings and net profit for the year of the IPO, profit distribution for 2005, change of directors, issuance of financial bonds, purchase of Beijing Branch's office building, shares transfer, engagement of accountant firms, Work Report of the Board of Directors for 2005, Work Report of President for 2005, Annual Report 2005, Final Financial Report for 2005 and Financial Budget Plan for 2006, Report on Performance Evaluation of Directors, and the Proposal on Convening 2005 Annual General Shareholders' Meeting.

The eleventh session (extraordinary) of the fifth Board of Directors was held in Fuzhou on May 25, 2006, at which the following 11 proposals were reviewed, approved, and became resolutions: the position adjustment of partial senior executives, budget project for written-off bad loans for 2006, increase of topics for discussion at general shareholders' meetings and the revision of Articles of Association, rules of procedure for General Shareholders' Meeting and Board of Directors, work reports of Executive Committee, Risk Management Committee, Audit Committee, Related Party Transaction Control Committee, and Nomination, Remuneration & Evaluation Committee. Opinions on increasing positions of senior professional management, progress of capital replenishment, and the report on business operation for January-April of 2006 were also heard at the meeting.

The fourteenth session of the fifth Board of Directors was held in Fuzhou on August 11, 2006, at which the following 5 proposals were reviewed, approved, and became resolutions: branch development plan in 2007, annulment of director candidate, granting credit line to Hang Seng Bank Limited, revising IPO prospectus, Financial Statements 2003-2005 and Interim Financial Statements 2006. The Report on Implementation of CBRC's 2005 Regulatory Opinions on Industrial Bank and the Report on Business Operation for January-June of 2006 were also heard at the meeting.

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

i. Meetings of the Board of Directors *continued*

The sixteenth session of the fifth Board of Directors was held in Shenzhen on December 22, 2006, at which the following 5 proposals were reviewed, approved, and became resolutions: proposal on founding Nanning Branch, stipulation of Internal Audit Rules, shares transfer, additional budget for written-off bad loans for 2006, and granting credit line to China National Cereals, Oils & Foodstuffs Corporation and Cofco Finance Co., Ltd.. Ideas of business development in 2007, special regulation of cases, and the report on business operation for January-November of 2006 were also heard at the meeting.

The twelfth, thirteenth and fifteenth sessions of the fifth Board of Directors were held in the form of voting by correspondence during May 31-June 9, July 11-14 and September 11-15, 2006, at which matters related to Cash Flow Statement 2003, shares transfer, issuance of subordinated bonds and extraordinary general shareholders' meeting were reviewed, approved and became resolutions.

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

1. Implementation of profit distribution for 2005

In light of a resolution of 2005 annual general shareholders' meeting, the Company did not carry out dividend distribution.

2. Implementation of resolutions approved at general shareholders' meetings and matters authorized by the Board of Directors

According to a resolution approved by 2005 annual general shareholders' meeting, the Board of Directors continued to engage Ernst & Young and Fujian Huaxing Certified Public Accountants Ltd. as auditors of the Company for 2006.

At 2005 first extraordinary general shareholders' meeting, the Proposal on Capital Replenishment was reviewed and approved. The resolution required the Company to advance the work relevant to IPO, and study the issuance of hybrid capital bonds. In light of the resolution, the Board of Directors actively organized the work of application and issuance. Upon the approval with CBRC's Reply on Industrial Bank's Issuance of Hybrid Capital Bonds (YJF[2005]No.324) and Administrative Licensing Decision Letter of PBOC (YSCXZYZ[2006]No.16), the Company issued RMB 4 billion hybrid capital bonds in the way of bookkeeping filing in the national inter-bank bond market on September 27, 2006. The hybrid capital bonds with both fixed interest rate and floating interest rate had a term of 15 years, and the Company had an option to redeem in the tenth year.

Proposal on Issuing Financial Bonds was reviewed and approved at 2005 annual general shareholders' meeting. In accordance with the resolution, the Company carried out the work of application and issuance of financial bonds. With CBRC's Reply on Industrial Bank's Issuance of Financial Bonds (YJF[2006]No.345) and PBOC's Administrative Licensing Decision Letter (YSCXZYZ[2006]No.22), the Company issued RMB 16 billion Financial Bonds of Industrial Bank Co.,Ltd., 2006 (second tranche) and RMB 19 billion Financial Bonds of Industrial Bank Co.,Ltd., 2007 (first tranche) in the way of bookkeeping filing in the national inter-bank bond market respectively from December 15 to December 19, 2006 and from March 27 to March 29, 2007. The second tranche of Financial Bonds of Industrial Bank Co.,Ltd., 2006 consisted of RMB 8 billion five-year financial bonds and RMB 8 billion ten-year financial bonds. The first tranche of Financial Bonds of Industrial Bank Co.,Ltd., 2007 consisted of RMB 7 billion three-year fixed interest rate financial bonds, RMB 7 billion five-year fixed interest rate financial bonds, and RMB 5 billion five-year floating interest rate financial bonds.

IV. PROFIT DISTRIBUTION PLAN OF THE COMPANY

i. Shares entitled to the 2006 profit distribution of the Company

The Company completed its A-share IPO and got listed in early 2007. Currently, the Company had a total of 5 billion shares. Pursuant to the Proposal of the Distribution of Retained Earnings and Net Profit for the Year of the IPO approved by the Board of Directors and over 2/3 of the shareholders before the Company's IPO, the retained earnings and net profit for the year of the IPO will be shared by the old and new shareholders. Therefore, the number of shares entitled to the 2006 profit distribution of the Company is 5 billion.

ii. 2006 annual profit distribution plan

In 2006, the Company's net profit reached RMB 3,798,255,861.95. The 2006 annual profit distribution plan is as follows:

1. To withdraw a statutory public welfare at 10% of net profit for 2006, involving a total of RMB 379,825,586.20.
2. To withdraw a general reserve of RMB 1,226,864,668.38.
3. To distribute dividends for ordinary shares at the rate of RMB 2.6 (including tax) per 10 shares on the basis of 5 billion A-shares after public listing in 2007, thus the total cash dividends shall amount to RMB 1.3 billion.

After the profit distribution, the retained profit would be distributed in the coming years.

The above profit distribution plan is to be implemented within 2 months after the approval at 2006 annual general shareholders' meeting.


Every dazzling shine reflects
the precise carving and polishing.

Report of the Board of Supervisors

I. MEETINGS

During the reporting period, the Company's Board of Supervisors held five meetings. Details were as follows:

The eighth session of the third Board of Supervisors was held in Shanghai on March 17, 2005. The following eight proposals were reviewed and approved at this meeting: Work Report of the Board of Supervisors for 2005, Report on Performance Evaluation of Supervisors for 2005, Work Report of Nomination, Remuneration and Evaluation Committee under the Board of Supervisors, Proposal on Nominating Ms. Wu Xiaohui as Candidate for Supervisor of the third Board of Supervisors, Work Report of the Supervisory Committee under the Board of Supervisors, Report on Operating Results and Final Financial Accounting for 2005, Annual Report 2005, and Management Suggestion Letter on Credit Granting Review and Approval System. The explanation on 2005 annual audit made by Fujian Huaxing Certified Public Accountants Ltd. was also heard at the meeting.

The ninth session of the third Board of Supervisors was held in the form of voting by correspondence on April 25, 2006. The Proposal on Mr. Dong Binggen's Resignation from the Board of Supervisors was reviewed and approved at this meeting.

The tenth session of the third Board of Supervisors was held in Fuzhou on May 26, 2006. The following four proposal were reviewed and approved at this meeting: Proposal on Mr. Huang Guangtong's Resignation from the Position of Chief Supervisor and Supervisor, Proposal on Electing Ms. Bi Zhonghua as Chief Supervisor of the Third Board of Supervisors, Proposal on Revision of Rules of Procedure for Board of Supervisors, and Proposal on Nominating Mr. Huang Kongwei as Candidate for Supervisor of the Third Board of Supervisors. The Report on Financial Position for First Quarter of 2006 was also heard at this meeting.

The eleventh session of the third Board of Supervisors was held in Taiyuan on September 8, 2006. At this meeting, the Proposal on Conducting Audit on Credit Card Business and Proposal on Conducting an Investigation and Audit on Operation of Foreign Funds Transfer Pricing System were reviewed and approved. The Board of Supervisors also listened to the Internal Audit Report for First Half of 2006, Report on Implementation of CBRC's 2005 Regulatory Opinions on Industrial Bank, Report on Financial Position for January-June 2006 and Report on Operating Status of Taiyuan Branch.

The twelfth session of the third Board of Supervisors was held in Shenzhen on December 22, 2006. At this meeting, the Board of Supervisors reviewed and approved the Report on Conducting Audit on Credit Card Business and Report on Conducting Audit on Operation of Foreign Funds Transfer Pricing System, and listened to the Report on Financial Position for January-November 2006.

II. SPECIAL INSPECTIONS BY THE BOARD OF SUPERVISORS

During the reporting period, the Board of Supervisors conducted two special inspections to promote the compliant operation and internal control of the Company.

In August, 2006, the Board of Supervisors organized part of supervisors together with head office audit department to set up a special audit team to carry out an overall audit on the operation and management of the Company's Credit Card Center by means of on-site inquiry and checking documents, made an evaluation on the effectiveness and soundness of its operation and management mode as well as internal control, and submitted management suggestions on discovered problems to the senior management.

In September 2006, supported by head office audit department, the Board of Supervisors made an investigation and audit on the operation of the Company's foreign funds transfer pricing system, audited and assessed the rationality and effectiveness of the existing management mode of foreign funds transfer pricing, and put forward auditing suggestions on discovered problems.

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

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

i. Legitimate business operation

During the reporting period, the Company held the steady operation and standard management, objective and true operating results, lawful decision-making procedures, and sound and rational internal control system. The Company has fully fulfilled its annual operating plan stipulated 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' report.

III. INDEPENDENT OPINIONS OF THE BOARD OF SUPERVISORS ON RELEVANT MATTERS *continued*

iii. Acquisition and disposal of assets

During the reporting period, there was no material acquisition or disposal of assets, takeover or merger.

iv. Utilization of capital raised

During the reporting period, the Company issued RMB 4 billion hybrid capital bond with a term of 15 years in national inter-bank bond market in September 2006 to reinforce its capital base. The actual use of capital raised was in conformity with that stipulated in prospectus.

v. Related party transactions

The Company's related party transactions mainly involved bank deposits and loan business.

During the reporting period, the Company strictly observed relevant rules and regulations in its management of related party transactions. The process of related party transactions was fair and impartial, and the results were fair. No insider transaction or case 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 was sound and rational, and the support to management was continuously enhanced.

vii. Implementation of resolutions of general shareholders' meetings

During the reporting period, members of the Board of Supervisors legitimately attended the general shareholders' meetings and did not object to any proposals submitted to the general shareholders' meetings for review. After supervising the implementation of relevant resolutions approved at the two general shareholders' meetings held during the reporting period, the Board of Supervisors believed that the Board of Directors had conscientiously implemented the resolutions.

Significant Events

I. MATERIAL LAWSUITS AND ARBITRATION

As at the end of the reporting period, the number of pending lawsuit against the Company or its branches involving claims amounting to over RMB 10 million (inclusive) was one. In this case, the amount in dispute was RMB 32.25 million. The Company considered that the pending lawsuit would not cause significant negative effect on its financial position and operating results.

II. ACQUISITION AND DISPOSAL OF ASSETS, TAKEOVERS AND MERGERS

During the reporting period, there was no material acquisition and disposal of assets, takeovers or mergers.

III. MATERIAL RELATED PARTY TRANSACTIONS

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

During the reporting period, related party transactions that involved over RMB 30 million were as follows:

1. Loans: the Company granted a loan of RMB 400 million to a supervisor's working company (China National Cereal, Oils and Foodstuffs Corp.).

2. Placements with banks and other financial institutions: the Company had an inter-bank placement of RMB 355 million with a shareholder holding over 5% of the Company's shares (Hang Seng Bank Limited).

3. Due from banks and other financial institutions: the Company had an amount of RMB 100 million due from a shareholder holding over 5% of the Company's shares (Hang Seng Bank Limited).

4. Repurchase agreements: the Company entered into a repurchase agreement of RMB 99 million with a shareholder holding over 5% of the Company's shares (Hang Seng Bank Limited), and of RMB 100 million with a related legal person (Cofco Finance Co.,Ltd.) that had significant influence on a supervisor of the Company.

5. Deposits: Deposits from two shareholders holding over 5% of the Company's shares respectively amounted to RMB 6.842 billion. Deposits from two related legal persons who had significant influence on the Company's supervisors amounted to RMB 154 million.

All related party transactions mentioned above were resulted from normal operating activities. The conditions and interest rates of these transactions were subject to the Company's general business management regulations.

IV. MATERIAL CONTRACTS AND THEIR PERFORMANCE

i. Material custody, lease or contracting

The Company had no significant events concerning custody, leasing 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 events that needed to be disclosed.

iii. Events of entrusting others with cash asset management

During the reporting period, the Company had no event of entrusting others with cash asset management.

iv. Other material contracts

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

V. 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 undertake the auditing of the statutory and supplementary Financial Statements 2006. RMB 2.5 million and RMB 3 million was paid respectively to Fujian Huaxing Certified Public Accountants Ltd. and Ernst & Young as audit fees.

As at the end of the reporting period, Fujian Huaxing Certified Public Accountants Ltd. and Ernst & Young had provided audit services to the Company for five consecutive years and six consecutive years respectively.

VI. Punishments on directors, supervisors and senior management of the Company

During the reporting period, no director, supervisor or senior management of the Company was severely punished by the state regulatory authorities.

Financial Statements

The Company's Financial Statements 2006 have been audited by Fujian Huaxing Certified Public Accountants Ltd. and signed off by Mr. Tong Yigong and Ms. Lin Xia, the certified public accountants from the above accountant firm, who have issued standard and unqualified Auditors' Report numbered as "FJHXCPA (2007) SZ NO. G-018". Ernst & Young audited the Company's Financial Statements 2006 in accordance with International Financial Reporting Standards and issued standard and unqualified Independent Auditors' Report (Please refer to Appendix I and III).

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 certified public accountants firms and personally signed and sealed by the certified public accountants

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

IV Originals of all documents and announcements publicly disclosed by the Company in *China Securities Journal*, and *Shanghai Securities News* during the reporting period

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

Appendix

I Domestic Auditors' Report

II Verification Report of Adjustment Form of Discrepancies in Shareholders' Equity Prepared by Industrial Bank Co.,Ltd. According to the New Accounting Standards

III International Auditors' Report

Chairman: Gao Jianping
The Board of Directors of Industrial Bank Co.,Ltd.
March 26, 2007

Written Affirmative Opinion of Directors and Senior Management of Industrial Bank Co.,Ltd. on Annual Report 2006 of the Company

In accordance with related provisions and requirements of Securities Law of the People's Republic of China and Standard No. 2 on the Contents and Format of Information Disclosure Regarding Companies Issuing Securities to the Public-Contents and Format of the Annual Report (2005 Amendment), after a full understanding and verification of the Company's Annual Report 2006 and its abstract, we, directors and senior management of the Company, hereby consider that:

1. The Company has operated in strict compliance with the Accounting Standards for Business Enterprises, Financial Enterprise Accounting System, and Provisional Regulations on Recognition and Measurement of Financial Instruments (Trial) as well as its supplementary rules. The Company's Annual Report 2006 and its abstract give a true and fair reflection of its financial position and operating results of the reporting period.

2. Auditors' Report 2006 on Industrial Bank Co.,Ltd. issued by Fujian Huaxing Certified Public Accountants Ltd. and Ernst & Young respectively was true, fair and objective.

We hereby guarantee that information disclosed in the Company's Annual Report 2006 and its abstract is true, accurate, complete and free of any false statement, misleading representation or major omission, and bear joint and several liabilities for the truthfulness, accuracy and completeness of contents thereof.

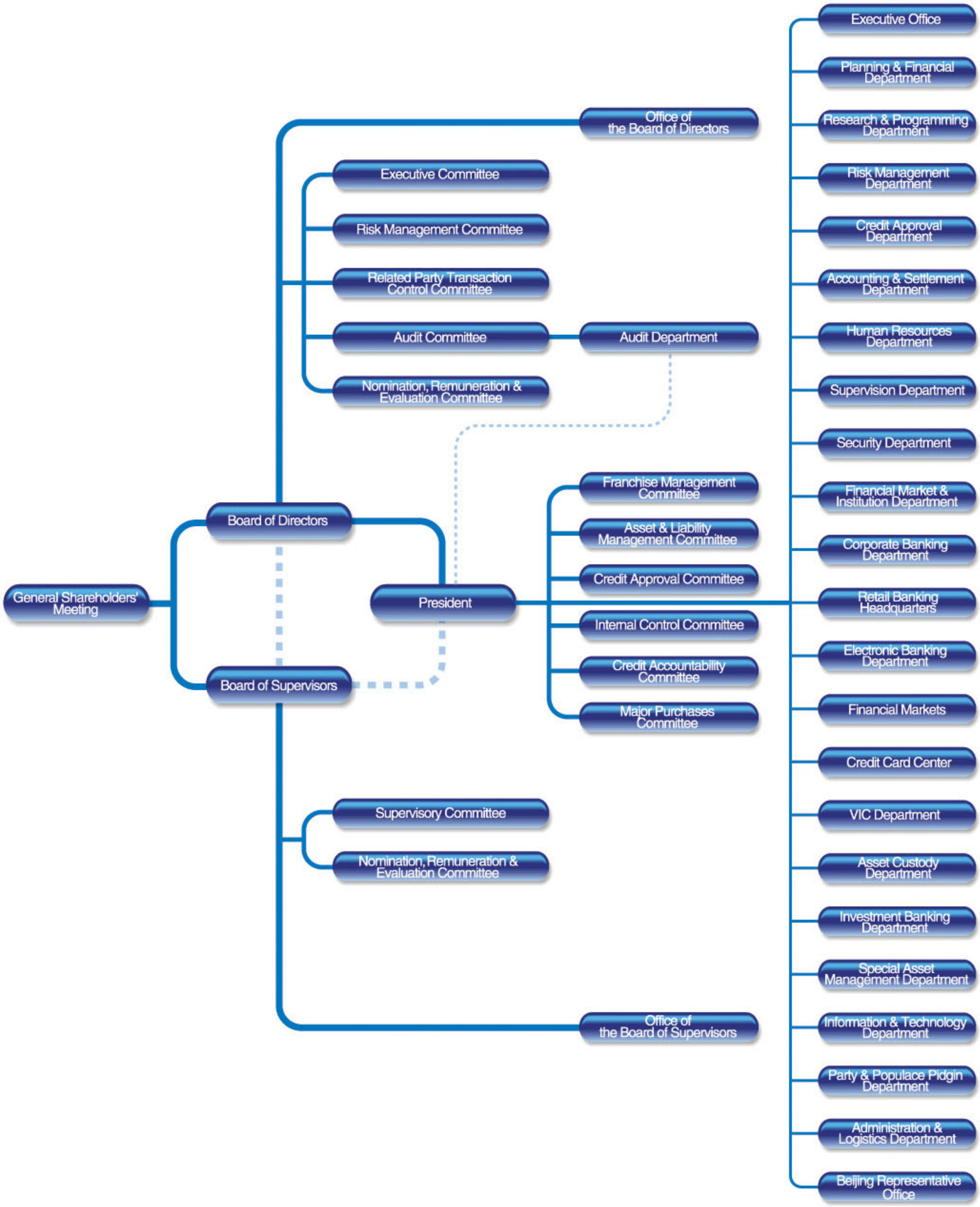
Signatures of directors and senior management

Gao Jianping	Liao Shizhong	Patrick K W Chan
Chua Phuay Hee	John Law	Fan Qingwu
Li Renjie	Kang Yukun	Chen Dekang
Wang Guogang	Deng Liping	Lin Jingyao
Gu Gongyun	Ba Shusong	Tang Bin

March 26, 2007


Diligence promises a good harvest.

Orginzational Structure



Appendix I: Domestic Auditors' Report

CONTENTS

INDEPENDENT AUDITORS' REPORT

FJHXCPA (2007) S NO. G-018

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, 2006, and the income statement, the statement 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 Business Enterprises and "Regulations of Recognition and Measurement of Financial Instruments (Provisional)". 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's 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 at December 31, 2006, and of its financial performance and its cash flows for the year then ended in accordance with the Accounting Standards for Business Enterprises and "Regulations of Recognition and Measurement of Financial Instruments (Provisional)".

Fujian Huaxing Certified Public Accountants Ltd.
Fuzhou, People's Republic of China

March 26, 2007

Certified Public Accountant: 童益恭

Certified Public Accountant: 林霞

BALANCE SHEET

Industrial Bank Co.,Ltd. December 31, 2006 Unit: RMB Yuan

Item	Notes	2006-12-31	2005-12-31
Assets			
Cash and due from the central bank	VII.1	76,478,740,657.27	39,537,677,136.71
Due from banks and other financial institutions	VII.2	11,127,751,524.64	18,506,908,724.52
Precious metals	VII.3	1,203,703,509.69	-
Placements with banks and other financial institutions	VII.4	10,486,118,467.18	697,368,100.39
Reverse repurchase agreements	VII.5	56,469,469,490.01	50,514,044,718.80
Derivative financial assets	VII.6	106,537,898.58	168,596,882.18
Financial assets at fair value through profit or loss	VII.7	9,186,317,681.99	652,894,152.28
Available-for-sale financial assets	VII.7	70,282,205,548.38	119,998,735,091.96
Held-to-maturity investment	VII.7	49,714,373,675.71	-
Loans and receivables	VII.7	6,057,501,877.81	-
Long term equity investments	VII.7	50,000,000.00	50,000,000.00
Interest receivables	VII.8	2,115,311,516.76	1,964,071,607.47
Customer loans	VII.9	318,236,252,439.11	237,459,954,676.10
Fixed assets and construction in progress	VII.10	3,621,606,102.06	2,948,745,257.00
Intangible assets	VII.11	412,015,966.83	442,461,188.95
Deferred tax assets	VII.12	1,026,452,312.56	854,419,270.62
Other assets	VII.13	1,129,983,703.99	1,298,224,350.44
Total Assets		617,704,342,372.57	475,094,101,157.42
Liabilities			
Amounts due to the central bank		-	-
Due to banks and other financial institutions	VII.14	105,764,196,669.63	65,429,964,246.84
Placements from banks and other financial institutions	VII.15	716,100,000.00	403,510,000.00
Repurchase agreements	VII.16	23,205,322,935.88	19,123,051,435.14
Derivative financial liabilities	VII.6	115,929,537.94	102,417,745.40
Customer deposits	VII.17	423,196,710,938.60	355,218,109,329.96
Salaries and staff welfare payables	VII.18	1,539,581,562.42	1,169,287,437.58
Tax payable	VII.19	879,312,433.18	657,788,999.57
Interest payable	VII.20	2,063,511,077.07	1,888,086,741.11
Bonds payable	VII.21	41,000,000,000.00	16,000,000,000.00
Deferred taxes liabilities	VII.12	53,977,699.91	333,516,641.54
Other liabilities	VII.22	2,970,032,389.11	1,982,983,524.26
Total Liabilities		601,504,675,243.74	462,308,716,101.40
Shareholders' Equity			
Paid-in capital	VII.23	3,999,000,000.00	3,999,000,000.00
Capital reserves	VII.24	2,839,213,878.93	2,839,213,878.93
Surplus reserves	VII.25	1,406,134,570.27	1,026,308,984.07
General reserves	VII.26	3,626,864,668.38	2,400,000,000.00
Unrealised gain/loss on available-for-sale investments, net of tax	VII.27	106,167,101.40	490,140,890.54
Retained earnings	VII.28	4,222,286,909.85	2,030,721,302.48
Total equity		16,199,667,128.83	12,785,385,056.02
Total Liabilities and Equity		617,704,342,372.57	475,094,101,157.42

Legal Representative: President: Financial Director:

The accompanying notes form an integral part of the financial statements

INCOME STATEMENT

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

Item	Notes	2006	2005
1. Net interest income		13,250,966,375.17	9,305,452,820.87
Interest income	VII.29	24,953,866,489.75	17,246,346,149.53
Interest expense	VII.30	(11,702,900,114.58)	(7,940,893,328.66)
2. Net fee and commission income		432,762,982.47	237,227,548.31
Fee and commission income	VII.31	607,562,423.87	316,067,256.46
Fee and commission expense	VII.32	(174,799,441.40)	(78,839,708.15)
3. Gains or losses from changes in fair value	VII.33	(89,576,835.06)	66,179,136.78
4. Other operating income/expense,net	VII.34	55,429,974.24	127,731,646.66
5. Business Tax and Surcharges	VII.35	(980,538,151.26)	(739,643,181.66)
6. General and administrative expenses	VII.36	(5,262,265,189.06)	(3,887,743,850.24)
7. Provisions for losses and impairments	VII.37	(2,402,417,015.48)	(1,580,944,438.44)
8. Operating profit		5,004,362,141.02	3,528,259,682.28
Add: Non operating income	VII.38	64,676,773.72	34,693,113.16
Less: Non operating expense	VII.39	(22,837,424.34)	(18,231,188.89)
9. Total profit		5,046,201,490.40	3,544,721,606.55
Less: Income tax	VII.40	(1,247,945,628.45)	(1,079,753,627.80)
10. Net profit		3,798,255,861.95	2,464,967,978.75
11. Earnings per share			
Basic		0.95	0.62
Diluted		0.95	0.62

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

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	Surplus reserves	General reserves	Unrealised gains/losses on available-for-sale investments, net of tax	Retained earnings	Total equity
As at 31 December, 2004	3,999,000,000.00	2,839,213,878.93	779,812,186.19	-	(150,429,178.92)	2,616,302,689.64	10,083,899,575.84
1.Net profit for the year	-	-	-	-	-	2,464,967,978.75	2,464,967,978.75
2.Appropriations for the year							
(1) Statutory surplus reserves	-	-	246,496,797.88	-	-	(246,496,797.88)	-
(2) General reserves	-	-	-	2,400,000,000.00	-	(2,400,000,000.00)	-
(3) Cash dividend declared	-	-	-	-	-	(404,052,568.03)	(404,052,568.03)
(4) Share dividend declared	-	-	-	-	-	-	-
3.Net change in fair value of available-for-sale investments							
(1) Amounts reported in equity	-	-	-	-	830,471,309.47	-	830,471,309.47
(2) Amounts recognised in the income statement	-	-	-	-	125,900,591.36	-	125,900,591.36
4.Income tax effects resulting from amounts reported in equity	-	-	-	-	(315,801,831.37)	-	(315,801,831.37)
5.Changes in paid-in capital during the year	-	-	-	-	-	-	-
As at 31 December, 2005	3,999,000,000.00	2,839,213,878.93	1,026,308,984.07	2,400,000,000.00	490,140,890.54	2,030,721,302.48	12,785,385,056.02
1.Net profit for the year	-	-	-	-	-	3,798,255,861.95	3,798,255,861.95
2.Appropriations for the year							
(1) Statutory surplus reserves	-	-	379,825,586.20	-	-	(379,825,586.20)	-
(2) General reserves	-	-	-	1,226,864,668.38	-	(1,226,864,668.38)	-
(3) Cash dividend declared	-	-	-	-	-	-	-
(4) Share dividend declared	-	-	-	-	-	-	-
3.Net change in fair value of available-for-sale investments							
(1) Amounts reported in equity	-	-	-	-	134,537,980.61	-	134,537,980.61
(2) Amounts recognised in the income statement	-	-	-	-	(708,403,011.97)	-	(708,403,011.97)
4.Income tax effects resulting from amounts reported in equity	-	-	-	-	189,891,242.22	-	189,891,242.22
5.Changes in paid-in capital during the year	-	-	-	-	-	-	-
As at 31 December, 2006	3,999,000,000.00	2,839,213,878.93	1,406,134,570.27	3,626,864,668.38	106,167,101.40	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. 2006 Unit: RMB Yuan

Item	Notes	2006	2005
1. Cash flow from operating activities			
Cash received from interest		20,972,253,198.97	14,526,967,953.19
Cash received from service fee and commissions		607,562,423.87	316,067,256.46
Cash received from recovery of bad debts and receivables previously written-off		4,867,891.71	1,957,536.15
Cash received from reverse repurchase agreements		-	6,027,000,002.68
Cash received from due to the central bank and placement from banks and other financial institutions		312,590,000.00	-
Cash received from due to banks and other financial institutions		40,334,232,422.79	34,480,734,552.22
Cash received from repurchase agreements		4,082,271,500.74	13,597,281,805.59
Cash received from customer deposits		67,978,601,608.64	72,031,598,412.07
Cash received from other operating income		487,705,632.49	126,192,854.94
Subtotal of cash inflow		**134,780,084,679.21**	**141,107,800,373.30**
Cash paid for interest		(11,385,568,898.03)	(6,911,864,155.83)
Cash paid for service fee and commissions		(174,799,441.40)	(78,839,708.15)
Cash paid to and on behalf of the employees		(1,741,157,127.13)	(1,132,252,430.79)
Income tax and other tax paid		(2,311,885,047.52)	(1,986,626,498.95)
Cash paid for statutory deposit with the central bank, net		(8,440,950,310.28)	(4,127,293,153.53)
Cash paid for due to banks and other financial institutions, net		2,052,008,189.18	(1,658,045,156.97)
Cash paid for placement with banks and other financial institutions, net		(1,238,873,181.77)	(393,744,847.27)
Cash paid for reverse repurchase agreements, net		(15,842,307,544.76)	-
Cash paid for customer loans		(83,027,368,283.85)	(40,336,581,619.49)
Cash paid for due to the central bank and placement from banks and other financial institutions		-	(499,992,500.00)
Cash paid for other operating activities		(1,757,919,679.73)	(1,031,279,861.18)
Subtotal of cash outflow		**(123,868,821,325.29)**	**(58,156,519,932.16)**
Net cash flow from operating activities		**10,911,263,353.92**	**82,951,280,441.14**

CASH FLOW STATEMENT *continued*

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

Item	Notes	2006	2005
2. Cash flow from investing activities			
Cash received from recovery of investments		329,209,880,689.36	179,394,272,144.19
Cash received from dividends and interest of bonds		4,783,722,606.98	2,354,719,549.70
Cash received from disposal of fixed assets, intangible assets and other long term assets		101,588,616.70	53,213,301.08
Cash received from other investing activities		-	-
Subtotal of cash inflow		334,095,191,913.04	181,802,204,994.97
Cash paid for acquiring fixed assets, intangible assets and other long term assets		(1,062,337,761.31)	(415,509,238.27)
Cash paid for investments		(350,635,366,228.14)	(236,921,507,294.92)
Cash paid for precious metals		(1,206,570,952.67)	-
Cash paid for other investing activities		-	-
Subtotal of cash outflow		(352,904,274,942.12)	(237,337,016,533.19)
Net cash flow from investing activities		(18,809,083,029.08)	(55,534,811,538.22)
3. Cash flow from financing activities			
Cash received from equity invesments		-	-
Cash received from issuance of bonds		25,000,000,000.00	10,000,000,000.00
Cash received from other financing activities		-	-
Subtotal of cash inflow		25,000,000,000.00	10,000,000,000.00
Cash paid for repayment of debts		-	-
Cash paid for distribution of dividends or profits		(37,951,485.23)	(526,879,427.78)
Cash paid for interest expense		(493,415,000.00)	(275,670,000.00)
Subtotal of cash outflow		(531,366,485.23)	(802,549,427.78)
Net cash flow from financing activities		24,468,633,514.77	9,197,450,572.22
4. Effects of foreign exchage rate changes on cash		(140,909,579.56)	(123,374,699.73)
5. Net increase in cash and cash equivalents		16,429,904,260.05	36,490,544,775.41

Legal Representative: President: Financial Director:

The accompanying notes form an integral part of the financial statements

CASH FLOW STATEMENT (SUPPLEMENTARY INFORMATION)

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

Item	Notes	2006	2005
1. Reconciliation of profit after tax to cash flows from operating activities:			
Profit after tax		3,798,255,861.95	2,464,967,978.75
Add: Provision for impairment of assets		2,402,417,015.48	1,580,944,438.44
Depreciation of fixed assets		352,426,872.96	308,384,673.16
Amortisation of intangible assets		56,120,804.51	51,285,203.79
Amortisation of other long term assets		3,791,614.47	2,184,933.84
Losses on disposal of fixed assets, intangible assets and other long term assets (Less: gains)		(18,832,123.72)	(9,559,160.85)
Losses from changes in fair value (Less: gains)		89,576,835.06	(66,179,136.78)
Investment losses (Less: gains)		(4,002,794,706.81)	(2,717,491,695.08)
Losses from trading precious metals (Less: gains)		9,322,040.98	-
Decrease in deferred tax assets (Less: increase)		(172,033,041.94)	(82,828,779.79)
Increase in deferred tax liabilities(Less: decrease)		(89,647,699.41)	7,562,107.59
Decrease in receivables of operating nature (Less: increase)		(106,651,602,475.83)	(41,571,641,224.47)
Increase in payables of operating nature (Less: decrease)		114,320,870,424.11	122,543,860,097.26
Cash paid for interests of bonds		676,249,938.89	316,416,305.55
Others		137,141,993.22	123,374,699.73
Net cash flow from operating activities		10,911,263,353.92	82,951,280,441.14
2. Non cash investment and financing activities			
Obligations converted into capital		-	-
Convertible corporate bonds with maturity less than one year		-	-
Fixed assets acquired under finance leases		-	-
3. Net increase in cash and cash equivalents			
Closing balance of cash	VII. 41	100,420,272,105.06	78,590,313,494.01
Less: opening balance of cash		(78,590,313,494.01)	(53,533,693,352.91)
Add: closing balance of cash equivalents	VII. 41	6,680,685,283.31	12,080,739,634.31
Less: opening balance of cash equivalents		(12,080,739,634.31)	(646,815,000.00)
Net increase in cash and cash equivalents		16,429,904,260.05	36,490,544,775.41

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 has obtained its license for carrying out financial activities from China Banking Regulatory Commission with the license number of No. B11313900H0001. The Company's business license was approved by Fujian Provincial Administration of Industry and Commerce with the registration number of 3500001000202, the registered address is 154 Hudong Road, Fuzhou, Fujian Province. The legal representative of the Company is Gao Jianping. As at December 31, 2006, The Company has a registered capital of RMB 3.999 billion, which has been verified by Fujian Huaxing Certified Public Accountants Ltd. with a verification report referenced "MHXS (2004) YZ No.G-003".

The Company was allowed to issue up to 1.333 billion ordinary shares (Share A) by China Securities Regulatory Commission (CSRC) on January 12, 2007 with the approval document ZJFXZ [2007] No. 10. The Company actually issued 1.001 billion A shares with par value of RMB 1.00 for each. The issue price for each share was RMB 15.98, which increased the Company's registered capital and share capital RMB 1,001,000,000. After the issuance, the Company's registered capital has increased from RMB 3.999 billion to 5.000 billion, which has been verified by Fujian Huaxing Certified Public Accountants Ltd. with a 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 Companystarted trading on Shanghai Stock Exchange on February 5, 2007.

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 underwriting of bonds; provision of agency services in the underwriting, sale and cashing of government bonds; trading of governmental bonds and debentures; inter-bank placements and borrowings; purchase and sale of foreign currencies, either on its own behalf or on behalf of clients; 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 PBOC. In addition, approved by PBOC, the Company can provide exchange settlement and sales service (The above scope is subject to specific regulations of the State, if any).

3. Corporate structure

As of December 31, 2006, apart from the headquarters, the Company has set up 32 branches and 351 sub-branches in cities of Fuzhou, Xiamen, Ningde, Putian, Quanzhou, Zhangzhou, Longyan, Sanming, Nanping, Shanghai, Shenzhen, Changsha, Beijing, Hangzhou, Guangzhou, Nanjing, Ningbo, Chongqing, Ji'nan, Wuhan, Shenyang, Chengdu, Tianjin, Xi'an, Zhengzhou, Foshan, Taiyuan, Kunming, Dongguan, Nanchang, Hefei and Urumchi respectively as well as other headquarters' operating departments such as Financial Markets, Credit Card Centre, Asset Custody Department, VIC Department and Investment Banking Department in Shanghai and Beijing.

4. The approval of the Company's financial statements

The financial statement of the Company was approved by the board of directors on March 26, 2007.

II. BASIS OF PRESENTATION

1. The Company has acquired its business license as a joint stock company with limited liability on August 22, 1988. The corporate structure has already in place in the beginning of 2006 except newly founded branches and sub-branches. The financial statements of the Company in 2006 was consolidated by using individual financial statement from existing branches, sub-branches and other reporting entities in the reporting period.

2. The financial statement for the year 2006 was prepared in accordance with the "Accounting Standards for Chinese Enterprises" and the "Regulations of Recognition and Measurement of Financial Instruments (Provisional)".

III. SIGNIFICANT ACCOUNTING ESTIMATES

Management of the Company has stated below the key uncertainties on significant estimates which involving adjustment of future cash flow risks and the estimation on whether sufficient future taxable profit will be gained in future period. The Company makes assumptions on above matters in accordance with past experiences and estimates on future matters and reviews those assumptions periodically.

1. Impairment losses of loans

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

III. SIGNIFICANT ACCOUNTING ESTIMATES *continued*

2. Income tax

Deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the deferred tax assets can be utilised. On the balance sheet date, the carrying amount of deferred tax was reviewed by the management of the Company. If it is probable that future taxable profit will not be sufficient for the deferred tax assets to be recovered, the carrying amount of deferred tax assets will be reduced. Therefore, it requires significant judgements on the tax treatments of certain transactions in accordance with prevailing tax regulations and also significant assessment on the probability that adequate future taxable profit will be also available for the deferred tax assets to be recovered.

IV. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. Accounting policies

The Company has adopted "Accounting Standards for Chinese Enterprises", "Regulations of Recognition and Measurement of Financial Instruments (Provisional)" and other related regulations applicable to the Company.

2. The financial year of the Company

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

3. Reporting currency

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

4. Reporting basis and accounting principle

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

When financial assets and liabilities are recognised 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 or carried at amortised cost using the effective interest method.

5. Accounting for foreign currency transactions

The separate books and records are kept for foreign currency transactions in original currencies. The ending separate accounting balance in foreign currency is translated into RMB in light of the ending benchmark exchange rate released by the People's Bank of China (PBOC) or the exchange rate ratified by the State. The account in foreign currency is then combined with the final accounting statement in RMB to make an overall final accounting statement in RMB.

Balance sheet items (excluding shareholder's equity items) are translated into RMB at the exchange rate prevailing on the balance sheet date; equity items are translated into RMB at historical exchange rates prevailing on the date of transactions. Income statement items are translated into RMB at the exchange rate prevailing on the balance sheet date.

6. Basis of consolidation

The consolidated financial statement of the Company is prepared on the basis of the financial statements of the head office and that of the various branches of the Company and other relevant materials. The major transactions as well as their balances between and among the head office and its branches have been offset at the time of consolidation.

7. Financial instruments

7.1 Classification, recognition and measurement of 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. The Company determines the classification of its financial assets after initial recognition and re-evaluates this designation at each financial year end. When financial assets are recognised initially, they are measured at fair value. For financial assets at fair value through profit or loss, any transaction costs are recognised 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 recognised.

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

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 assets 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. 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 amortised cost using the effective interest 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 as well as through the amortisation process. The Company shall reclassify any remaining held-to-maturity investments as available-for-sale if it has, during the current period or during the two preceding financial years, sold or reclassified more than an insignificant amount of held-to-maturity investments before maturity, unless:

(i) The date of sale or reclassification is close to the date of maturity (normally less than three months, exclusive) that changes in the market rate of interest would not have a significant effect on the financial asset's fair value;

(ii) Sales or reclassifications occur after the entity has collected substantially all or most of the financial asset's original principal (normally more than 95% of principal, exclusive);

(iii) Sales or reclassifications are attributable to an isolated event that is beyond the Company's control, is non-recurring and could not have been reasonably anticipated by the Company.

IV. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *continued*

7. Financial instruments *continued*

7.1 Classification, recognition and measurement of financial assets *continued*

(2) Held-to-maturity investment *continued*

On the date of reclassification, the difference between the amortised cost and the fair value of the remaining part of the investment is reported in equity, until the financial asset is derecognised or the financial asset is determined to be impaired at which time the difference previously reported in equity is included in the income statement.

(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 amortised cost using the effective interest method, less provision for impairment in value. The cumulative gains or losses are recognised in the income statement when the financial asset is 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 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 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.

When following situations occur, available-for-sale financial assets which measured at fair value become inadequate, these financial assets will carried at amortised 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 exceed two accounting periods. On the reclassification date, the carrying amount of the financial asset is reported as its amortised cost.

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

(i) If the available-for-sale financial asset has a fixed term, gains or losses of the financial asset are amortised using the effective interest method and included in the income statement. The difference between its maturity value and the amortised cost is amortised 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 term, gain or loss of the financial asset are remained as equity, until it derecognised or impaired during the following accounting periods, at which time the cumulative gains or losses previously recognised in equity is recognised in the income statement.

7.2 Classification, recognition and measurement of financial liabilities

Financial liabilities are classified as either financial liabilities at fair value through profit or loss, or other financial liabilities. For financial liabilities at fair value through profit or loss, any transaction costs are recognised in P/L accounts; for other financial liabilities which are not measured at fair value through profit or loss, any transaction costs that are directly attributable to the acquisition of the financial liabilities can be recognised.

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

Financial liabilities at fair value through profit or loss include financial liabilities held for the purpose of selling it at fair value in the near term; or it is part of a portfolio of identified financial liabilities 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. 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

Other financial liabilities are carried at amortised cost using the effective interest method after initial recognition. Any gain or loss is included in the income statement when the financial liabilities derecognised or is determined to be impaired.

7.3 The determination of the fair value of financial instruments

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

With the existence of an active market, the market value is the best reflection of the fair value of financial instruments. As there is no available market value for part of the financial assets and liabilities held and issued by the Company, other valuation techniques are adopted to determine the fair value of these assets and liabilities. Other valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties; referencing to the current fair value of another instrument that is substantially the same as well as option pricing models and discounted cash flow methodology.

7.4 Key items

(1) Cash and cash equivalents

Cash and cash equivalents comprise cash, amounts due from the central bank (other than restricted deposits), amounts due from banks and other financial institutions (exclude those fixed term deposits with original maturity more than three months and those overdue deposits), placements with banks and other financial institutions with original maturity of three months or less (exclude overdue placements), 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 were within three months of maturity when acquired.

IV. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *continued*

7. Financial instruments *continued*

7.4 Key items *continued*

(2) Precious metals

The precious metals of the Company are traded in Shanghai Gold Exchange. The primary purpose of holding precious metals is to generate a profit from short-term fluctuations in price, and they are classified as financial assets at fair value through profit or loss. All precious metals are initially recognised at cost, any transaction costs are realized in the income statement, and subsequently re-measured at fair value, gains or losses from changes in fair value are recognised in the income statement.

(3) 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 accrual basis.

(4) Derivative financial instruments

(i) Categories of financial instruments

The Company's derivative financial instruments mainly include exchange rate derivatives, interest rate derivatives, credit derivatives, bond derivatives and precious metal derivatives.

(ii) Pricing method for derivative instruments

Derivatives are initially recognised at fair value, related transaction costs are reported in the income statement. They are subsequently re-measured at their fair value. The gains or losses from the valuation of the financial instruments as a result of the fluctuation of their fair value are recorded in the income statement of the current period. Derivatives with a positive fair value are reflected in the balance sheet as derivative financial instruments assets and those with a negative fair value as derivative financial instruments liabilities.

The fair value of derivative is determined by either referencing to a quoted market price in an active market or based on valuation techniques.

(iii) Pricing method for embedded derivative

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.

For embedded derivatives with no active market exists, the fair value is determined as the difference between the fair value of the integrated hybrid derivative and the fair value of the host contract.

(5) Investment

(i) Investments in securities are classified as investments at fair value through profit or loss; held-to-maturity investments; loans and receivables investments and available-for-sale investments according to the management's holding purposes and types of securities.

(ii) Long-term equity investment is specially approved by the People's Bank of China. The investment is entered into the account book in light of the actual payment. As the Company has no control, joint control and significant influence over the investee enterprise, cost method is employed to account for long-term equity investments. The returns on investments are affirmed when the investee enterprises declare the apportionment of dividend.

(6) Loans and advances to customers

(i) Loans and advances to customers comprise loans, import and export bill advances and bill discounts.

(ii) The bill discounts mainly include the discount of the customers holding the commercial bills that have been honored but no yet fallen due and the buyout rediscount of other financial institutions accepted by the Company. They also include the sellout rediscount that the Company offers to the central bank and other financial institutions for the bills it holds to suit the needs of capital management. Since the bills belong to buyout or sellout business, they are recognized in the statements as the difference between set-off assets and liabilities.

(7) Bonds payable

A bond payable is initially recognised at fair value, which is its actual issue price. After the initially recognition, the bond payable is carrying at amortised cost using effective interest method. During the life of the bond, the difference between its initial recognised value and the value on the date of maturity as well as gains or losses realized from interest accrual are included in the income statement.

7.5 Impairment of financial assets

An assessment is made at each balance sheet date to determine whether there is objective evidence of impairment of financial assets. If there is objective evidence that an impairment loss has been incurred, provisions for the impairment loss will be made.

(1) The objective evidences of impairment of financial assets include:

(i) significant financial difficulty of the issuer or obligor;

(ii) a breach of contract, such as a default or delinquency in interest or principal payments;

(iii) it becoming probable that the borrower will enter bankruptcy or other financial reorganisation;

(iv) the disappearance of an active market for that financial asset because of financial difficulties; or

IV. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *continued*

7. Financial instruments *continued*

7.5 Impairment of financial assets *continued*

(v) observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including adverse changes in the payment status of borrowers in the group or adverse changes in industry conditions that affect the borrowers in the group; a increase in unemployment rate in nation or district of borrowers; or a decrease in property prices for mortgages in the relevant area;

(vi) significant changes with an adverse effect that have taken place in the technological, market, economic or legal environment in which the issuer operates, and indicates that the cost of the investment in the equity instrument may not be recovered;

(vii) a significant or prolonged decline in the fair value of an investment in an equity instrument;

(viii) other objective evidence that a financial asset or group of assets is impaired.

(2) Measurement of impairment of financial assets

(i) Financial assets carried at amortised cost

If there is objective evidence that an impairment loss on 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 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 recognised through the use of an impairment provision account and is recognised 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 original effective interest rate is the effective interest rate calculated in the initial recognition. For loans with floating interest rate, receivables and held-to-maturity investments, the current effective interest rates which are specified in the contracts are used in calculating the present value of estimated future cash flows.

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 recognised are not to be assessed collectively for impairment.

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 (for example, the debtor's credit rating has increased), the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the assets does not exceed its amortised cost at the reversal date.

When a financial asset carried at amortised cost is uncollectible, it is written off against the related provision for impairment.

(ii) Available-for-sale financial assets

If there is objective evidence that an impairment loss on available-for-sale investment has been incurred, any cumulative loss that had been recognised directly in equity is removed from equity and recognised in profit or loss even though the financial asset has not been derecognised. The amount of cumulative loss that is removed from equity and recognised in profit or loss 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 profit or loss.

Reversals 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 reversed through profit or loss, if the increase in the fair value of the instrument can be objectively related to an event occurring after the impairment losses have been recognised in profit or loss.

(iii) Loan loss provision

Provision for credit losses is made on the following credit assets: loans, whose risks and losses are undertaken by the Company (including pledged loans, collateral loans, secured loans and credit loans); credit card overdrafts; discounted bills; credit advances (such as advances under acceptance of bank drafts, advances under guarantees, advances under letters of credit); import & export advances and negotiations etc. In the case of entrust loans for which the Company bears no risk, no loan loss reserves will be made.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the loan's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the loan's original contractual effective interest rate. The amount of the loss is recognised in the income statement. The present value of estimated future cash flows is discounted at the financial asset's original effective interest rate, and considering the value of related collaterals (net of any cost incurred in the acquisition and sale). If a loan has a floating interest rate, the discount rate for measuring loan impairment loss is the current effective interest rate determined under the contract.

The Company assesses whether there is objective evidence that a loan or portfolio of loans is impaired at the balance sheet date. The Company assesses impairment individually on loans that are individually significant, and individually or collectively on those loans that are not individually significant. Even if the Company determines that no objective evidence of impairment exists for an individually assessed loan, the loan is still included in a portfolio of loans with similar credit risk characteristics and to be collectively assessed them for impairment. Loans 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.

When a loan is uncollectible, it is written off against the related provision for impairment. And if the bad loans written off are recovered later, the related credit losses provision written off will be restored accordingly.

IV. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *continued*

7. Financial instruments *continued*

7.6 Derecognising financial instruments

(1) Derecognising financial assets

When the contractual rights to receive the associated cash flows are discontinued, or the asset was in fact transferred and the transaction meets the criteria for removal of a financial asset, the financial asset will be derecognised.

(2) Derecognising financial liabilities

A financial liability can be removed from the balance sheet only if the debtor has been fully discharged from the obligation.

8. Fixed assets and construction in progress

8.1 Fixed assets

(1) Recognition criteria of fixed assets

Fixed assets are defined as tangible assets that:

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

(ii) have useful life of more than one year.

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

(i) 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.

(ii) 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.

(iii) 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.

(iv) 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 (year)	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

When a provision for impairment has been made for a fixed asset, the depreciation rate and depreciation charge for the fixed asset should be recalculated based on the asset's carrying amount and its remaining useful life. If the value of a fixed asset for which impairment provision has previously been made is recovered, the depreciation rate and depreciation charge for the fixed asset should be recalculated based on the asset's revised carrying amount and its remaining useful life.

8.2 Construction in progress

(1) 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.

(2) 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.

9. Intangible assets

9.1 Pricing method for intangible assets: Intangible assets should be recorded at the actual purchase price paid.

9.2 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 enterprise. 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.

9.3 Amortization of intangible assets

(1) The seat charge of the stock exchange is amortized in 10 years starting from the month when the seat is obtained.

(2) Computer software is amortized over 5 years starting in the month in which they were acquired.

(3) Other intangible assets are amortized in 10 years from the month when they are obtained.

IV. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *continued*

10. Key items of other assets

10.1 Other receivables

(1) Other receivables account for various receivables and overdue prepayments for which the Company has the right to claim or has the right of recourse.

(2) The Company carries out a regular assessment and analysis of the recoverability of other receivables. When the estimated recoverable amount of other receivables and advances is lower than the carrying amount, a provision for impairment is recorded in the income statement.

10.2 Assets received from insolvent debtors to be disposed of

(1) Assets received from insolvent debtors to be disposed of should be recorded at an amount equal to the aggregate of principal and interest of restructured loans as presented on the face of balance sheet. Meanwhile the provision for bad loans related thereto is transferred to provision for impairment of assets received from insolvent debtors.

(2) The Company reviews the carrying amount of the assets received from insolvent debtors to be disposed of at the end of each year on an individual item basis. 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.

11. 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.

11.1 Interest income

Interest income is recognised as it accrues (using the effective interest method which is the rate that exactly discounts estimated future cash receipt through the expected life of the financial instrument to the net carrying amount of the financial asset).

If a financial asset has impaired, interest income is calculated using the effective interest rate that used to discount future cash flow in determining impairment value of the asset.

11.2 Other incomes are recognized on accrual basis

12. Expenditure recognition: on accrual basis

13. Income tax

13.1 Accounting for income tax: balance sheet liability method.

(1) 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 asset or repaying the liability.

(2) The income tax of the Company comprises current income tax and deferred income tax. Current and deferred tax should be recognised as income or an expense and included in the net profit or loss for the period, except to the extent that the tax arises from a transaction or event which is recognised, in the same or a different period, directly in equity. The income tax for current period is measured at the amount of taxable profit using the tax rates that have been enacted and adjusted by related tax regulations.

(3) Deferred income tax comprises deferred tax assets and deferred tax liabilities. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible 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 asset to be recovered. In the case that it is probable that sufficient taxable profit will be available, the reduced amount will be recovered.

13.2 The Company adopts the balance sheet liability method for income tax accounting, the major matters which may cause temporary differences include:

(1) Provisions for credit assets losses and provisions for the impairment of other assets,

(2) Amortization of pre-operating expenses,

(3) Unrealized gain or loss on available for sale financial assets,

(4) Gains or losses from changes in fair value of financial assets at fair value through profit or loss.

The deferred tax assets or liabilities are recognised by considering the amount of income tax affected by the above matters as well as the amount of future taxable profit available.

13.3 A deferred tax asset is recognized based on the estimation made on the date of the respective balance sheet date as to whether matters such as provisions for credit assets losses and provisions for the impairment of other assets can bring tax benefit to the Company. For purpose of the estimation, consideration is given to the relevant provisions of existing tax laws and regulations.

13.4 Reasons that deferred tax assets can bring tax benefit in the foreseeable future are as follows:

(1) Provisions for credit assets losses and provisions for the impairment of other assets:

(i) In the case of former losses of credit assets and other assets that are allowed to receive tax deduction with the approval of the taxation authorities and have been included into the current pre-tax profits, the already made provision will generate related deferred tax assets. It is probable that taxable profits will be available against which deductible temporary differences can be utilized.

IV. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *continued*

13. Income tax *continued*

13.4 Reasons that deferred tax assets can bring tax benefit in the foreseeable future are as follows: *continued*

(1) Provisions for credit assets losses and provisions for the impairment of other assets: *continued*

(ii) Due to the change of market condition, the risk of credit assets may be reduced and recoverable amounts may increase. Therefore deferred tax assets related to the loss provisions will be used to adjust income tax expenditures of current and future period.

(2) Amortisation of pre-operating expenses

According to the relevant provisions of the "Accounting Standard for Enterprises", pre-operating expenses are included in the current profit and loss. However, according to the relevant provisions of the tax law, the pre-operating expenses are amortised in five years at the end of the preparation period, therefore the difference forms a deferred tax asset. It is probable that taxable profits will be available against which deductible temporary differences can be utilized.

(3) Unrealised loss on available-for-sale financial assets

According to the related requirements of "Regulations of Recognition and Measurement of Financial Instruments (Provisional)", gains or losses from changes in fair value of available-for-sale financial assets shall be directly recognised in equity (exclude impairment losses and exchange gains or losses of financial assets in foreign currency), and included in the income statement when the financial assets are derecognised. If a loss incured due to changes in fair value at the end of current period which cannot be deducted according to the requirement of the tax law, a deferred tax asset is formed. Since the loss from changes in fair value shall be directly recognised in equity and included in the income statement when the financial assets are derecognised, it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

(4) Loss from changes in fair value of financial liabilities at fair value through profit or loss

According to the related requirements of "Regulations of Recognition and Measurement of Financial Instruments (Provisional)", gains or losses from changes in fair value of financial liabilities at fair value through profit or loss shall be included in the income statement. If a loss incurs due to changes in fair value at the end of current period which cannot be deducted according to the requirement of the tax law, a deferred tax asset is formed. Since the loss both from changes in fair value and upon the derecognition shall be included in the income statement, it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

13.5 According to the above criteria, the Company will make adjustments for current income tax expenses based on deferred tax of current period (exclude deferred tax which directly recognised in equity) on each balance sheet date.

14. 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.

15. Fiduciary activities

The Company acts as a trustee, or in other fiduciary capacities, that result in the holding or managing of assets on behalf of retail customers and other institutions. These assets and any income or loss arising thereon are excluded from the financial statement of the Company, as they are not assets of the Company. The major fiduciary activities of the Company include administering entrusted loans on behalf of third-party lenders and entrusting money management.

16. Acceptance

Acceptances comprise 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.

17. 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 the outflow of economic resources cannot be measured reliably.

A contingent liability is not recognised as a provision but is disclosed in the notes to the accounts. When a change in the probability of an outflow occurs so that outflow is probable, it will then be recognised as a provision.

18. Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, 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 or common significant influence. Related parties may be individuals or corporate entities.

19. Profit distribution policy

The Company appropriates profit, withdraws statutory surplus reserve, statutory welfare reserve and general provision, etc. in pursuance of appropriate laws and regulations in the People's Republic of China and the Company's articles of association.

(In RMB'000)

V. CHANGES IN ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES AND CORRECTION OF ACCOUNTING MISTAKES

1. Changes in accounting policies

The initial public offering of A shares of the Company has been completed at January 29, 2007, the accounting periods of the Company's financial statements submitted for application process were 2003, 2004, 2005 and interim financial statement of 2006. All the submitted financial statements were reproduced in accordance with the requirements of "Regulations of recognition and measurement of financial instruments (Provisional)". Therefore, the Company does not have any change in accounting policy which needs to be disclosed.

2. Changes in accounting estimate

No change in accounting estimate has occurred during the current accounting period.

3. Correction of accounting mistakes

No correction for accounting mistake has occurred during the current accounting period.

VI. TAXATION

1. 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

2. Settlement and payment of income tax

In 2006, the Company's headquarters and branches except those in Xiamen, Shenzhen and Urumchi cities collectively pay the yearly business income tax in Fuzhou. The branches make advance payment of 60% of the yearly income tax payable in the local places.

VII. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. Cash and due from the central bank

	2006-12-31	2005-12-31
Cash	1,466,960	1,186,229
Due from the central bank:		
Demand deposit with the central bank	45,808,872	17,589,490
Deposit reserve	29,030,568	20,712,569
Fiscal deposit	172,341	49,389
Subtotal of due from the central bank	75,011,781	38,351,448
Total	76,478,741	39,537,677

The Company is required to place an RMB statutory deposit reserve, a foreign currency statutory deposit reserve and a fiscal deposit with the PBOC. At 31 December 2006, the required reserve ratio for customer deposits denominated in RMB was 9% (2005: 7.5%); the required reserve ratio for customer deposits denominated in foreign currencies is 4% (2005: 3%). 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

	2006-12-31	2005-12-31
Domestic banks and financial institutions	9,743,565	17,257,779
Foreign banks and financial institutions	1,406,727	1,275,138
Subtotal	11,150,292	18,532,917
Less: Provisions for impairment	(22,540)	(26,008)
Total	11,127,752	18,506,909

2.1 As at 31 December 2006, the overdue balance of due from domestic banks and financial institutions amounted to RMB 22,540 thousand (2005: RMB 26,008 thousand).

2.2 Movements of provisions for impairment

	2006	2005
Opening balance	26,008	34,772
Charge for the year	-	669
Transfer in (out) for the year	-	-
Write-offs	(3,468)	(9,433)
Closing balance	22,540	26,008

The RMB 22,540 thousand of provision for impairment is made on the basis of the present value of estimated future cash flow for all the RMB 6,167 thousand overdue deposits in the financial centers in various places and all the RMB 16,373 thousand of overdue deposits in the financial company of Shenzhen Saige Group.

(In RMB'000)

VII. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *continued*

3. Precious metals

	2006-12-31	2005-12-31
Gold	1,203,704	-

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

2006-12-31	2005-12-31	
Classified by region		
Due from domestic banks and other institutions	10,611,253	811,398
Due from oversea banks and other institutions	-	17,105
Subtotal	**10,611,253**	**828,503**
Less: Provision for Impairment	(125,135)	(131,135)
Total	**10,486,118**	**697,368**
Classified by counterparties		
Banks	9,887,229	616,479
Securities Companies	224,024	82,024
Financial Institutions	200,000	-
Trust and Investment Companies	300,000	130,000
Subtotal:	**10,611,253**	**828,503**
Less: Provision for Impairment	(125,135)	(131,135)
Total	**10,486,118**	**697,368**

4.1 As at December 31, 2006, the overdue amount of due from and placements with banks and other financial institutions is RMB 125,135 thousand (2005: RMB 131,135 thousand).

4.2 Movements of provisions for impairment

	2006	2005
Opening balance	131,135	191,717
Charge for the year	-	11,423
Transfer in (out) for the year	(6,000)	(72,005)
Write-offs	-	-
Closing balance	**125,135**	**131,135**

The RMB 125,135 thousand of provision for impairment is made on the basis of the present value of estimated future cash flow for the overdue placements of RMB 40, 000 thousand with Hainan Development Bank, RMB 9,111 thousand with Hainan Financing Center and RMB 76,024 thousand with Fujian Minfa Securities Co., Ltd..

5. Reverse repurchase agreement

	2006-12-31	2005-12-31
Classified by collaterals		
Reverse repurchase agreements- securities		
Treasury bond	7,075,800	20,971,000
Financial bond	15,103,481	15,588,413
Reverse repurchase agreements- bills		
Bank acceptance	16,733,758	8,969,377
Commercial acceptance	7,932,546	2,902,255
Reverse repurchase agreements- credit assets	9,623,884	2,083,000
Total	56,469,469	50,514,045
Classified by counter parties		
Banks	31,892,770	42,685,623
Other financial institutions	24,576,699	7,828,422
Total	56,469,469	50,514,045

6. Derivative financial instrument

The Company mainly enters into the following derivative financial instruments:

Forward contract: A forward contract is an agreement between two parties to buy or sell a financial asset for a forward price agreed in advance at a pre-agreed future point in time.

Interest rate swap: Interest rate swap contracts generally represent the contractual exchange of fixed and floating rate payments in a single currency, based on a notional amount and a reference interest 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.

(In RMB'000)

VII. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *continued*

6. Derivative financial instrument *continued*

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

2006-12-31

	Notional amount	Fair value	
		Assets	Liabilities
Foreign exchange 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

2005-12-31

	Notional amount	Fair value	
		Assets	Liabilities
Foreign exchange derivative contracts	5,131,161	12,804	5,070
Interest rate derivative contracts	2,032,277	25,605	33,509
Credit derivative contracts	484,212	946	10,199
Bond derivative contracts	6,215,000	129,242	53,640
Total	13,862,650	168,597	102,418

6.2 As at December 31, 2006, foreign exchange derivative contracts of RMB 7,900,581 thousand (2005: RMB 3,055,814 thousand) were squared-off with third parties and the Company did not undertake the currency risk; interest rate derivative contracts of RMB 2,466,463 thousand (2005: RMB 1,870,873 thousand) were squared-off with third parties and the Company did not undertake the interest rate risk.

7. Investments

	2006-12-31	2005-12-31
Held-for-trading investments, measured at fair value:		
Bond investments:		
Treasury bonds	3,957,292	-
Financial bonds	2,880,806	-
Other bonds	2,326,942	-
Fund investments	21,278	652,894
Subtotal	9,186,318	652,894
Available-for-sale investments, measured at fair value:		
Bond investments:		
Treasury bonds	36,882,459	68,717,946
Financial bonds	27,481,881	49,651,507
Other bonds	5,917,866	1,629,282
Subtotal	70,282,206	119,998,735
Held-to-maturity investment, measured at amortised cost:		
Bond investments:		
Treasury bonds	40,398,608	-
Financial bonds	8,247,214	-
Other bonds	1,068,552	-
Subtotal	49,714,374	-
Loans and receivables, measured at amortised cost:		
Bond investments:		
Financial bonds	4,794,782	-
Other bonds	1,262,720	-
Subtotal	6,057,502	-
Long term equity investments	50,000	50,000
Total	135,290,399	120,701,629

7.1 As at December 31, 2006, bonds amounting to RMB 25,684 thousand (2005: RMB 81,509 thousand) have been pledged for the derivatives transactions and bonds amounting to RMB 16,732,103 thousand (2005: RMB 17,328,075 thousand) have been pledged for securities repurchase agreements. Bonds amounting RMB 3,870,338 thousand (2005: RMB 0 thousand) have been pledged for treasury fixed term cash deposit transactions.

7.2 According to the related requirements, the Company began to use "Held-to-maturity" in investment classification on January 1, 2006. The bond investments with par value of RMB 37,078,133 thousand which were previously classified as "Available for sale" were reclassified as "Held-to-maturity" and measured at amortised cost. On the date of reclassification, the carrying amount of the investments is reported as their amortised costs, any cumulative gain or loss that had been recognised directly in equity has removed from equity, amortized using the effective interest method and recognised in the income statement.

(In RMB'000)

VII. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *continued*

7. Investments *continued*

7.3 Long term equity investments

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 RMB 50,000 thousand, which represents 3.03% of the registered capital of China Unionpay Co., Ltd.. Equity investments that do not have any quoted market price and whose fair value cannot be measured reliably are stated at cost.

8. Interest receivables

	2006-12-31	2005-12-31
Bond interest receivables	1,597,472	1,536,064
Loan interest receivables	442,631	374,335
Interest due from banks	22,345	31,951
Interest on placement	3,528	1,089
Interest on repurchase agreement	40,674	17,867
Other interests	8,662	2,766
Total	**2,115,312**	**1,964,072**

9. Loans

	2006-12-31	2005-12-31
Loans to corporate entities	252,594,401	199,376,814
Loans to individuals	64,618,425	30,575,841
Discounted bills	7,299,093	12,618,852
Subtotal	**324,511,919**	**242,571,507**
Less: Provision for loan losses	(6,275,667)	(5,111,552)
Total	**318,236,252**	**237,459,955**

9.1 Classification of loans

	2006-12-31	2005-12-31
Pass	312,237,809	229,017,352
Special mentioned	7,294,435	7,907,079
Sub-standard	2,119,555	2,642,211
Doubtful	2,399,835	2,153,560
Loss	460,285	851,305
Subtotal	**324,511,919**	**242,571,507**
Less: Provision for loan losses	(6,275,667)	(5,111,552)
Total	**318,236,252**	**237,459,955**

9.2 Loans and advances to customers are analysed by the form of security as follows:

	2006-12-31	2005-12-31
Credit loans	59,632,443	41,788,557
Guarantee loans	97,682,478	87,778,725
Secured by mortgage	118,989,474	70,288,701
Secured by other collaterals	40,908,431	30,096,672
Total	317,212,826	229,952,655

As at December 31, 2006, loans included in "Repurchase agreement" amounted to RMB 788,889 thousand (2005: RMB 719,323 thousand).

9.3 Discounted bills

	2006-12-31	2005-12-31
Forfeiting	16,396	-
Bank acceptances	4,160,136	11,377,860
Commercial acceptances	3,122,561	1,234,774
Notes in foreign currency	-	6,218
Total	7,299,093	12,618,852

(1) Forfeiting is a kind of trade financing that the Company as the buyer-up, purchases without recourse from the exporter's forward bills so as to provide finance to the exporter.

(2) As at December 31, 2006, discounted bills included in "Repurchase agreement" amounted to RMB 6,525,946 thousand (2005: RMB 1,273,605 thousand).

9.4 As at December 31, 2006, top ten loans to corporate entities amounted to RMB 8,215,451 thousand (2005: RMB 7,915,800 thousand).

9.5 As at December 31, 2006, no loan is owed by shareholders holding 5% or more of the Company's shares.

9.6 Provision for loan losses

	2006	2005
Opening balance	5,111,552	4,415,804
Charge for the year	2,348,710	1,571,739
Recoveries	4,868	1,958
Write off for the year	(989,900)	(576,472)
Transfer out for the year	(9,975)	(151,952)
Interest write off of impaired loans	(189,588)	(149,525)
Closing balance	6,275,667	5,111,552

The transfer out for the year is the provision for loan loss transferred out upon sale of loans or transfer of loans into the wait-deal assets for debt repayment.

(In RMB'000)

VII. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *continued*

9. Loans *continued*

9.7 Write offs

	2006	2005
Principal write off	989,900	576,472
Interest write off	543,538	431,492

9.8 Please refer to Note VIII.1 for loans analysed by segment.

9.9 Please refer to Note XIII.1 for loans analysed by industry sector.

10. Fixed assets and construction in progress

	Properties and buildings	Fixed assets improvements	Office equipments and computers	Motor vehicles	Construction in progress	Total
Cost, less provisions for impaired losses						
2004-12-31	2,692,677	455,681	567,872	145,483	14,140	3,875,853
Additions	20,045	22,576	182,723	27,641	148,278	401,263
Transfer in (out)	1,561	85,300	3,691	-	(90,552)	-
Disposals	(8,908)	(20,637)	(18,074)	(8,296)	-	(55,915)
2005-12-31	2,705,375	542,920	736,212	164,828	71,866	4,221,201
Additions	18,554	34,198	235,895	22,149	725,866	1,036,662
Transfer in (out)	41,317	86,230	2,812	-	(90,273)	40,086
Disposals	(38,776)	(101,109)	(30,653)	(26,330)	-	(196,868)
2006-12-31	2,726,470	562,239	944,266	160,647	707,459	5,101,081
Accumulated depreciation						
2004-12-31	468,731	213,076	268,782	58,453	-	1,009,042
Charge for the year	92,580	95,712	102,139	17,954	-	308,385
Transfer in	-	-	-	-	-	-
Disposals	(3,185)	(20,637)	(15,742)	(5,407)	-	(44,971)
2005-12-31	558,126	288,151	355,179	71,000	-	1,272,456
Charge for the year	90,468	109,018	132,838	20,104	-	352,428
Transfer in	4,297	-	-	-	-	4,297
Disposals	(7,591)	(101,109)	(23,648)	(17,358)	-	(149,706)
2006-12-31	645,300	296,060	464,369	73,746	-	1,479,475
Net book value						
2006-12-31	2,081,170	266,179	479,897	86,901	707,459	3,621,606
2005-12-31	2,147,249	254,769	381,033	93,828	71,866	2,948,745

10.1 All the properties and buildings of the Company are located in the PRC. Properties and buildings amounting to RMB 126,977 thousand (2005: 416,016 thousand) are in use but the legal ownership registration procedures were still in process as at December 31, 2006.

10.2 Provision for impairment of fixed assets

	Properties and buildings	Construction in progress	Total
2004-12-31	10,087	-	10,087
Charge for the year	-	-	-
Transfer out	-	-	-
2005-12-31	10,087	-	10,087
Charge for the year	-	-	-
Transfer out	(7,305)	-	(7,305)
2006-12-31	2,782	-	2,782

11. Intangible assets

	Franchise	Other individually purchased intangible assets	Total
Cost:			
2004-12-31	430,000	63,438	493,438
Additions	-	14,246	14,246
Disposals	-	(349)	(349)
2005-12-31	430,000	77,335	507,335
Additions	-	25,676	25,676
Disposals	-	(272)	(272)
2006-12-31	430,000	102,739	532,739
Accumulated amortisation			
2004-12-31	3,583	10,355	13,938
Amortisation	43,000	8,285	51,285
Disposals	-	(349)	(349)
2005-12-31	46,583	18,291	64,874
Amortisation	43,000	13,121	56,121
Disposals	-	(272)	(272)
2006-12-31	89,583	31,140	120,723
Net book value			
2006-12-31	340,417	71,599	412,016
2005-12-31	383,417	59,044	442,461

(In RMB'000)

VII. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *continued*

11. Intangible assets *continued*

Franchise refers to the intangible assets arising from the acquisition of Foshan City Commercial Bank. Pursuant to the resolution passed by the Board of Directors on June 28, 2004, the Company was approved to acquire Foshan City Commercial Bank. On August 30, 2004, the Company signed the "Acquisition Agreement" with State-owned Assets Supervision and Administration Commission of Foshan Municipal Government and Foshan City Commercial Bank. It was stipulated in the Agreement that: the Company acquired part of Foshan City Commercial Bank's assets and liabilities at the total price of RMB 430 million. Before the acquisition, all non-performing assets and losses should be stripped off in accordance with the audit result. The stripped-off non-performing assets and losses should be made up jointly with the acquisition capital from the Company and the capital from Foshan Municipal Government. With the document YJBF [2004] No.260, CBRC General Office approved the Company to acquire Foshan City Commercial Bank and to set up its Foshan branch. On December 6, 2004, the Company's Foshan branch was officially opened. Foshan City Commercial Bank has ceased to exist after the acquisition upon the approval of CBRC Foshan Office.

12. Deferred taxes

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

13. Other assets

	2006-12-31	2005-12-31
Other receivables	451,157	611,417
Wait-deal debt repayment assets	557,991	556,983
Others	120,836	129,824
Total	**1,129,984**	**1,298,224**

13.1 Other receivables

	2006-12-31	2005-12-31
Analysed by nature:		
Transfer of credit assets	-	240,000
Legal fare	68,895	58,083
Items in the process of clearance and settlement	151,964	44,403
Currency funds in float	-	20,422
Earnest money	25,734	22,318
Prepayment	32,481	14,576
Provision	6,528	5,260
Others	251,487	286,783
Subtotal	**537,089**	**691,845**
Less: provisions for bad debts	(85,932)	(80,428)
Net book value	**451,157**	**611,417**
Analysed by account age:		
Less than 1 year	249,684	409,956
1-2 years	228,766	255,223
2-3 years	42,620	10,571
Over 3 years	16,019	16,095
Subtotal	**537,089**	**691,845**
Less: provisions for bad debts	(85,932)	(80,428)
Net book value	**451,157**	**611,417**

(1) As at December 31, 2005, no other receivable owe by shareholders holding 5% or more of the Company's shares.

(2) Provision for bad debts

	2006	2005
Opening balance	80,428	52,513
Charge for the year	6,981	27,967
Recoveries	-	-
Write offs for the year	(1,477)	(52)
Closing balance	**85,932**	**80,428**

(In RMB'000)

VII. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *continued*

13. Other assets *continued*

13.2 Wait-deal debt repayment assets

(1) Analysed by nature of the assets

	2006-12-31	2005-12-31
Properties and Buildings	501,154	529,216
Land use rights	92,404	92,404
Motor vehicles	15,678	2,055
Share ownerships	98,721	32,880
Subtotal	**707,957**	**656,555**
Less: provision for losses	(149,966)	(99,572)
Net book value	**557,991**	**556,983**

(2) Provision for depreciation of wait-deal debt repayment assets

	2006	2005
Opening balance	99,572	85,567
Charge for the year	52,726	41,153
Transfer in	9,975	2,740
Transfer out	(12,307)	(29,888)
Closing balance	**149,966**	**99,572**

(i) Transfer in for the year is when the Company receives assets for repayment of debt, the corresponding provisions for bad debt were transferred into provisions for assets for repayment of debt.

(ii) 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.

14. Due to banks and other financial institutions

	2006-12-31	2005-12-31
Analysed by counterparty		
Banks	31,603,648	35,798,004
Other financial institutions	74,160,549	29,631,960
Total	**105,764,197**	**65,429,964**

15. Inter-bank borrowings

	2006-12-31	2005-12-31
Analysed by region		
Due to domestic banks and other institutions	665,900	403,510
Due to oversea banks and other institutions	50,200	-
Total	716,100	403,510
Analysed by counterparties		
Banks	716,100	403,510
Other financial institutions	-	-
Total	716,100	403,510

16. Repurchase agreements

	2006-12-31	2005-12-31
Analysed by collateral		
Securities		
Treasury bonds	16,325,352	16,365,666
Financial bonds	-	820,000
Bills		
Bank acceptances	6,475,946	1,273,605
Commercial acceptance	50,000	-
Credit assets	354,025	663,780
Total	23,205,323	19,123,051
Analysed by counterparty		
Bank	11,164,946	5,074,500
Other financial institutions	12,040,377	14,048,551
Total	23,205,323	19,123,051

17. Customer deposits

	2006-12-31	2005-12-31
Demand deposits	179,935,387	137,785,227
Demand saving deposits	17,686,674	12,405,620
Term deposits	141,476,419	131,380,191
Term saving deposits	21,571,005	18,129,089
Guarantee deposit	61,102,830	53,775,266
Fiscal deposits	145,159	23,649
Remittance payable and outward remittance	1,001,564	547,339
Trust funds	277,673	1,171,728
Total	423,196,711	355,218,109

(In RMB'000)

VII. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *continued*

17. Customer deposits *continued*

Details of guarantee deposits

	2006-12-31	2005-12-31
Analysed by term		
Demand guarantee deposits	9,979,170	10,415,199
Term guarantee deposits	51,123,660	43,360,067
Total	61,102,830	53,775,266
Analysed by item		
Deposit for bank acceptance	52,338,435	44,075,832
Deposit for L/C	1,480,788	1,048,194
Deposit for letter of guarantee	859,292	728,330
Others	6,424,315	7,922,910
Total	61,102,830	53,775,266

18. Salaries and staff welfare payables

	2006-12-31	2005-12-31
Salaries	1,141,694	915,120
Staff welfare	397,888	254,167
Total	1,539,582	1,169,287

19. Tax payable

	2006-12-31	2005-12-31
Income tax	538,469	401,217
Business tax	302,201	231,296
City maintenance and construction tax	21,400	15,486
Personal income tax	11,536	6,048
Real estate tax	1,987	1,355
Others	3,719	2,387
Total	879,312	657,789

20. Interest payable

	2006-12-31	2005-12-31
Interest due to customer deposits	1,649,346	1,478,364
Placement interest due to other banks	157,278	156,495
Interest of inter bank borrowings and repurchase agreements	31,944	212,422
Interest of bonds	224,943	40,806
Total	2,063,511	1,888,087

21. Bonds payable

	2006-12-31	2005-12-31
Long term subordinated bonds	6,000,000	6,000,000
Financial bonds	31,000,000	10,000,000
Hybrid capital bonds	4,000,000	-
Total	41,000,000	16,000,000

21.1 Long term subordinated bonds

	Issuing period	Term	2006-12-31	2005-12-31
Floating rate	17/12/2003 -30/12/2003	61 months	3,000,000	3,000,000
Callable fixed rate	23/12/2004 -29/12/2004	10 years	1,860,000	1,860,000
Callable floating rate	23/12/2004 -29/12/2004	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 RMB 3,000,000 thousand with a term of 5 years and 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 RMB 3,000,000 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 resort to 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 maturing date of the floating interest rate bonds (2.9%).

(In RMB'000)

VII. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *continued*

21. Bonds payable *continued*

21.2 Financial bonds

	Issuing period	Term (year)	Interest rate (%)	2006-12-31	2005-12-31
05 IB 01	25/10/2005 -1/11/2005	3	2.15	10,000,000	10,000,000
06 IB 01	31/3/2006 -6/4/2006	5	2.98	5,000,000	-
06 IB 03 (5 years)	15/12/2006 -19/12/2006	5	3.45	8,000,000	-
06 IB 03 (10 years)	15/12/2006 -19/12/2006	10	3.75	8,000,000	-
Total				31,000,000	10,000,000

(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 RMB 15,000,000 thousand as follows:

(i) In November 2005, the Company has issued a financial bond totaling RMB 10,000,000 thousand with a maturity of 3 years at yearly 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 RMB 5,000,000 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 YSCXZY [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 RMB 35,000,000 thousand. In December 2006, the Company has issued a financial bond totaling RMB 16,000,000 thousand. The bond is named as "Financial Bonds of Industrial Bank Co.,Ltd., 2006 (second tranche)". The financial bond comprised a financial bond totaling RMB 8,000,000 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 RMB 8,000,000 thousand with a maturity of 10 years at yearly interest rate of 3.75% which refers to as "06 IB 03 (10 years)".

21.3 Hybrid capital bond

	Issuing period	Term(years)	2006-12-31	2005-12-31
06 IB 02 fixed	28/9/2006 -29/9/2006	15	3,000,000	-
06 IB 02 floating	28/9/2006 -29/9/2006	15	1,000,000	-
Total			4,000,000	-

In accordance with the approval document of YSCXZY [2006] No. 16 issued by the PBOC and YJF [2005] No. 324 issued by the CBRC, the Company was allowed to issue hybrid capital bonds up to RMB 4,000,000 thousand. In September 2006, the Company has issued a financial bond totaling RMB 4,000,000 thousand with a maturity of 15 years. The bond is named as "Hybrid Capital Bond of 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 ten years after the issuing, 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 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 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.

22. Other liabilities

	2006-12-31	2005-12-31
Promissory notes	1,292,411	671,184
Items in the process of clearance and settlement	204,004	185,315
Deferred gains	229,767	158,852
Dividend payables	1,120	42,839
Other payables	1,242,730	924,794
Total	2,970,032	1,982,984

(In RMB'000)

VII. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *continued*

22. Other liabilities *continued*

22.1 Deferred gains

	2006-12-31	2005-12-31
Deferred gains:		
Interest of discount bills	379,800	216,042
Discount interest transfer in from other banks	288,193	113,979
Interest from reverse repurchase agreements-bills	108,858	24,407
Subtotal	776,851	354,428
Deferred expenses		
Interests of rediscount and inter-bank discount	(532,904)	(195,264)
Interest from repurchase agreements-bills	(14,180)	(312)
Subtotal	(547,084)	(195,576)
Total	229,767	158,852

22.2 Dividend payable

As at December 31, 2006, no dividends payable was owed to shareholders holding 5% or more of the Company's shares.

22.3 Other payables

As at December 31, 2006, no other payables was owed to shareholders holding 5% or more of the Company's shares.

23. Share capital

	2004-12-31	Percentage (%)	Movements	2005-12-31	Percentage (%)
Shares owned by the State	1,209,103	30.24	(1,403)	1,207,700	30.20
Shares owned by state-owned legal person	984,467	24.62	116,667	1,101,134	27.54
Shares owned by domestic legal person	806,430	20.16	(115,264)	691,166	17.28
Shares owned by foreign legal person	999,000	24.98	-	999,000	24.98
Total	3,999,000	100.00	-	3,999,000	100.00

	2005-12-31	Percentage (%)	Movements	2006-12-31	Percentage (%)
Shares owned by the State	1,207,700	30.20	(58)	1,207,642	30.20
Shares owned by state-owned legal person	1,101,134	27.54	8,680	1,109,814	27.75
Shares owned by domestic legal person	691,166	17.28	(8,622)	682,544	17.07
Shares owned by foreign legal person	999,000	24.98	-	999,000	24.98
Total	3,999,000	100.00	-	3,999,000	100.00

23.1 The above shares are unlisted ordinary shares with par value of RMB 1 each.

23.2 History of the Company's shares:

(1) Founded jointly by Fujian Fuxing Financial Company, Fujian Huaxing Investment Company and Fujian Investment Enterprise Company by public offering with approvals of GH [1988] NO.58 by the State Council, YF [1988] NO.347 by the PBOC and MY[1988] No.164 by the PBOC Fujian Branch. The Company was registered in Fujian Administration of Industry and Commerce as a regional joint stock commercial bank at August 22, 1988. The initial paid in capital is 1,500,000 thousands and the first installment 500,000 thousands. The first installment of paid in capital has been verified by Fujian Huaxing Certified Public Accountants Ltd. with a verification report referenced "MHXS (88) YZ No. 038" and "MHXS (88) YZ No. 051".

(2) In August 1996, the Company was allowed to increase its paid in capital within the 1,500,000 thousands limit approved by the PBOC with the document YF [1996] No. 275. The increase in paid in capital has been verified by Fujian Huaxing Certified Public Accountants Ltd. with a verification report referenced "MHXS (1997) YZ No. 20" and "MHXS (1997) YZ No. 48".

(3) In March 2000, the paid in capital of the Company has increased from 1,500,000 thousands to 3,000,000 thousands with the approval of PBOC YBH [2000] No. 138. The increase in paid in capital has been verified by Fujian Huaxing Certified Public Accountants Ltd. with a verification report referenced "MHXS (2000) YZ No. 19" and "MHXS (2000) YZ No. 26".

(4) According to the resolutions of the Company shareholders' meeting held on January 15, 2004, and with the approval of Fujian Municipal Government MZW [2004] No.73 and China Banking Regulatory Commission YJF [2004] No. 35, the Company issued 999 million additional shares to attract overseas strategic investors. Hang Seng Bank Company has subscribed for 639.09 million shares, Government of Singapore Investment Corporation has subscribed through Tetrad Venture Pte Ltd for 199.95 million shares, and International Finance Corporation has subscribed for 159.96 million shares. The above three overseas strategic investors jointly hold 24.9812% of the total shares of the Company. The subscription price per share is RMB 2.70. The capital stock increases by RMB 999 million, with the capital reserve expanded by RMB 1.6983 billion. The subscription has been verified by Fujian Huaxing Certified Public Accountants Ltd. with a verification report referenced "MHXS (2004) YZ No.G-003".

(In RMB'000)

VII. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *continued*

24. Capital reserve

	Equity premium over par value	Others	Total
2004-12-31	2,804,883	34,331	2,839,214
Increase	-	-	-
Decrease	-	-	-
2005-12-31	2,804,883	34,331	2,839,214
Increase	-	-	-
Decrease	-	-	-
2006-12-31	2,804,883	34,331	2,839,214

25. Surplus reserves

	Statutory surplus reserve	Reserve for welfare of employees	Discretionary surplus reserve	Total
2004-12-31	483,191	296,621	-	779,812
Increase	246,497	-	-	246,497
Decrease	-	-	-	-
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

25.1 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' meeting, 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 for the year ended 31 December 2005.

25.2 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 December 31, 2005 should be transferred into and managed as surplus reserve. Therefore, the Company has transferred its statutory welfare reserve into discretionary surplus reserve.

26. General reserve

	2006	2005
Opening balance	2,400,000	-
Appropriation	1,226,865	2,400,000
Closing balance	3,626,865	2,400,000

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.

26.1 In the shareholders' meeting held on September 21, 2005, the "Motion of Industrial Bank on Withdrawing General Provision from Retained Earnings" was passed in the form of resolution, where RMB 900,000 thousand was appropriated into general reserve in the first quarter of 2005.

26.2 In the shareholders' meeting held on June 27, 2006, the "2005 Profit Distribution Proposal of Industrial Bank" was passed in the form of resolution, where additional RMB 1,500,000 thousand was appropriated into general reserve in the end of 2005.

26.3 On March 26, 2007, the Fifth Board Meeting, Session Nineteen passed the resolution of "2006 Profit Distribution Proposal of Industrial Bank", where a general provision of RMB 1,226,865 thousand was made.

27. Unrealised gain or loss on available-for-sale investments (after tax)

	2006	2005
Opening balance	490,141	(150,429)
Fair value changes	93,667	556,416
Net losses transferred to the income statement on disposal	(436,066)	84,154
Amortised for the year	(41,575)	-
Closing balance	106,167	490,141

The Company has reclassified bond investments with par value amounting RMB 37,078,133 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 RMB 65,623 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 RMB 41,575 thousand for the current accounting period.

(In RMB'000)

VII. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *continued*

28. Retained earnings

	2006	2005
Net Profit for the year	3,798,256	2,464,968
Opening balance	2,030,721	2,616,303
Appropriations to statutory surplus reserve	(379,826)	(246,497)
Appropriations to general reserve	(1,226,865)	(2,400,000)
Appropriations to discretionary reserve	-	-
Dividends declared for ordinary shares	-	(404,053)
Closing balance	**4,222,286**	**2,030,721**

28.1 Appropriations to statutory surplus reserve please refer to Note VII.25.

28.2 Appropriations to general reserve please refer to Note VII.26.

28.3 Dividends declared for ordinary shares

(1) Dividends in an amount of RMB 404,053 thousand have been declared for ordinary shares according to the "2004 Plan of Profit Distribution of Industrial Bank", which was approved in the shareholders' meeting held on May 20, 2005.

(2) In the shareholders' meeting held on June 27, 2006, the "2005 Profit Distribution Proposal of Industrial Bank" was passed in the form of resolution, where no dividend is distributed to ordinary shareholders.

(3) On March 26, 2007, the Fifth Board Meeting, Session Nineteen passed the resolution of "2006 Profit Distribution Proposal of Industrial Bank", where a cash dividend of RMB 0.26 per ordinary share (before tax) was proposed on the basis of 5 billion ordinary shares after the issuance of A shares in 2007. The dividends (totaling RMB 1.3 billion) were not recognized as liabilities as at December 31, 2006. This proposal is subject to submission to shareholders' meeting for approval.

29. Interest income

	2006	2005
Interest of corporate and personal loans	16,673,147	11,981,275
Discount interest	1,155,163	695,011
Bond interest	4,124,617	2,680,125
Rediscount interest	1,099,973	767,865
Due from the central bank	575,180	450,646
Due from other financial institutions	1,325,786	671,424
Total	**24,953,866**	**17,246,346**

The interest incomes of 2006 include interest income of impaired loans amounting RMB 189,588 thousand calculated at effective interest rate (2005: RMB 149,525 thousand).

30. Interest expenditure

	2006	2005
Deposits from customers	6,189,344	5,389,005
Interests of rediscount and inter-bank discount	1,571,595	600,078
Due to other financial institutions	3,265,711	1,635,393
Bond interest	676,250	316,417
Total	11,702,900	7,940,893

31. Fee and commission income

	2006	2005
Settlement and clearing fees	16,114	14,466
Agency commissions	92,946	41,002
Credit commitment fees and commissions	172,407	131,302
Bank card fees	84,853	38,120
Consulting fees	118,968	31,830
Custodian and other fiduciary service fees	48,191	34,432
Others	74,083	24,915
Total	607,562	316,067

32. Fee and commission expenditure

	2006	2005
Settlement and bank card fees	30,336	27,062
Others	144,463	51,778
Total	174,799	78,840

33. Gains or losses from changes in fair value

	2006	2005
Derivatives	(75,571)	66,179
Financial assets at fair value through profit or loss	(20,461)	-
Precious metals	6,455	-
Total	(89,577)	66,179

34. Other operating income/expense, net

	2006	2005
Gain/loss on disposal of investment securities, net	(122,222)	37,367
Gain on long term equity investment, net	400	-
Foreign exchange gain, net	118,482	53,911
Other gains, net	58,770	36,454
Total	55,430	127,732

(In RMB'000)

VII. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *continued*

35. Business tax and surcharges

	2006	2005
Business tax	885,023	668,964
City maintenance and construction tax	59,139	44,036
Education surcharge	31,869	23,544
Others	4,507	3,099
Total	980,538	739,643

36. General and administrative expenses

	2006	2005
Staff expenses	2,291,105	1,640,273
Office expenses	956,295	638,219
Rental expenses	302,544	242,653
Depreciation	352,427	308,385
Promotion	315,867	226,221
Entertainment	178,499	154,185
Traveling	148,774	105,418
Fuel	127,762	82,933
Supervision fee	97,997	71,304
Professional service fee	65,353	68,053
Telecommunications and postage	94,415	65,723
Amortisation of intangible assets	56,121	51,285
Taxes	45,883	47,678
Utilities	46,561	37,029
Repairs and maintenance	43,939	35,684
Others	138,723	112,701
Total	5,262,265	3,887,744

Staff expenses are detailed as follows:

	2006	2005
Salaries and welfares	1,818,733	1,366,747
Housing fund contributions	113,038	84,785
Supplemented pension insurance fund	146,482	21,504
Employee retirement benefits	85,143	95,382
Unemployment and working insurance	27,389	14,278
Educational and Trade Union expense	56,502	23,955
Others	43,818	33,622
Total	2,291,105	1,640,273

37. Provisions for losses and impairments

	2006	2005
Provisions for amount due from other banks and financial institutions	-	669
Provisions for placements with banks and other financial institutions	(6,000)	(60,583)
Provision for loan losses	2,348,710	1,571,739
Provision for other receivables	6,981	27,966
Provision for impairment of foreclosed assets	52,726	41,153
Total	2,402,417	1,580,944

38. Non-operating income

	2006	2005
Penalties and fines received	2,995	1,740
Gains on aged payable pending for collection	11,514	6,059
Gains on disposal of fixed assets	13,011	5,038
Others	37,157	21,856
Total	64,677	34,693

39. Non-operating expense

	2006	2005
Expenses on repayment of aged payable pending for collection	740	1,616
Donation expenses	4,511	2,507
Penalties and fines paid	1,070	1,109
Losses on disposal of fixed assets	2,292	1,016
Losses on retirement of fixed assets	4	3
Others	14,220	11,980
Total	22,837	18,231

40. Income tax

40.1 Items

	2006	2005
Current tax	1,494,719	1,154,613
Deferred tax	(261,680)	(75,267)
Income tax for previous years	14,907	407
Total	1,247,946	1,079,754

(In RMB'000)

VII. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *continued*

40. Income tax *continued*

40.2 The 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:

	2006	2005
Profit before tax	5,046,201	3,544,722
Tax calculated at a tax rate of 33%	1,665,247	1,169,758
Adjustments on income tax:		
Income not subject to tax	(1,059,596)	(594,832)
Expenses not deductible for tax purposes	712,130	568,657
Prior years tax expenses adjustment	14,907	407
Lower applicable tax rates in certain geographical area	(84,742)	(64,236)
Income tax	**1,247,946**	**1,079,754**

41. Cash and cash equivalents

	2006-12-31	2005-12-31
Cash		
Cash	1,466,960	1,186,229
Due from the central bank	45,808,872	17,589,490
Due from banks and other financial institutions within 3 months	8,276,201	13,603,350
Placement with banks and other financial institutions within 3 months	8,836,245	292,368
Reverse repurchase agreements within 3 months	36,031,994	45,918,876
Subtotal	**100,420,272**	**78,590,313**
Cash equivalents		
Bond investments within 3 months	6,680,685	12,080,740
Subtotal	**6,680,685**	**12,080,740**
Total	**107,100,957**	**90,671,053**

VIII. SEGMENT INFORMATION

A geographical segment is a distinguishable component of an enterprise 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 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 2006

	Headquarters	Fujian	Beijing	Shanghai	Guangdong	Zhejiang	Jiangsu	Others	Offset	Total
① Operating income	747,249	2,734,317	1,294,442	1,458,989	1,909,415	1,588,847	613,700	3,302,623	-	13,649,582
Net interest income	1,002,748	2,623,602	1,216,618	1,334,405	1,834,365	1,464,203	580,909	3,194,116	-	13,250,966
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	6,698	74,636	43,124	56,659	60,529	77,748	28,730	84,639	-	432,763
Other income	(262,197)	36,079	34,700	67,925	14,521	46,896	4,061	23,868	-	(34,147)
② Operating expense	(1,051,241)	(1,510,413)	(598,746)	(857,666)	(1,400,922)	(788,164)	(374,235)	(2,063,833)	-	(8,645,220)
③ Operating profit	(303,992)	1,223,904	695,696	601,323	508,493	800,683	239,465	1,238,790	-	5,004,362
④ Total asset	241,703,297	87,836,172	63,514,563	74,601,696	87,914,399	56,579,598	26,504,339	147,856,701	(168,806,423)	617,704,342
⑤ Total liability	230,533,360	86,705,495	62,790,008	73,983,663	87,578,931	55,779,326	26,251,226	146,689,089	(168,806,423)	601,504,675
⑥ Supplemented issue										
A. Loan to customer	4,142,486	57,561,337	27,690,762	38,078,419	45,843,058	39,166,791	16,933,291	95,095,775	-	324,511,919
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	129,828	77,911	18,024	42,980	40,232	23,427	14,245	61,901	-	408,548
D. Credit commitment	6,285,534	10,673,546	2,942,936	3,989,487	12,877,446	21,219,337	9,276,639	37,068,819	-	104,333,744
E. Non cash expenditures other than depreciation and amortisation	40,917	417,371	91,102	275,215	633,648	157,602	82,371	704,191	-	2,402,417

(In RMB'000)

VIII. SEGMENT INFORMATION *continued*

2. Geographical segments for the year 2005

	Headquarters	Fujian	Beijing	Shanghai	Guangdong	Zhejiang	Jiangsu	Others	Offset	Total
① Operating income	260,614	1,981,583	1,016,643	1,435,254	1,461,924	1,288,649	485,339	1,806,585	-	9,736,591
Net interest income	330,292	1,899,189	952,585	1,271,832	1,425,958	1,200,767	464,675	1,760,155	-	9,305,453
Including: inter-segment income	(1,737,615)	475,494	210,942	520,214	436,679	70,240	2,967	21,079	-	-
Net fee and commission income	(3,254)	46,061	20,224	27,407	25,747	56,434	16,412	48,197	-	237,228
Other income	(66,424)	36,333	43,834	136,015	10,219	31,448	4,252	(1,767)	-	193,910
② Operating expense	(808,913)	(1,051,571)	(407,464)	(640,676)	(1,271,901)	(563,045)	(239,372)	(1,225,389)	-	(6,208,331)
③ Operating profit	(548,299)	930,012	609,179	794,578	190,023	725,604	245,967	581,196	-	3,528,260
④ Total asset	199,547,364	70,433,968	53,610,589	65,211,264	69,119,327	51,052,010	22,576,921	95,204,636	(151,661,978)	475,094,101
⑤ Total liability	191,207,764	69,430,411	53,007,492	64,410,698	68,728,190	50,336,071	22,337,180	94,512,888	(151,661,978)	462,308,716
⑥ Supplemented issue										
A. Loan to customer	7,750,857	42,365,272	22,988,459	29,447,869	37,506,714	32,662,240	12,170,115	57,679,981	-	242,571,507
B. Capital expenditure	112,594	47,200	12,516	13,978	65,943	67,878	20,275	75,125	-	415,509
C. Depreciation and amortisation of intangible asset	106,461	72,832	18,801	44,219	35,498	21,514	13,233	47,112	-	359,670
D. Credit commitment	2,929,519	8,313,874	3,359,006	2,781,670	16,468,035	19,171,755	9,729,478	31,623,810	-	94,377,147
E. Non cash expenditures other than depreciation and amortisation	(58,897)	234,738	25,986	185,337	670,295	73,112	26,685	423,688	-	1,580,944

IX. CONTINGENT LIABILITIES AND COMMITMENTS

1. Pending legal proceedings

As at 31 December 2006, the Company has deposits in defenders of 1 pending legal proceedings with target money over RMB 10 million each (inclusive), with the total claims amounting to RMB 3,225 thousand. In the opinion of management of the Company, these legal proceedings cases would not have significant adverse impact on the Company's financial position and its operating result.

2. Commitments

2.1 Loan commitment

	2006-12-31	2005-12-31
Irrevocable loan commitment	31,200	150,000
Undrawn credit limit of credit card facilities	6,285,534	2,929,519
Letters of credit issued	7,612,824	6,454,035
Letter of guarantee issued	4,450,091	3,586,177
Bank acceptance	85,954,096	81,257,416

2.2 Capital expense commitment

	2006-12-31	2005-12-31
Ratified but not signed	31,250	140
Signed but not appropriated	420,939	65,531
Total	452,189	65,671

2.3 Operating lease commitment

As at 31 December, 2006, the lowest rental payables of the Company according to the irrevocable house lease agreements in the following terms are:

	2006-12-31	2005-12-31
Within 1 year	275,902	227,623
1 to 5 years	653,406	510,901
Over 5 years	239,139	130,895
Total	1,168,447	869,419

2.4 Bonds underwriting commitment

As at December 31, 2006, the amount of the Company's irrevocable bonds underwriting commitments in the following term is:

	2006-12-31	2005-12-31
Underwritten but before settlement date	60,000	-

(In RMB'000)

IX. CONTINGENT LIABILITIES AND COMMITMENTS *continued*

2. Commitments *continued*

2.5 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:

	2006-12-31	2005-12-31
Bearer treasury bonds redemption commitments	5,201,587	4,218,384

Management expects the amount of redemption before the maturity dates of those bonds through the Bank will not be material.

X. FIDUCIARY TRANSACTIONS

	2006-12-31	2005-12-31
Entrusted loans	16,108,470	10,974,361
Entrusted deposits	16,108,470	10,974,361
Fiduciary wealth management assets	20,281,637	11,050,523
Fiduciary wealth management funds	20,281,637	11,050,523

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 of 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.

XI. POST BALANCE SHEET EVENT

1. The Company was allowed to issue up to 1.333 billion ordinary shares (Share A) by China Securities Regulatory Commission (CSRC) on January 12, 2007 with the approval document "Circular of approving the Initial Public Offering of Industrial Bank" (ZJFXZ [2007] No. 10). The Company actually issued 1.001 billion A shares with par value of RMB 1.00 for each. The issue price for each share was RMB 15.98.

The Initial Public Offering of A shares started trading on Shanghai Stock Exchange approved by Shanghai Stock Exchange with the approval document SZSZ [2007] No. 26.

2. On January 4, 2007, the fifth Board of Directors approved the resolution of "Distribution plan for accumulated retained profit before public offering and for the year when public offering is made". The accumulated retained earnings before public offering and the net profit of the year when public offering is made shall be shared jointly by the new and existing shareholders. This plan still needs to be submitted to the general shareholders' meeting for approval. As at January 8, 2007, the Company has acquired letters of commitment for the agreement of above distribution plan from 25 shareholders which represent 83.97% of the Company's shares.

3. On March 26, 2007, the Fifth Board Meeting, Session Nineteen passed the resolution of "2006 Profit Distribution Proposal of Industrial Bank", where it was proposed to withdraw general provision of RMB 1,226,865 thousand. This proposal is subject to submission to shareholders' meeting for approval.

XII. 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").

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

(1) General information

Related party	Economic nature	Domicile	Business scope	Legal representative	Remark
Fujian Finance Bureau	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 OR Ching Fai	A.B
Tetrad Ventures Pte Ltd	Limited company	Singapore	Investment	Kunna Chinniah Ng konn Siong	A.B

(In RMB'000)

XII. RELATED PARTY RELATIONSHIP AND TRANSACTIONS *continued*

1. Related parties *continued*

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

(1) General information *continued*

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

Related parties with remark "B" held more than 5% (inclusive) of the Company's shares on December 31, 2005.

(ii) 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 (0011), Hang Seng Bank is granted the "Best Domestic Commercial Bank in Hong Kong" and the "Strongest Bank in Asia" by Asiamoney magazine, and is granted the "Best Local Bank in Hong Kong" by FinanceAsia magazine. The "Hang Seng Index", a benchmark index tracking the performance of Hong Kong stock market, is established by Hang Seng Bank.

(iii) 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 100,000 million assets under management.

(2) Registered capital and changes

Related party	2006-12-31	2005-12-31
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

(3) Number of shares held or equity and changes

Unit: RMB'0000

Related party	2005-12-31		Increase/decrease(+/-)		2006-12-31	
	Amount	%	Amount	%	Amount	%
The Finance Bureau of Fujian Province	102,000	25.5064	-	-	102,000	25.5064
Hang Seng Bank Limited	63,909	15.9812	-	-	63,909	15.9812
Tetrad Ventures Pte Ltd	19,995	5.0000	-	-	19,995	5.0000

1.2 General information of key management-related enterprises

Unit: RMB'0000

Related party	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
Aviva-Cofco life insurance Co., Ltd.	Foreign capital enterprise	Shanghai	50,000	Life insurance	Wu Xiaohui	A
COFCO financial business Co., Ltd.	State-owned enterprise	Beijing	100,000	Providing fund management and other financial service to enterprises	Wu Xiaohui	A
China Electronics Corporation	Wholly state-owned	Beijing	573,433.40	Investment in electronic industry, scientific research, development, design, manufacturing and selling.	Yang Xiaotang	B
Shenzhen Hualian Development Group Co., Ltd.	Limited company	Shenzhen	6,320	Industry investment, technical consultation, technical cooperation and raw material adjustment	Dong Binggen	B
Union Developing Group of China	Limited company	Shenzhen	9,061	Operation and agency for products other than those imported and exported products excluding organized by the State, import and export of technology and process with supplied materials, etc.	Dong Binggen	B
China Union Holdings Ltd.	Limited company	Shenzhen	44,955.51	Investment in industries; producing various cloth materials, clothing fibre and textile machinery; domestic commerce and material supply and sales; self-owned property management.	Dong Binggen	B
Zhejiang Hualian Sunshine Petro-chemical Co., Ltd.	Limited company	Shaoxing	50,000	Producing, processing and sale of chemical products and raw materials such as PTA, polyester chips and chemical fibre.	Dong Binggen	B

(In RMB'000)

XII. RELATED PARTY RELATIONSHIP AND TRANSACTIONS *continued*

1. Related parties *continued*

1.2 General information of key management-related enterprises *continued*

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

Related parties with remark "B" were key management-related enterprises on December 31, 2005.

2. Related party transactions and balances

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 were in accordance with the Company's normal business terms.

2.1 Due from banks and other financial institutions

Related parties	2006-12-31	2005-12-31
Hang Seng Bank Limited (Shanghai branch)	100,000	-

2.2 Inter-bank placement

Related parties	2006-12-31	2005-12-31
Hang Seng Bank Limited (Shanghai branch)	355,000	-

2.3 Reverse repo

Related parties	2006-12-31	2005-12-31
Hang Seng Bank Limited (Shanghai branch)	99,000	-
COFCO financial business Co., Ltd	100,000	-

2.4 Loans

Related party	2006-12-31		2005-12-31	
	Amount	%	Amount	%
A. Shareholders holding more than 5%(including 5%) of the Company's shares	-	-	-	-
B. 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	-	-	-	-
C. Key management personnel and their close relatives	2,246	-	2,451	-
D. Key management-related enterprises				
a. COFCO financial business Co., Ltd.	400,000	0.12	-	-
b. Zhejiang Hualian Sunshine Petro-chemical Co., Ltd.	-	-	372,440	0.15
Subtotal of D	400,000	0.12	372,440	0.15
Total	402,246	0.12	374,891	0.15

Note: Discounted bills are included in loans

2.5 Interest income

Related party	2006	2005
A. Shareholders holding more than 5%(including 5%)of the Company's shares	6,720	-
B. 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	-	-
C. Key management personnel and their close relatives	83	101
D. Key management-related enterprises	39,763	22,058
Total	46,566	22,159

2.6 Deposits

Related party	2006-12-31	2005-12-31
A. Shareholders holding more than 5%(including 5%)of the Company's shares	6,842,144	6,136,127
B. 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	-	-
C. Key management personnel and their close relatives	9,201	13,192
D. Key management-related enterprises	154,492	178,529
Total	7,005,837	6,327,848

(In RMB'000)

XII. RELATED PARTY RELATIONSHIP AND TRANSACTIONS *continued*

2. Related party transactions and balances *continued*

2.7 Deposit interest expense

Related party	2006	2005
A. Shareholders holding more than 5%(including 5%)of the Company's shares	92,111	52,767
B. 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	-	-
C. Key management personnel and their close relatives	198	187
D. Key management-related enterprises	4,476	808
Total	96,785	53,762

2.8 Off-balance sheet business

Related party	2006-12-31		2005-12-31	
	Letters of credit	Banker's acceptance bills	Letters of credit	Banker's acceptance bills
Zhejiang Hualian Sunshine Petro-chemical Co., Ltd.	-	-	19,415	145,779

2.9 Others

The Company introduced Hang Seng Bank Limited (hereinafter referred to as "HSB" for short) as one of its strategic investors, and conducted cooperation with it in credit card business and unsecured consumer credit business. On December 17, 2003, the Company and HSB signed "Agreement on Credit Card and Unsecured Consumer Credit Cooperation" ("the Agreement"). According to the Agreement, HSB will provide relevant consultant services and technical assistance for the Company, and will designate professionals to assist in the implementation of the cooperation project. On November 19, 2004, the Company and HSB signed the "Agreement on the use of trademark" in accordance with the related laws of Hong Kong Special Area. According to the Agreement, the Company was allowed to use "HSB logo and trademark" in credit card business within the following three years after the Agreement is signed.

XIII. FINANCIAL INSTRUMENT RISK POSITION

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 comparable economic characteristics.

1.1 The composition of corporate loans to customers by industry is as follows:

	2006-12-31		2005-12-31	
	Amount	%	Amount	%
Agriculture, forestry, animals farming and fishing	865,200	0.27	1,169,737	0.48
Mining	7,093,480	2.19	4,007,733	1.65
Manufacturing	55,564,570	17.12	52,820,913	21.78
Electricity, gas and water supply	15,357,969	4.73	15,961,361	6.58
Construction	11,916,689	3.67	12,454,859	5.13
Transport, storage, post and courier activities	24,858,314	7.66	18,199,842	7.50
Telecommunication, computer and software related activities	4,793,476	1.48	4,732,405	1.95
Wholesale and retail trade	23,881,277	7.36	24,974,476	10.30
Hotels and restaurants	960,722	0.30	1,178,140	0.49
Financial intermediation	1,411,695	0.44	2,238,066	0.92
Real estate	53,990,649	16.63	25,690,727	10.59
Renting and business activities	18,822,393	5.80	11,010,600	4.54
Scientific research, technical services and geologic perambulation	1,300,521	0.40	1,202,155	0.50
Water conservancy, environment and public facilities administration	20,698,223	6.38	14,867,003	6.13
Residential services and other related activities	1,668,310	0.51	2,087,282	0.86
Education	2,662,590	0.82	2,392,738	0.99
Sanitation, social security and other community services activities	1,121,102	0.34	872,720	0.36
Cultural, sporting and entertainment	1,778,089	0.55	1,398,751	0.58
Public administration and social organization activities	3,849,132	1.19	2,117,306	0.87
Personal loans	64,618,425	19.91	30,575,841	12.60
Bill discounted	7,299,093	2.25	12,618,852	5.20
Subtotal	324,511,919	100.00	242,571,507	100.00
Less: loan loss provisions	(6,275,667)		(5,111,552)	
Total	318,236,252		237,459,955	

1.2 For the composition of corporate loans to customers by geographical region, please refer to Note VIII.1 to the financial statements.

(In RMB'000)

XIII. FINANCIAL INSTRUMENT RISK POSITION *continued*

2. Liquidity risk

2.1 A maturity analysis of assets and liabilities of the Company as at December 31, 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	-	-	43,884,962	8,455,507	3,129,000	1,000,000	56,469,469
Investments	-	21,278	8,639,198	29,386,739	62,745,448	34,497,736	135,290,399
Loans	2,564,736	-	41,461,055	129,401,483	81,056,266	63,752,712	318,236,252
Other assets	1,895	287,991	864,318	1,750,782	638,219	4,868,702	8,411,907
Total assets	2,566,631	70,708,845	112,400,943	177,305,715	150,282,762	104,439,446	617,704,342
Liabilities:							
Due to banks and other financial institutions	-	86,019,887	10,263,079	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	-	-	17,734,638	5,470,685	-	-	23,205,323
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	3,313,055	1,342,690	311,545	9,245	7,622,344
Total liabilities	-	334,323,442	92,675,760	92,486,456	65,356,409	16,662,608	601,504,675
Net liquidity gap	2,566,631	(263,614,597)	19,725,183	84,819,259	84,926,353	87,776,838	16,199,667

2.2 A maturity analysis of assets and liabilities of the Company as at December 31, 2005 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	-	29,913,830	3,111,364	3,977,800	2,534,541	142	39,537,677
Due from banks and other financial institutions	-	9,444,452	4,436,294	4,133,305	254,787	238,071	18,506,909
Precious metals	-	-	-	-	-	-	-
Placements with banks and other financial institutions	-	-	392,368	305,000	-	-	697,368
Reverse repurchase agreements	-	-	48,894,970	1,619,075	-	-	50,514,045
Investments	-	-	13,037,491	33,518,874	49,496,734	24,648,530	120,701,629
Loans	2,656,444	-	44,341,902	124,646,876	32,929,687	32,885,046	237,459,955
Other assets	-	253,923	929,851	1,496,202	789,915	4,206,627	7,676,518
Total assets	2,656,444	39,612,205	115,144,240	169,697,132	86,005,664	61,978,416	475,094,101
Liabilities:							
Due to banks and other financial institutions	-	44,977,523	7,889,557	12,507,264	55,620	-	65,429,964
Placements from banks and other financial institutions	-	-	403,510	-	-	-	403,510
Repurchase agreements	-	-	6,390,351	12,732,700	-	-	19,123,051
Customer deposits	-	190,562,882	53,232,595	68,056,526	43,363,683	2,424	355,218,110
Bonds payable	-	-	-	-	13,000,000	3,000,000	16,000,000
Other liabilities	-	2,284,833	2,470,582	1,098,853	279,797	16	6,134,081
Total liabilities	-	237,825,238	70,386,595	94,395,343	56,699,100	3,002,440	462,308,716
Net liquidity gap	2,656,444	(198,213,033)	44,757,645	75,301,789	29,306,564	58,975,976	12,785,385

(In RMB'000)

XIII. FINANCIAL INSTRUMENT RISK POSITION *continued*

3. Currency Risk

3.1 A breakdown of relevant assets and liabilities by currency as at December 31, 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	56,469,469	-	-	56,469,469
Investments	129,550,362	5,658,326	81,711	135,290,399
Loans	315,052,366	2,865,667	318,219	318,236,252
Other assets	8,204,242	172,850	34,815	8,411,907
Total assets	**601,503,096**	**14,844,624**	**1,356,622**	**617,704,342**
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	22,939,971	265,352	-	23,205,323
Customer deposits	414,248,959	6,909,387	2,038,365	423,196,711
Bonds payable	41,000,000	-	-	41,000,000
Other liabilities	7,415,253	162,369	44,722	7,622,344
Total liabilities	**586,794,111**	**11,867,383**	**2,843,181**	**601,504,675**
Net Position	14,708,985	2,977,241	(1,486,559)	16,199,667

3.2 A breakdown of relevant assets and liabilities by currency as at December 31, 2005 is as follows:

	RMB	USD	Others	Total
Assets:				
Cash and due from the central bank	38,573,750	750,492	213,435	39,537,677
Due from banks and other financial institutions	15,169,916	2,737,967	599,026	18,506,909
Precious metals	-	-	-	-
Placements with banks and other financial institutions	535,000	162,368	-	697,368
Reverse repurchase agreements	50,514,045	-	-	50,514,045
Investments	115,641,381	4,942,068	118,180	120,701,629
Loans	232,639,660	4,572,819	247,476	237,459,955
Other assets	7,523,894	143,948	8,676	7,676,518
Total assets	460,597,646	13,309,662	1,186,793	475,094,101
Liabilities:				
Due to banks and other financial institutions	62,304,438	2,870,395	255,131	65,429,964
Placements from banks and other financial institutions	-	403,510	-	403,510
Repurchase agreements	18,923,705	199,347	-	19,123,052
Customer deposits	347,239,383	5,924,462	2,054,265	355,218,110
Bonds payable	16,000,000	-	-	16,000,000
Other liabilities	6,000,239	121,920	11,921	6,134,080
Total liabilities	450,467,765	9,519,634	2,321,317	462,308,716
Net Position	10,129,881	3,790,028	(1,134,524)	12,785,385

(In RMB'000)

XIII. FINANCIAL INSTRUMENT RISK POSITION *continued*

4. Interest rate risk

4.1 An analysis of expected next repricing dates or maturity dates (whichever is earlier) for the assets and liabilities of the Company as at December 31, 2006 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	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	43,884,963	8,455,506	1,679,000	1,000,000	450,000	1,000,000	-	56,469,469
Investments	14,586,060	40,784,517	8,895,923	22,781,135	22,299,895	25,892,869	50,000	135,290,399
Loans	173,730,851	122,593,106	7,348,548	4,816,970	4,630,206	2,206,524	2,910,047	318,236,252
Other assets	-	-	-	-	185,000	-	8,226,907	8,411,907
Total assets	319,954,536	179,671,616	18,311,042	28,856,184	27,864,014	29,189,332	13,857,618	617,704,342
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	17,734,638	5,470,685	-	-	-	-	-	23,205,323
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	-	-	-	-	-	-	7,622,344	7,622,344
Total liabilities	458,957,907	85,066,766	14,931,943	4,740,624	17,831,728	12,353,363	7,622,344	601,504,675
Net assets or liabilities	(139,003,371)	94,604,850	3,379,099	24,115,560	10,032,286	16,835,969	6,235,274	16,199,667

4.2 An analysis of expected next repricing dates or maturity dates (whichever is earlier) for the assets and liabilities of the Company as at December 31, 2005 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	33,976,949	3,879,373	90,673	155,863	248,448	142	1,186,229	39,537,677
Due from banks and other financial institutions	14,346,481	4,100,424	4	60,000	-	-	-	18,506,909
Precious metals	-	-	-	-	-	-	-	-
Placements with banks and other financial institutions	392,368	305,000	-	-	-	-	-	697,368
Reverse repurchase agreements	48,894,970	1,619,075	-	-	-	-	-	50,514,045
Investments	42,733,076	33,753,921	6,863,653	7,152,058	16,666,863	13,482,058	50,000	120,701,629
Loans	99,927,393	130,338,236	1,472,047	1,103,230	1,380,717	372,853	2,865,479	237,459,955
Other assets	-	-	-	-	213,547	-	7,462,971	7,676,518
Total assets	**240,271,237**	**173,996,029**	**8,426,377**	**8,471,151**	**18,509,575**	**13,855,053**	**11,564,679**	**475,094,101**
Liabilities:								
Due to banks and other financial institutions	52,867,080	12,507,264	35,620	20,000	-	-	-	65,429,964
Placements from banks and other financial institutions	403,510	-	-	-	-	-	-	403,510
Repurchase agreements	6,390,351	12,732,700	-	-	-	-	-	19,123,051
Customer deposits	281,474,431	66,372,526	1,551,328	2,666,674	3,150,727	2,424	-	355,218,110
Bonds payable	3,000,000	1,140,000	-	10,000,000	1,860,000	-	-	16,000,000
Other liabilities	-	-	-	-	-	-	6,134,081	6,134,081
Total liabilities	**344,135,372**	**92,752,490**	**1,586,948**	**12,686,674**	**5,010,727**	**2,424**	**6,134,081**	**462,308,716**
Net assets or liabilities	**(103,864,135)**	**81,243,539**	**6,839,429**	**(4,215,523)**	**13,498,848**	**13,852,629**	**5,430,598**	**12,785,385**

(In RMB'000)

XIV. KEY FINANCIAL INDICATORS

The following financial indicators are calculated in accordance with "Regulation of information disclosure by listed company in preparing financial statement No.9- Calculation and presentation of return on asset (ROA) and earnings per share (EPS)" issued by CSRC (ZJF [2001] No. 11):

1. Return on assets (ROA)

Unit: %

Profit of reporting period	Fully diluted		Weighted average	
	2006	2005	2006	2005
Operating profit	30.89	27.60	34.08	31.84
Net profit	23.45	19.28	25.87	22.25
Net profit excluding extraordinary items	23.25	19.23	25.65	22.19

2. Earnings per share (EPS)

Unit: RMB

Profit of reporting period	Fully diluted		Weighted average	
	2006	2005	2006	2005
Operating profit	1.25	0.88	1.25	0.88
Net profit	0.95	0.62	0.95	0.62
Net profit excluding extraordinary items	0.94	0.61	0.94	0.61

On Feburary 5, 2007, the Company's initial public issuance of 1,001 million RMB ordinary shares (A shares) started trading on Shanghai Stock Exchange, and the dividend for 2006 is proposed on the basis of total share capital (5 billion ordinary shares) after the issuance of A shares. Therefore, the net profit per share is RMB 0.76 if taking this effect into consideration.

XV. OTHER MATERIAL EVENTS

1. Issuance of bonds

1.1 According to the resolutions of the Company shareholders' meeting held on September 21, 2005, and with the approval of the PBOC with the document YF [2005] No. 77 and China Banking Regulatory Commission with the document YJF [2005] No. 253, the Company issued a financial bond totaling RMB 10,000,000 thousands with a term of three years at yearly interest rate of 2.15%. The bond is named as "Bond of Industrial Bank Co.,Ltd., 2005 (first tranche)". In April 2006, the Company has issued a financial bond totaling RMB 5,000,000 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)".

1.2 According to the resolutions of the Company shareholders' meeting held on September 21, 2005, and in accordance with the approval document of YSCXZY [2006] No. 16 by the PBOC and YJF [2006] No. 324 by the CBRC, the Company was allowed to issue hybrid capital bonds up to RMB 4,000,000 thousand. In September 2006, the Company has issued a hybrid capital bond totaling RMB 4,000,000 thousand with a maturity of 15 years (with a redeem option on the 10th year). The bond is named as "Hybrid Capital Bond of Industrial Bank Co.,Ltd., 2006". The bond comprises a hybrid capital bond at fixed interest rate of 4.94% amounting to RMB 3,000,000 thousand (bond code: 061002) and a hybrid capital bond at a floating interest rate with 1.82% basic margin amounting to RMB 1,000,000 thousand (bond code: 061003).

1.3 According to the resolutions of the Company shareholders' meeting held on June 27, 2006, and in accordance with the approval document of YSCXZY [2006] No. 22 by the PBOC and YJF [2006]No. 345 by the CBRC, the Company was allowed to issue financial bonds up to RMB 35,000,000 thousand before March 31, 2007. In December 2006, the Company has issued a financial bond totaling RMB 16,000,000 thousand. The bond is named as "Financial Bonds of Industrial Bank Co.,Ltd., 2006 (second tranche)". The financial bond comprises a financial bond totaling RMB 8,000,000 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 to totaling RMB 8,000,000 thousand with a maturity of 10 years at yearly interest rate of 3.75% which refers to as "06 IB 03 (10 years)".

2. Proposal for setting up branches

According to the branch development plan in 2007, the Company was proposed to found new branches in three center cities Nanning, Qingdao and Dalian.

(In RMB'000)

XVI. DIFFERENCE BETWEEN FINANCIAL STATEMENTS BASED ON CHINESE GAAP AND INTERNATIONAL FINANCIAL REPORTING STANDARD (IFRS)

1. Net profit difference

Items	2006	2005
Amount based on Chinese GAAP	3,798,256	2,464,968
Adjustments:		
Interest income and expense of bills	-	225,390
Impacts of deferred tax and income tax	-	(74,378)
Amount based on IFRS	3,798,256	2,615,980

2. Net asset difference

Items	2006-12-31	2005-12-31
Amount based on Chinese GAAP	16,199,667	12,785,385
Adjustments:		
Interest income and expense of bills	-	-
Impacts of deferred tax and income tax	-	-
Amount based on IFRS	16,199,666	12,785,385

3. Reasons for the differences

3.1 Interest income and expense of bills

The difference results from different accounting standards. According to the actual process of bill business, interest revenue on discounted bills is recognized as the difference between maturity value and the discounted value of the bill actually paid to the applicant. However, according to the criteria of IFRS for income and expenditure recognition and the requirements of "International Accounting Standard No. 39 - Financial instrument: recognition and measurement", the interest revenue and expenditure shall adopt effective interest rate method and be recognized in proportion to time, i.e., to amortize interest revenue or expenditure over related period of time. That means interest income and expenditure is recognized over related period. The Company has recognized the interest revenue and expenditure on accrual basis at the end of 2005. Therefore the difference shows on the 2005 financial statement is the impact of previous years' difference on profit and loss of 2005.

3.2 Impacts of deferred tax and income tax

The difference is the deferred tax and income tax effects resulting from the above adjustments.

XVII. NET PROFIT AFTER THE DEDUCTION OF EXTRAORDINARY ITEMS

Items	2006	2005
Net profit	3,798,256	2,464,968
Extraordinary items		
Non operating income	64,677	34,693
Non operating expense	(22,837)	(18,231)
Recovery of assets previously written off	4,868	1,958
Impact on income tax	(15,109)	(12,095)
Subtotal	**31,599**	**6,325**
Net profit excluding extraordinary items	**3,766,657**	**2,458,643**

1. Basis for statement of extraordinary items

According to "Questions and answers for information disclosure requirement of public offering companies No. 1-Extraordinary items", extraordinary items are income or expenses that arise from events or transactions that are clearly distinct from the ordinary activities of the enterprise. Some items, although they are related with the enterprise's ordinary activities, they may have impact on true and fair presentation of the enterprise's ability of making profit due to their nature, amount or frequency and therefore shall also be defined as extraordinary items.

"Questions and answers for information disclosure requirement of public offering companies No. 1-Extraordinary items" requires that the tax effect of extraordinary items should be deducted when calculating net profit excluding extraordinary items.

2. Introduction of significant extraordinary items

2.1 Non operating income refers to as the profit and revenue that do not result from the ordinary activities, including penalties and fines received; gains on aged payable pending for collection and gains on disposal of fixed assets, etc..

2.2 Non operating expense refers to as the expenses that do not result from the ordinary activities, including penalties and fines paid; expenses on repayment of aged payable pending for collection; donation expenses and losses on retirement of fixed assets, etc..

2.3 Recovery of assets previously written off refers to as the recovery of loans and other receivables which have been written off in previous years.

Industrial Bank Co., Ltd.

March 26, 2007

Legal Representative:

President:

Financial Director:


Efforts for every second
brings the moment of success.

Appendix II

VERIFICATION REPORT OF ADJUSTMENT FORM OF DISCREPANCIES IN SHAREHOLDERS' EQUITY PREPARED BY INDUSTRIAL BANK CO.,LTD. ACCORDING TO THE NEW ACCOUNTING STANDARDS

FJHXCPA (2007) SY No. G-002

To the shareholders of Industrial Bank Co.,Ltd.

We have verified the accompanying Adjustment Form of discrepancies in shareholders' equity (the Adjustment Form) prepared by Industrial Bank Co.,Ltd.(Industrial Bank) according to the new Accounting Standards. According to the "Accounting Standard No. 38 - Rules for Enterprises First Adopting the Standard" and "Circular about accounting information disclosing according to the newly released accounting standard" (ZJF [2006] No. 136, "the Circular"), to prepare the Adjustment Form is the responsibility of Industrial Bank Co.,Ltd.. Our responsibility is to issue a verification report upon the verification work we have done over the Adjustment Form.

According to the provisions of the Circular, we performed verification with reference to "Chinese CPA Verification Rules, Item 2101 - Verification over financial statements". The Rules require us to plan and execute the verification and obtain limited guarantee on if there is no major false report in the Form. The verification was mainly limited to inquire related staffs of the Company about their accounting policies and all of the major recognitions, to comprehend the calculation method of the figures provided with the Form, check through the Form against the indicated basis of accounting, and perform analyze procedures when necessary. The guarantee level is lower than an audit. We were not performing auditing procedure, thus no auditing opinion was released.

According to the verification we performed, there was no such facts appear to us that the Adjustment Form was not complying with the provisions of the "Accounting Standard No. 38 - Rules for Enterprises First Adopting the Standard" and the Circular.

Fujian Huaxing Certified Public Accountants Ltd.	Certified Public Accountant: 童益恭
	Certified Public Accountant: 林霞
Fuzhou, People's Republic of China	March 26, 2007

INDUSTRIAL BANK CO.,LTD.
ADJUSTMENT FORM OF DISCREPANCIES IN SHAREHOLDERS' EQUITY ACCORDING TO THE NEW ACCOUNTING STANDARDS

In RMB Yuan

No.	Projects	Amount
	Shareholders' equity at Dec 31st 2006 (upon current accounting standards)	16,199,667,128.83
1	Difference of long-term equity investment	
	Incl. Differences in long-term equity investment caused by merger of companies under same holding	
	Differences in credit of other long-term equity investment calculated on equity basis	
2	Investment properties measured by faire value	
3	Depreciations drawn for the previous years on the assets expected to be wasted	
4	Dismissal compensation recognizable as predicted debts	
5	Payment for shares	
6	Reconstruction liabilities recognizable as predicted debts	
7	Merger of companies	
	Incl. Book value of consolidated goodwill under same holder	
	Impairment provisions drawn upon goodwill according to the new accounting standard	
8	Financial assets booked as current gain/loss at fair value and disposable financial assets	
9	Financial liabilities booked as current gain/loss at fair value	
10	Equity increased by splitting with financial instruments	
11	Derived financial instruments	
12	Income tax	
13	Others	
	Shareholders' equity at January 1st 2007 (upon new accounting standards)	16,199,667,128.83

Legal Representative: President: Financial Director:

The attached notes to the adjustment form of discrepancies is a component of this adjustment form of discrepancies.

INDUSTRIAL BANK CO.,LTD.

NOTES TO THE VERIFICATION REPORT OF ADJUSTMENT FORM OF DISCREPANCIES IN SHAREHOLDERS' EQUITY ACCORDING TO THE NEW ACCOUNTING STANDARDS

IMPORTANT STATEMENT:

Effective January 1, 2007, the Industrial Bank Co.,Ltd. (the "Company") has adopted the "Accounting Standards for Business Enterprises" issued in 2006 by the Ministry of Finance (the "new accounting standards"). The Company is currently assessing the impacts of the adoption of the new accounting standards on its financial positions, operating results and cash flows. The Adjustment Form of Discrepancies in Shareholders' Equity as at January 1, 2007 prepared under the existing applicable standards and that prepared under the new accounting standards (hereinafter referred to as "the adjustment form") may be subject to adjustments from further interpretations that might be issued by the MOF and our due consideration of the related implications to the Company's application of these policies. Consequently, the amount of shareholders' equity as at January 1, 2007 presented in this adjustment form might be different from that to be disclosed in the Company's financial statements 2007.

1. Purpose of Presentation

The Company has adopted the new accounting standards from January 1, 2007. In order to assess the impact of the new accounting standards on the financial positions of listed companies, the China Securities Regulatory Commission issued the "Circular about accounting information disclosing according to the newly released accounting standard" (ZJF [2006] No. 136, "the Circular"), which requires that the Company discloses any significant adjustment for discrepancies in a form of adjustment form in the supplementary documents of the financial statements for the year ended December 31, 2006 in accordance with the related requirements of the "Accounting Standard No. 38 - Rules for Enterprises First Adopting the Standard" and the Circular.

2. Basis of Presentation

Based on the financial statements 2006, and in consideration of the nature and specific circumstances of the Company, the Adjustment Form is prepared in accordance with the materiality principle, and related requirements of the Accounting Standard No. 38 - Rules for Enterprises First Adopting the Standard and the Circular.

3. Notes to the Presentation

(1) Shareholders' equity for the year ended December 31, 2006 (upon current accounting standards).

The amount of shareholders' equity for the year ended December 31, 2006 (upon current accounting standards) is extracted from the Company's balance sheet for the year ended December 31, 2006 prepared in accordance with the "Accounting Standards for Business Enterprises" and the "Regulations of Recognition and Measurement of Financial Instruments (Provisional)". The above financial statement was audited by Fujian Huaxing Certified Public Accountants Ltd. and "Independent Audit Report" (FJHXCPA [2007] S No. G-018) with an unqualified opinion was issued on March 26, 2007. Please refer to the Company's 2006 financial statements for details of the basis of presentation and significant accounting policies based on which the above financial statement was prepared.

(2) Shareholders' equity as at January 1, 2007 (upon the new accounting standards)

The Company's financial statements 2006 were prepared in accordance with the "Regulations of Recognition and Measurement of Financial Instruments (Provisional)". The Regulations is naturally coinciding with the "Accounting Standards for Business Enterprises No. 22 - Financial Instruments: Recognition and Measurement" in terms of accounting policies and accounting estimates. On the other hand, due consideration has been exercised to link up with the new accounting standards in preparing 2006 financial statements of the Company, and the significant accounting policies and accounting estimates used in 2006 financial statements have met the requirements of the new accounting standards, including:

A. Derivative financial instruments have been measured at fair value;

B. Investments have been classified as investments at fair value through profit or loss; held-to-maturity-investments; loans and receivables investments and available-for-sale investments according to the management's holding purposes and types of securities. The initial and subsequent measurements of different categories of investments are in accordance with the measurements of corresponding financial assets;

C. The initial and subsequent measurements of loan to customers are in accordance with the measurements of loans and receivables financial assets. After a loan had impaired, interest income has been calculated using the effective interest rate that used to discount future cash flow in determining impairment value of the loan;

D. Pre-operating expenses have been included in the current profit and loss;

E. The balance sheet liability method has been adopted for accounting treatment of income tax.

Therefore, there is no discrepancy between shareholders' equity for the year ended December 31, 2006 prepared upon current accounting standard and that prepared under the new accounting standards as at January 1, 2007.

4. Approval of the Adjustment Form

This Adjustment Form has been approved by the board of directors on March 26, 2007.

Industrial Bank Co.,Ltd.

March 26, 2007

Legal Representative:

President:

Financial Director:


Flawless notes compose
a magnificent movement.

Appendix III

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.

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 2006 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 disclosure 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 Company'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 2006, and of its financial performance and its cash flows for the year then ended.

Ernst & Young
Hong Kong Certified Public Accountants
26 March 2007

INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2006

(In RMB '000)

	Notes	2006	2005
Interest income	3	24,953,867	17,389,753
Interest expense	3	(11,702,900)	(7,858,909)
Net interest income	3	13,250,967	9,530,844
Net fee and commission income	4	432,763	237,228
Other income, net	5	7,692	210,373
OPERATING INCOME		13,691,422	9,978,445
Staff costs	6	(2,291,105)	(1,640,273)
General and administrative expenses	7	(2,618,733)	(1,939,086)
Depreciation		(352,427)	(308,385)
Business tax and surcharges		(980,538)	(739,643)
Provision for loan losses	14(c)	(2,348,710)	(1,571,739)
Provision for impairment of other assets	8	(53,707)	(9,206)
PROFIT BEFORE INCOME TAX		5,046,202	3,770,113
Income tax	9	(1,247,946)	(1,154,133)
NET PROFIT		3,798,256	2,615,980
EARNINGS PER SHARE			
- Basic (in RMB)	10	0.95	0.65

The accompanying notes form an integral part of the financial statements.

BALANCE SHEET

AS AT 31 DECEMBER 2006

(In RMB '000)

	Notes	31-12-2006	31-12-2005
ASSETS			
Cash and balances with the central bank	11	76,478,740	39,537,677
Due from and placements with banks and other financial institutions	12	21,613,870	19,204,277
Reverse repurchase agreements	13	56,469,469	50,514,045
Loans	14	318,236,253	237,459,955
Investments	15	135,290,399	120,701,629
Fixed assets	16	3,621,606	2,948,745
Intangible assets	17	412,016	442,461
Deferred tax assets, net	9	972,475	520,902
Other assets	18	4,569,717	3,431,205
TOTAL ASSETS		617,664,545	474,760,896
LIABILITIES			
Due to and placements from banks and other financial institutions	19	106,480,297	65,833,474
Repurchase agreements	20	23,205,323	19,123,052
Customer deposits	21	423,196,711	355,218,109
Subordinated bonds issued	22	6,000,000	6,000,000
Long-term debt securities issued	23	35,000,000	10,000,000
Other liabilities	24	7,582,548	5,800,877
TOTAL LIABILITIES		601,464,879	461,975,512
SHAREHOLDERS' EQUITY			
Paid-in capital	26	3,999,000	3,999,000
Capital surplus		2,839,214	2,839,214
Surplus reserves	27	1,406,135	999,755
General reserve	28	3,626,865	2,400,000
Retained earnings	30	4,222,285	2,057,274
Unrealised gain on investments, net of tax		106,167	490,141
TOTAL SHAREHOLDERS' EQUITY		16,199,666	12,785,384
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		617,664,545	474,760,896

These financial statements have been approved by the board of directors.

Director　　　　Director　　　　Chop

The accompanying notes form an integral part of the financial statements.

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2006

(In RMB '000)

	Paid-in capital	Capital surplus	Surplus reserves	General reserve	Retained earnings	Unrealised gain on investments, net of tax	Total
As at 1 January 2005							
As previously reported	3,999,000	2,839,214	384,317	-	2,757,249	(150,429)	9,829,351
Prior year adjustment (note 2.1) :							
Reversal of over provision for tax in prior periods	-	-	-	-	103,536	-	103,536
As restated	**3,999,000**	**2,839,214**	**384,317**	**-**	**2,860,785**	**(150,429)**	**9,932,887**
Changes in equity during the year:							
Net profit for the year	-	-	-	-	2,615,980	-	2,615,980
General reserve (note 28)	-	-	-	2,400,000	(2,400,000)	-	-
Dividend (note 29)	-	-	-	-	(404,053)	-	(404,053)
Unrealised gain on investments, net of tax							
-Net changes in fair value	-	-	-	-	-	830,471	830,471
-Net changes in deferred tax (note 9)	-	-	-	-	-	(315,802)	(315,802)
-Reserve realised on disposal	-	-	-	-	-	125,901	125,901
Appropriations for the year							
-Appropriations for the year	-	-	245,499	-	(245,499)	-	-
-Statutory adjustment (note 27)	-	-	369,939	-	(369,939)	-	-
As at 31 December 2005	**3,999,000**	**2,839,214**	**999,755**	**2,400,000**	**2,057,274**	**490,141**	**12,785,384**
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:							
Net 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**

The accompanying notes form an integral part of the financial statements.

CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2006

(In RMB '000)

	Note	2006	2005
NET CASH INFLOW FROM OPERATING ACTIVITIES	31	10,952,725	82,989,527
CASH FLOWS FROM INVESTING ACTIVITIES			
Cash received from maturity or disposal of investments		329,209,881	179,394,272
Interest received from bond investments		4,783,323	2,354,720
Dividends received from equity investments		400	-
Cash received from disposal of fixed assets		57,879	14,966
Cash received from disposal of long-term assets		2,247	-
Cash paid for purchased of fixed assets		(1,036,662)	(401,263)
Cash paid for purchased of intangible assets		(25,676)	(14,246)
Cash paid for purchased of investments		(350,635,366)	(236,921,507)
Net cash paid for trading of precious metal		(1,206,571)	-
NET CASH OUTFLOWS FROM INVESTING ACTIVITIES		(18,850,545)	(55,573,058)
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash received from issuance of long-term debt securities		25,000,000	10,000,000
Interest paid for subordinated bonds issued		(278,415)	(275,670)
Interest paid for long-term debt securities issued		(215,000)	-
Cash paid for distribution of dividends		(37,951)	(526,879)
NET CASH INFLOW FROM FINANCING ACTIVITIES		24,468,634	9,197,451
EFFECT OF CHANGES IN EXCHANGE RATES ON CASH AND CASH EQUIVALENTS		(140,910)	(123,375)
NET INCREASE IN CASH AND CASH EQUIVALENTS		16,429,904	36,490,545
Cash and cash equivalents at beginning of year		90,671,053	54,180,508
CASH AND CASH EQUIVALENTS AT END OF YEAR		107,100,957	90,671,053
ANALYSIS OF CASH AND CASH EQUIVALENTS			
Cash on hand and general deposits with the central bank		47,275,832	18,775,719
Due from banks and other financial institutions with original maturity less than three months		8,276,201	13,603,350
Reverse repurchase agreements with original maturity less than three months		36,031,993	45,918,876
Placements with banks and other financial institutions with original maturity less than three months		8,836,245	292,368
Investments with original maturity less than three months		6,680,686	12,080,740
		107,100,957	90,671,053

The accompanying notes form an integral part of the financial statements.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2006

(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 ("PRC"). The legal representative of the Company is Mr. Gao Jianping.

The principal activity of the Company is 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; inter-bank placements and borrowings; purchase and sale of foreign currencies; either for itself or on behalf of 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 State Council of the PRC; and settlement or exchange of foreign currency approved by the PBOC.

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 maintains its books and prepares its statutory financial statements in accordance with the relevant financial regulations and the accounting principles applicable to joint-stock limited companies and financial institutions, as established by the Ministry of Finance ("MoF") of the PRC. Following the Company's adoption of "The Provisional Guidelines on Recognition and Measurement of Financial Instruments ("The Provisional Guidelines") effective from 1 January 2006 according to the Notice Cai Hui [2005] No. 14, there are no material differences in major items like operating results and financial position 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 made a retrospective adjustment of an over-accrual of tax provision for the prior years when preparing these financial statements for 2005. The adjustment resulted in an increase of net assets by RMB 104 million of prior years.

The Company has adopted the following relevant new and revised IFRS and International Financial Reporting Interpretation Committee's ("IFRIC") interpretations during the year.

IAS 19 Amendment	Employee Benefits
IAS 21 Amendment	The Effects of Changes in Foreign Exchange Rates
IAS 39 Amendment	Financial Instruments: Recognition and Measurement

The adoption of those new and revised standards and interpretations did not have any material effect 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.

IAS 1 Amendment	Presentation of Financial Statements
IFRS 7	Financial Instruments: Disclosures
IFRS 8	Operating Segments
IFRIC 7	Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies
IFRIC 8	Scope of IFRS 2
IFRIC 9	Reassessment of Embedded Derivatives
IFRIC 10	Interim Financial Reporting and Impairment
IFRIC 11	Group and Treasury Share Transactions
IFRIC 12	Service Concession Arrangements

2.1 BASIS OF PRESENTATION *continued*

The IAS 1 Amendment is effective for financial periods beginning on or after 1 January 2007. The revised standard will require 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 is effective for financial periods beginning on or after 1 January 2007. 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, and became effective for financial periods beginning on or after 1 June 2006. 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. The Company is now assessing the interpretation's effect on the Company and anticipates that the adoption of this interpretation for accounting periods on or after 1 June 2006 will not have any significant financial impact on the Company's results of operations and financial position.

IFRS 8, IFRIC 7, IFRIC 8, IFRIC 10, IFRIC 11 and IFRIC 12 shall be applied for periods beginning on or after 1 January 2009, 1 March 2006, 1 May 2006, 1 November 2006, 1 March 2007 and 1 January 2008, respectively.

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, it requires significant management judgements. 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 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, it requires significant judgements on whether objective evidence for impairment exists and also significant estimates on 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 recognized to the extent that it is probable that future taxable profit will be available against which the deferred tax assets can be utilized. 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 recognized 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 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 recognized 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 recognized.

(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 they are 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.

These financial assets are subsequently measured at fair value. All related realised and unrealised gains or losses are included in the income statement.

(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 recognized in the income statement when the held-to-maturity investments are derecognized or impaired, or are recognized 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 (more than insignificant in relation to the total amount of held-to-maturity investments), 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.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *continued*

Financial assets *continued*

(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. Premiums and discounts on available-for-sale financial assets are amortised using the effective interest rate method and recognized in interest income.

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.

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 profit or 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 recognized in 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 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 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, the previously recognised impairment loss is reversed. 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) Financial assets carried at cost

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, 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.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *continued*

Impairment of financial assets *continued*

(3)Available-for-sale financial assets *continued*

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 reversed 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. Gains and losses from changes in fair value are recognized in the income statement.

A financial liability is classified as held for trading if it is acquired or incurred principally for selling or repurchasing it in the near future term; or a derivative (except for a derivative that is designated as hedging instrument).

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 2.3(1), designated by the Company at fair value through profit or loss upon initial recognition.

Gains and losses from changes in fair value are recognized 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 in 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.

(2) Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. Where 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 in the respective carrying amounts is recognised in the income statement.

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.

(In RMB'000)

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *continued*

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 enters into purchases of 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 collateralized loans and the purchase assets are treated as the collateral. Assets sold under agreements to repurchase continue to be recognized 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 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 capitalized 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 yeari¯s income statement.

Depreciation is calculated using the straight-line method over the estimated useful life and zero residual value of the fixed assets at the following rates per annum:

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

No depreciation is provided for construction in progress.

Intangible assets

Intangible assets acquired separately are capitalized at cost and those obtained from a business acquisition are capitalized at fair value as at the date of acquisition. Following initial recognition, intangible assets are stated at cost less accumulated amortization. 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 recognized in the income statement under those expense categories consistent with the function of the impaired assets.

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.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *continued*

Related parties

A party is considered to be related to the Company if:

(a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Company; (ii) has an interest in the Company that gives it significant influence over the Company; or (iii) has joint control over the Company;

(b) the party is an associate of the Company;

(c) the party is a joint venture in which the Company is a venturer;

(d) the party is a member of the key management personnel of the Company or its parent;

(e) the party is a close member of the family of any individual referred to in (a) or (d);

(f) 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 (d) or (e); or

(g) 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.

Settlement date accounting

All regular purchases and sales of financial assets are recognised on the settlement date, i.e., the date that the assets are being delivered to or by 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:

(a) interest income is recognized by using the effective interest rate method. The effective interest rate method involves applying the rate that exact discounts estimated future cash inflows through the expected life of a 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 recognized using the interest rate used to discount the future cash flows for the purpose of measuring the impairment loss;

(b) fee and commission income is recognised when the service has been rendered and proceeds can be reasonably estimated; and

(c) 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 income tax. Income tax relating to items recognised directly in equity is recognised in equity and not in the income statement.

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 income tax assets are recognized for all deductible temporary differences, carry forward 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 utilized, except:

(a) where the deferred income tax asset relating to the deductible temporary difference arises 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 utilized.

The carrying amount of deferred income 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 income tax asset to be utilised. Unrecognized deferred income tax assets are reassessed at each balance sheet date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *continued*

Employee retirement benefits

According to the statutory requirements in 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.

Acceptances

Acceptances comprise undertakings by the Company to pay bills of exchange on customers. The Company expects most acceptances to be settled simultaneously upon reimbursement from customers. Acceptances are accounted for as off-balance-sheet transactions and are disclosed as commitments and contingent liabilities.

Fiduciary activities

Where the Company acts in a fiduciary capacity such as nominee, trustee or agent, assets arising thereon together with related undertakings to return such assets to customers are excluded from the financial statements.

Provision

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, 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 recognized 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 recognized 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 recognized 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 recognized 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 recognized 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.

The Company initially measures all financial contracts at fair value. 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. The change in fair value of the provision due to impairment is recognized in the income statement as an impairment.

3. NET INTEREST INCOME

	2006	2005
Interest income:		
Interest income on loans	17,828,311	12,826,935
Interest income on amounts due from the central bank	575,180	450,646
Interest income on amounts due from and placements with banks and other financial institutions	2,425,759	1,432,047
Interest income on bonds	4,124,617	2,680,125
	24,953,867	17,389,753
Interest expense:		
Interest on deposits	6,189,344	5,389,005
Interest on amounts due to and placements from banks and other financial institutions	4,837,306	2,153,487
Interest on subordinated bonds issued	278,671	279,986
Interest on long-term debt securities issued	397,579	36,431
	11,702,900	7,858,909
	13,250,967	9,530,844

Included in interest income for 2006 is RMB 190 million (note 14(c)) (2005: RMB 150 million) with respect to notional interest of impaired loan.

4. NET FEE AND COMMISSION INCOME

	2006	2005
Fee and commission income	607,562	316,068
Fee and commission expense	(174,799)	(78,840)
	432,763	237,228

(In RMB'000)

5. OTHER INCOME, NET

	2006	2005
Gain/(loss) on disposal of investment securities, net	(122,222)	37,367
Foreign exchange gain, net	118,482	53,911
Unrealised gain/(loss) on financial instruments at fair value through profit or loss, net	(89,577)	66,179
Others	101,009	52,916
	7,692	210,373

6. STAFF COSTS

	2006	2005
Salaries and bonuses	1,593,025	1,270,906
Defined retirement contribution	231,625	116,886
Staff welfare and social insurance	466,455	252,481
	2,291,105	1,640,273

7. GENERAL AND ADMINISTRATIVE EXPENSES

	2006	2005
Office expenses	956,295	638,219
Rental	302,544	242,653
Entertainment	178,499	154,185
Promotion	315,867	226,221
Telecommunications and postage	94,415	65,723
Travelling	148,774	105,418
Repairs and maintenance	43,939	35,684
Utilities	46,561	37,029
Taxes	45,883	47,678
Professional fees	65,353	68,053
Supervision fees	97,997	71,304
Fuel	127,762	82,933
Amortisation of intangible assets (note 17)	56,121	51,285
Others	138,723	112,701
	2,618,733	1,939,086

8. PROVISION FOR IMPAIRMENT OF OTHER ASSETS

	2006	2005
Due from and placements with banks and other financial institutions (note12(a))	(6,000)	(59,915)
Other assets (note18(a))	59,707	69,121
	53,707	9,206

9. INCOME TAX

	2006	2005
Current income tax	1,494,720	1,154,613
Deferred tax	(261,681)	(887)
Under-provision in prior years	14,907	407
	1,247,946	1,154,133

A reconciliation of income tax expense, disclosed in the income statement to the amount calculated at the statutory rate of 33%, is as follows:

	2006	2005
Profit before income tax	5,046,202	3,770,113
Income tax at statutory rate of 33%	1,665,247	1,244,137
Additions/(Deductions) :		
Tax exempted income	(1,059,596)	(594,832)
Non-deductible expenses	712,130	568,657
Under provision in respect of the prior year	14,907	407
Effect of lower tax rates in certain regions	(84,742)	(64,236)
Income tax	1,247,946	1,154,133

Deferred tax assets and liabilities are as follows:

	31-12-2006	31-12-2005
Provisions for loan losses	850,618	733,920
Provisions for impairment of other assets	110,181	94,172
Pre-operating expenses	23,692	26,327
Unrealised (gain)/loss on derivatives	3,099	(21,839)
Unrealised loss on fair value through profit or loss investments	6,752	-
Unrealised gain on available for sale investments	(51,848)	(241,739)
Unrealised gain on precious metal	(2,130)	-
Supplementary retirement fund	27,374	-
Others	4,737	(69,939)
Net deferred tax assets	972,475	520,902

Deferred income tax included in equity:

	31-12-2006	31-12-2005
Unrealised (gain)/loss on available for sale investments	(189,892)	315,802

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.

	2006	2005
Earnings per share calculation:		
Net profit attributable to shareholders (in RMB '000)	3,798,256	2,615,980
Number of ordinary shares outstanding (in thousand shares)	3,999,000	3,999,000
Earnings per share, basic (in RMB)	0.95	0.65

Diluted earning per share is not calculated as there is no dilutive effect during the year.

The Company was listed on the Shanghai Stock Exchange on 5 February 2007 and issued 1,001 million shares (Note 41(a)). The Company proposes the distribution of the final dividends of 2006, which was calculated based on 5,000 million shares, the number of shares after listing. After taking into consideration the dividends appropriation basis of 5,000 million ordinary shares, the basic earnings per share for 2006 will be RMB 0.76.

11. CASH AND BALANCES WITH THE CENTRAL BANK

	31-12-2006	31-12-2005
Cash on hand	1,466,960	1,186,229
Due from central bank:		
General deposits	45,808,872	17,589,490
Statutory deposits	29,030,567	20,712,569
Fiscal deposits	172,341	49,389
Total	**76,478,740**	**39,537,677**

Statutory deposits represent a statutory reserve placed with the central bank of 9% (2005: 7.5%) on customer deposits denominated in RMB and 4% (2005: 3%) on customer deposits denominated in foreign currency.

12. DUE FROM AND PLACEMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

	31-12-2006	31-12-2005
Deposits:		
Domestic banks and financial institutions	9,743,565	17,257,779
Foreign banks and financial institutions	1,406,727	1,275,138
	11,150,292	18,532,917
Less: Provisions for impairment (note12(a))	(22,540)	(26,008)
	11,127,752	18,506,909
Placements:		
Domestic banks and financial institutions	10,611,253	811,398
Foreign banks and financial institutions	-	17,105
	10,611,253	828,503
Less: Provisions for impairment (note12(a))	(125,135)	(131,135)
	10,486,118	697,368
Total	21,613,870	19,204,277

(a) Movements of provisions for impairment

	Deposits	Placements	Total
2005			
Balance at beginning of year	34,772	191,717	226,489
Charge for the year/(transfer out) (note 8)	667	(60,582)	(59,915)
Write-offs	(9,431)	-	(9,431)
Balance at end of year	26,008	131,135	157,143
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

(In RMB'000)

13. REVERSE REPURCHASE AGREEMENTS

	31-12-2006	31-12-2005
Analysed by counterparty:		
Banks	31,892,770	42,685,623
Other financial institutions	24,576,699	7,828,422
	56,469,469	50,514,045
Analysed by collateral:		
Bills	24,666,304	11,871,632
Bonds	22,179,281	36,559,413
Loans	9,623,884	2,083,000
	56,469,469	50,514,045

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 2006, there was no aforesaid collateral. As at 31 December 2005, the fair value of the aforesaid collateral was RMB 933 million. The Company did not sell or repledge any collateral as at 31 December 2006 and 2005 respectively.

Included in the above reverse repurchase agreements, the Company entered into a tripartite credit assets transfer and repurchase agreement with an entrusted company and a commercial bank which amounted to RMB 710 million. According to the tripartite agreement, the commercial bank has an obligation to purchase unconditionally the loans from the Company and to pay the related transfer price. As at 31 December 2005, the Company had no relevant transaction balance.

14. LOANS

	31-12-2006	31-12-2005
Corporate loans	252,594,402	199,376,814
Personal loans	64,618,425	30,575,841
Discounted bills	7,299,093	12,618,852
	324,511,920	242,571,507
Less: Provisions for loan losses (note 14(c))	(6,275,667)	(5,111,552)
	318,236,253	237,459,955

(a) The composition of corporate loans to customers by industry is as follows:

	31-12-2006	%	31-12-2005	%
Agriculture, forestry, animals farming and fishing	865,200	0	1,169,737	1
Mining	7,093,480	3	4,007,733	2
Manufacturing	55,564,570	22	52,820,913	26
Electricity, gas and water supply	15,357,969	6	15,961,361	8
Construction	11,916,689	5	12,454,859	6
Transport, storage, post and courier activities	24,858,314	10	18,199,842	9
Telecommunications, computer and software related activities	4,793,476	2	4,732,405	2
Wholesale and retail trade	23,881,277	9	24,974,476	13
Hotels and restaurants	960,722	0	1,178,140	1
Finance	1,411,695	1	2,238,066	1
Real estate	53,990,649	21	25,690,727	13
Rental and business activities	18,822,393	7	11,010,600	6
Scientific research, technical services and geologic perambulation	1,300,521	1	1,202,155	1
Water conservancy, environment and public facilities administration	20,698,223	8	14,867,003	7
Residential services and other related activities	1,668,310	1	2,087,282	1
Education	2,662,590	1	2,392,738	1
Sanitation, social security and other community services	1,121,102	0	872,720	0
Cultural, sport and entertainment	1,778,089	1	1,398,751	1
Public administration and social organization activities	3,849,133	2	2,117,306	1
Total	252,594,402	100	199,376,814	100

(b) For the composition of corporate loans to customers by geographical region, please refer to note 38 (a) of the financial statements.

(c) Movement of provisions for loan losses

	31-12-2006	31-12-2005
Balance at beginning of year	5,111,552	4,415,804
Charge for the year	2,348,710	1,571,739
Notional interest on impaired loans (note 3)	(189,588)	(149,525)
Recovery	4,868	1,958
Transfer out	(9,975)	(151,952)
Write-offs	(989,900)	(576,472)
Balance at end of year	6,275,667	5,111,552

(d) As at 31 December 2006, loans amounting to RMB 789 million (31 December 2005: RMB 719 million) have been pledged for loans repurchase agreements, and discounted bills amounting to RMB 6,526 million (31 December 2005: RMB 1,274 million) have been pledged for discounted bills repurchase agreements.

(In RMB'000)

15. INVESTMENTS

	31-12-2006	31-12-2005
Investment securities at fair value through profit or loss, measured at fair value:		
Government bonds	3,957,292	-
Financial bonds issued by policy banks and PBOC	2,880,806	-
Corporate bonds	2,326,942	-
Funds	21,278	652,894
Investments securities at fair value through profit or loss	9,186,318	652,894
Available-for-sale bond investments, measured at fair value:		
Government bonds	36,882,459	68,717,946
Financial bonds issued by policy banks and PBOC	22,673,361	43,824,883
Bonds issued by banks and other financial institution	4,808,519	5,826,624
Corporate bonds	5,917,866	1,629,282
Available-for-sale bond investments	70,282,205	119,998,735
Available-for-sale equity investments, measured at cost (note 15(a))	50,000	50,000
Available-for-sale investments	70,332,205	120,048,735
Held-to-maturity bond investments, measured at amortised cost:		
Government bonds	40,398,608	-
Financial bonds issued by policy banks and PBOC	6,230,813	-
Bonds issued by banks and other financial institutions	2,016,401	-
Corporate bonds	1,068,552	-
Held-to-maturity bond investments	49,714,374	-
Loans and receivables bond investments, measured at amortised cost:		
Financial bonds issued by policy banks and PBOC	4,464,782	-
Bonds issued by banks and other financial institutions	330,000	-
Corporate bonds	1,262,720	-
Loans and receivables bond investments	6,057,502	-
Total	135,290,399	120,701,629

(a) Equity investments

The Company's long-term equity investments included an investment in China Unionpay Co., Ltd., at a cost of RMB 50 million (31 December 2005: RMB 50 million), 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.

(b) Others

As at 31 December 2006, bonds amounting to RMB 26 million (31 December 2005: RMB 82 million) have been pledged for derivatives transactions, bonds amounting to RMB 16,732 million (31 December 2005: RMB 17,328 million) have been pledged for securities repurchase agreements, and bonds amounting to RMB 3,870 million (31 December 2005: RMB Nil) have been pledged for fixed deposit by MoF.

16. FIXED ASSETS

	Properties and buildings	Fixed assets and leasehold improvements	Office equipment and computers	Motor vehicles	Construction in progress	Total
Cost, less provisions for impairment losses:						
Balance at beginning of year	2,705,375	542,920	736,212	164,828	71,866	4,221,201
Additions	18,553	34,198	235,895	22,150	725,866	1,036,662
Transfer in/(transfer out)	41,317	86,230	2,812	-	(90,273)	40,086
Disposals	(38,776)	(101,109)	(30,653)	(26,330)	-	(196,868)
Balance at end of year	2,726,469	562,239	944,266	160,648	707,459	5,101,081
Accumulated depreciation:						
Balance at beginning of year	558,126	288,151	355,179	71,000	-	1,272,456
Charge for the year	90,468	109,018	132,838	20,103	-	352,427
Transfer in	4,297	-	-	-	-	4,297
Disposals	(7,591)	(101,109)	(23,648)	(17,357)	-	(149,705)
Balance at end of year	645,300	296,060	464,369	73,746	-	1,479,475
Net book value						
At 31 December 2006	2,081,169	266,179	479,897	86,902	707,459	3,621,606
At 31 December 2005	2,147,249	254,769	381,033	93,828	71,866	2,948,745

Fixed assets are stated at cost less provision for impairment losses as at 31 December 2006. After comparing with the market value of nearby properties, management considers that the provisions for impairment losses on properties and buildings as at 31 December 2006 is RMB 3 million (31 December 2005: RMB 10 million).

All the properties and buildings of the Company are located in PRC. Included in properties and buildings are costs amounting to RMB 127 million (31 December 2005: RMB 416 million), but legal ownership registration procedures were not yet complete as at 31 December 2006.

(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	77,335	507,335
Additions	-	25,676	25,676
Disposals	-	(272)	(272)
Balance at end of year	430,000	102,739	532,739
Accumulated amortisation:			
Balance at beginning of year	46,583	18,291	64,874
Amortisation (note 7)	43,000	13,121	56,121
Disposals	-	(272)	(272)
Balance at end of year	89,583	31,140	120,723
Net book value:			
At 31 December 2006	340,417	71,599	412,016
At 31 December 2005	383,417	59,044	442,461

18. OTHER ASSETS

	31-12-2006	31-12-2005
Interest receivable from debt securities	1,597,472	1,536,064
Loan interest and other interest receivable	517,840	428,008
Repossessed assets	707,958	656,555
Clearing accounts	151,963	44,403
Positive fair value of financial derivatives	106,539	168,597
Precious metal	1,203,704	-
Others	520,139	777,578
	4,805,615	3,611,205
Less: Impairment provisions for other assets (note18(a))	(235,898)	(180,000)
	4,569,717	3,431,205

(a) Impairment provision for other assets

	Settled assets	Other receivables	Total
Balance at beginning of year	99,572	80,428	180,000
Charge for the year (note 8)	52,726	6,981	59,707
Write-offs	(12,307)	(1,477)	(13,784)
Transfer in	9,975	-	9,975
Balance at end of year	149,966	85,932	235,898

19. DUE TO AND PLACEMENTS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	31-12-2006	31-12-2005
Deposits:		
Domestic banks and financial institutions	105,764,197	65,429,964
Placements:		
Domestic banks and financial institutions	665,900	403,510
Foreign banks and financial institutions	50,200	-
	716,100	403,510
Total	106,480,297	65,833,474

20. REPURCHASE AGREEMENTS

	31-12-2006	31-12-2005
Analysed by counterparty:		
Banks	11,164,946	5,074,500
Other financial institutions	12,040,377	14,048,552
	23,205,323	19,123,052
Analysed by collateral:		
Bills	6,525,946	1,273,605
Securities	16,325,352	17,185,667
Loans	354,025	663,780
	23,205,323	19,123,052

21. CUSTOMER DEPOSITS

	31-12-2006	31-12-2005
Corporate and personal demand deposits	197,899,734	151,362,575
Corporate and personal time deposits	163,047,424	149,509,280
Deposits pledged as collateral	61,102,830	53,775,266
Fiscal deposits	145,159	23,649
Remittances	1,001,564	547,339
	423,196,711	355,218,109

(In RMB'000)

22. SUBORDINATED BONDS ISSUED

		Issuing period	Interest starting date	Term	31-12-2006	31-12-2005
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 starting date	Term (years)	Interest rate(%)	31-12-2006	31-12-2005
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	-
06Xingye03 (5 years)	Note 2	15/12/2006 ~19/12/2006	19/12/2006	5	3.45	8,000,000	-
06Xingye03 (10 years)	Note 2	15/12/2006 ~19/12/2006	19/12/2006	10	3.75	8,000,000	-
						31,000,000	10,000,000
Hybrid Bonds							
06Xingye02 (fixed)	Note 3	28/09/2006 ~29/09/2006	29/09/2006	15	Note 4	3,000,000	-
06Xingye02 (floating)	Note 3	28/09/2006 ~29/09/2006	29/09/2006	15	Note 5	1,000,000	-
						4,000,000	-
						35,000,000	10,000,000

Note 1: The issuance of financial bonds totaling RMB 15 billion was approved by PBOC and China Banking Regulatory Commission ("CBRC") according to "PBOC approval on Industrial Bank Co.,Ltd.'s issuance of financial bonds" (Yin Fu [2005] No. 77) and "CBRC approval on Industrial Bank Co.,Ltd.'s issuance of financial bonds" (Yin Jian Fu [2005] No. 253).

Note 2: The issuance of the financial bonds totaling RMB 16 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 term of the hybrid bond contract is fifteen years. The Company has an option to fully redeem the bonds at par 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 4: 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 5: 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

	31-12-2006	31-12-2005
Interest payable	2,063,511	1,888,088
Tax payable	879,312	657,789
Salaries and staff welfare payables	1,539,582	1,169,287
Bank promissory notes	1,292,411	671,184
Unearned income on discounted bills	243,947	159,163
Dividend payable	1,120	42,839
Clearing accounts	204,004	185,315
Negative fair value of financial derivatives	115,930	102,418
Other payables	1,242,731	924,794
	7,582,548	5,800,877

(In RMB'000)

25. EMPLOYEE RETIREMENT BENEFITS SCHEME

The Company participates in a PRC government employee retirement benefits scheme which is administrated by the relevant Social Security Bureau. The bureau centrally manages retirement fund contributions and distributions. The scheme requires contributions to be made at a certain percentage of the salaries of the staff. The percentage is determined in accordance with the regulations of the local government. Other than the above-mentioned employee retirement benefits scheme, the Company has no other obligations regarding employee retirement benefits.

26. PAID-IN CAPITAL

	31-12-2006	31-12-2005
Authorised (par value: RMB 1)	3,999,000	3,999,000
Issued and fully paid (par value: RMB 1)	3,999,000	3,999,000

27. SURPLUS RESERVES

	Statutory surplus reserve	Statutory public welfare fund	Discretionary surplus reserve	Total
At 1-1- 2005	256,212	128,105	-	384,317
Appropriation	245,499	-	-	245,499
Statutory adjustment	209,941	159,998	-	369,939
At 31-12-2005	**711,652**	**288,103**	**-**	**999,755**
At 1-1-2006	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 31-12-2006	**1,109,514**	**-**	**296,621**	**1,406,135**

Pursuant to the Company's articles of association and the relevant accounting standards and regulations in 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 2005 onwards, the Company adopted the "Accounting System for Financial Enterprises", issued by the MoF in 2001, to prepare its 2005 statutory financial statements. As such, changes have been made to the accounting policies of provision for assets and the recognition of interest and expenses of bills business, etc., and the Company has made retrospective adjustments to the statutory financial statements of 2004. Moreover, 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.

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 board of directors' resolution passed on 21 June 2005, the directors appropriated RMB 900 million to the general reserve in the first quarter of 2005. This resolution was approved at the annual general meeting of shareholders held on 21 September 2005. In addition, pursuant to the resolution passed in the 10th session of the 5th board of directors meeting held on 18 March 2006, the directors further appropriated RMB 1,500 million to the general reserve for the year ended 31 December 2005. The resolution was approved at the 2005 annual general meeting of shareholders held on 27 June 2006.

Pursuant to the resolution passed in the 19th session of the 5th board of directors on 26 March 2007, general reserve of RMB 1,227 million was appropriated in 2006.

29. DIVIDEND

Pursuant to a resolution passed by the 2004 annual general meeting of shareholders held on 20 May 2005, a dividend of RMB 1.1 per 10 shares (calculated in accordance with weighted average number of common shares outstanding during 2004), totaling RMB 404 million was approved for the financial year ended 31 December 2004.

Pursuant to the resolution passed in the 10th session of the 5th board of directors meeting held on 18 March 2006, no final dividend was proposed for the year ended 31 December 2005. The resolution was approved at the 2005 annual general meeting of shareholders held on 27 June 2006.

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 RMB 2.6 per 10 shares was proposed for the financial year 2006 on the basis of 5,000 million shares. As at 31 December 2006, the total dividends of RMB 1,300 million, which is subject to the approval at the 2006 annual general meeting of shareholders, were not recognized as liabilities in the current year financial statements.

30. RETAINED EARNINGS

According to the PRC Company Law and the Company's articles of association, the profit 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 then the discretionary surplus reserve, can be distributed to shareholders. 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, 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

	2006	2005
Profit before income tax	5,046,202	3,770,113
Interest income	(24,953,867)	(17,389,753)
Interest expense	11,702,900	7,858,909
Foreign exchange differences	140,910	123,375
Depreciation	352,427	308,385
Amortisation of intangible assets	56,121	51,285
Provisions for loan losses and provisions for impairment of assets	2,402,417	1,580,945
Unrealised gain/(loss) on financial instruments at fair value through profit or loss	89,577	(66,179)
Net gain from trading precious metal	9,322	-
Gain on disposal of fixed assets, net	(10,711)	(4,022)
Dividends payable recorded in non-operating income	(3,768)	-
Gain/(loss) on disposal of investments, net	122,222	(37,367)
Income on equity investments	(400)	-
Net (increase)/decrease in operating assets:		
Deposits with the central bank and fiscal deposits	(8,440,950)	(4,127,293)
Due from and placements with banks and other financial institutions	813,135	(1,907,779)
Reverse repurchase agreements	(15,842,308)	6,027,000
Loans	(83,026,169)	(40,320,914)
Other assets	161,246	(141,740)
Net increase in operating liabilities:		
Due to and placements from banks and other financial institutions	40,646,822	33,980,741
Repurchase agreements	4,082,272	13,597,282
Customer deposits	67,978,602	72,031,598
Other liabilities	1,414,881	1,299,989
Net cash inflow from operating activities before interests and income tax	2,740,883	76,634,575
Cash inflow from interest received	20,972,253	14,526,968
Cash outflow from interest paid	(11,385,568)	(6,911,864)
Income tax paid	(1,374,843)	(1,260,152)
Net cash inflow from operating activities	**10,952,725**	**82,989,527**

(In RMB'000)

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 fixed interest rate while its funding is at 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 Company entered into the following types of derivative financial instruments during the year:

Forwards: Forwards are contractual obligations to buy or sell a financial instrument on a future date at a specified price.

Swap: Swaps are commitments to exchange one set of cash flow for another for a predetermined period.

Interest rate swap contracts: these generally represent the contractual exchange of fixed and floating rate payments of a single currency, based on a notional amount and a reference interest rate.

Cross currency interest rate swap contracts: these generally involve the exchange of payments which are based on the interest reference rates available at the inception of the contract on the principal balances of the two different currencies that are being exchanged. The principal balances are re-exchanged at an agreed upon rate at a specified future date.

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.

31-12-2006

	Notional amount	Fair value	
		Assets	Liabilities
Derivative financial instruments for trading purposes:			
Foreign exchange derivative contracts	20,232,715	40,677	50,843
Bond derivative contracts	790,000	710	6,363
Interest rate derivative contracts	3,375,420	59,987	58,724
Credit derivative contracts	312,348	4,507	-
Precious metal derivative contracts	1,303,465	658	-
	26,013,948	106,539	115,930

31-12-2005

	Notional amount	Fair Value	
		Assets	Liabilities
Derivative financial instruments for trading purposes:			
Foreign exchange derivative contracts	5,131,161	12,804	5,070
Bond derivative contracts	6,215,000	129,242	53,640
Interest rate derivative contracts	2,032,277	25,605	33,509
Credit derivative contracts	484,212	946	10,199
	13,862,650	168,597	102,418

As at 31 December 2006, foreign exchange derivative contracts with notional amounts of RMB 7,901 million (31 December 2005: RMB 3,056 million) were hedged with third parties and the Company did not undertake the currency risk.

As at 31 December 2006, interest rate derivative contracts with notional amounts of RMB 2,466 million (31 December 2005: RMB 1,871 million) were hedged with third parties and the Company did not undertake the interest rate risk.

33. COMMITMENTS

(a) Capital commitments

	31-12-2006	31-12-2005
Approved, but not contracted for	31,250	140
Contracted, but not provided for	420,939	65,531
	452,189	65,671

(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:

	31-12-2006	31-12-2005
Within one year	275,902	227,623
In the second to fifth years, inclusive	653,406	510,901
After five years	239,139	130,895
	1,168,447	869,419

(c) Bond under-writing commitments

	31-12-2006	31-12-2005
Bond under-writing commitments	60,000	-

(In RMB'000)

34. LOAN COMMITMENTS AND CONTINGENT LIABILITIES

	31-12-2006	31-12-2005
Bank acceptance	85,954,096	81,257,416
Irrevocable letters of credit issued	7,612,824	6,454,035
Guarantees issued	4,450,091	3,586,177
Irrevocable loan commitments	31,200	150,000
Undrawn credit limits of credit card facilities	6,285,534	2,929,519

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

	31-12-2006	31-12-2005
Entrusted loans	16,108,470	10,974,361
Entrusted deposits	16,108,470	10,974,361
Fiduciary wealth management assets	20,281,637	11,050,523
Fiduciary wealth management funds	20,281,637	11,050,523

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 its customers.

As at 31 December 2006, the difference between entrusted deposits and entrusted loans amounting to RMB 278 million (31 December 2005: RMB 201 million). The depositors have not yet advised the Company regarding who this surplus entrusted deposits should be loaned to, which were included in customer deposits.

36. CONTINGENT LIABILITIES

(a) Legal proceedings

As at 31 December 2006, the pending legal proceedings against the Company or its branches involved claims amounting to RMB 32 million (31 December 2005: RMB 32 million). In the opinion of management of the Company, these legal proceedings do not have significant adverse impact on the Company's financial position and its operating result.

(b) Redemption commitments of government bonds with certificates

As an underwriting agent of the PRC government, the Company underwrites PRC government bonds with certificates 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 12, the Company has sold bonds with an accumulated amount of RMB 5,202 million (31 December 2005: RMB 4,218 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 over 5% of the Company's shares.

Name of Company	Relationship
The Finance Bureau of Fujian Province	Shareholders
Hang Sheng Bank Limited	Shareholders
Tetrad Ventures Pte Ltd	Shareholders

Related party transactions with shareholders and their related companies holding over 5% of the Company's shares are as follows:

	2006	2005
Interest income	6,720	-
Interest expense	92,111	52,767
Due from and placements with banks and other financial institutions	455,000	-
Reverse repurchase agreements	99,000	-
Customer deposits	6,842,144	6,136,127

(In RMB'000)

37. RELATED PARTY TRANSACTIONS *continued*

(b) Related party transactions with other companies upon which the key executives have controlling or significant influence are as follows:

	2006	2005
Interest income	39,763	22,058
Interest expense	4,476	808
Reverse repurchase agreements	100,000	-
Loans	400,000	352,440
Discounted bills	-	20,000
Customer deposits	154,492	178,529
Bank acceptances	-	145,779
Irrevocable letters of credit issued	-	19,415

(c) Related party transactions between the Company and its key executives and their relatives are as follows:

	2006	2005
Interest income	83	101
Interest expense	198	187
Loans	2,246	2,451
Deposits	9,201	13,192

Related party borrowings are negotiated on commercial terms. Borrowers are requested to provide guarantee 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 officers.

	2006	2005
Salaries and other short-term employee benefits	7,964	7,515

38. SEGMENT INFORMATION

(a) Geographical segment information

Geographical segment information mainly showed the seven largest business regions of the Company.

2006

	Head Office	Fujian	Beijing	Shanghai	Guangdong	Zhejiang	Jiangsu	Others	Elimination	Total
Interest income	6,148,396	3,988,241	2,192,644	2,965,512	3,633,702	3,010,133	1,351,063	6,751,070	(5,086,894)	24,953,867
Interest expense	(5,145,648)	(1,364,639)	(976,026)	(1,631,107)	(1,799,337)	(1,545,931)	(770,155)	(3,556,951)	5,086,894	(11,702,900)
Net interest income	1,002,748	2,623,602	1,216,618	1,334,405	1,834,365	1,464,202	580,908	3,194,119	-	13,250,967
Net fee and commission income	6,698	74,636	43,124	56,659	60,529	77,748	28,730	84,639	-	432,763
Other income/(expenses), net	(245,559)	52,807	35,174	68,550	21,436	46,088	4,335	24,861	-	7,692
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)	(686,074)	-	(2,348,710)
Provision for impairment of other assets	(3,730)	7,226	42	(41,650)	3,299	(628)	(148)	(18,118)	-	(53,707)
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	4,142,486	57,561,337	27,690,762	38,078,419	45,843,058	39,166,791	16,933,291	95,095,776	-	324,511,920
Total assets	241,649,320	87,836,172	63,514,563	74,601,696	87,914,399	56,579,598	26,504,339	147,870,880	(168,806,422)	617,664,545
Total liabilities	230,479,383	86,705,495	62,790,008	73,983,663	87,578,931	55,779,326	26,251,226	146,703,269	(168,806,422)	601,464,879
Capital expenditure	131,665	64,268	469,582	19,947	41,044	198,108	11,723	126,001	-	1,062,338
Credit commitment	6,285,534	10,673,546	2,942,936	3,989,487	12,877,446	21,219,337	9,276,639	37,068,820	-	104,333,745

(In RMB'000)

38. SEGMENT INFORMATION *continued*

(a) Geographical segment information *continued*

Geographical segment information mainly showed the seven largest business regions of the Company. *continued*

	2005									
	Head Office	Fujian	Beijing	Shanghai	Guangdong	Zhejiang	Jiangsu	Others	Elimination	Total
Interest income	3,985,951	2,943,992	1,666,109	2,481,677	2,719,904	2,256,366	1,085,308	3,840,565	(3,590,119)	17,389,753
Interest expense	(3,609,529)	(1,036,505)	(706,540)	(1,189,692)	(1,282,527)	(1,036,511)	(575,334)	(2,012,390)	3,590,119	(7,858,909)
Net interest income	376,422	1,907,487	959,569	1,291,985	1,437,377	1,219,855	509,974	1,828,175	-	9,530,844
Net fee and commission income	(3,254)	46,061	20,224	27,407	25,747	56,434	16,412	48,197	-	237,228
Other income/(expenses), net	(51,266)	44,646	43,790	132,014	14,084	26,993	4,053	(3,941)	-	210,373
Operating income	321,902	1,998,194	1,023,583	1,451,406	1,477,208	1,303,282	530,439	1,872,431	-	9,978,445
Staff costs	(446,350)	(341,243)	(136,961)	(148,994)	(145,851)	(153,000)	(53,935)	(213,939)	-	(1,640,273)
General & administrative expenses	(358,593)	(270,410)	(156,648)	(163,327)	(312,894)	(199,883)	(98,633)	(378,698)	-	(1,939,086)
Depreciation	(55,472)	(72,759)	(18,801)	(46,864)	(34,910)	(20,214)	(12,733)	(46,632)	-	(308,385)
Business tax and surcharges	(7,395)	(132,420)	(69,067)	(96,154)	(107,951)	(116,837)	(47,385)	(162,434)	-	(739,643)
Provision for loan losses	(3,409)	(221,587)	(26,811)	(143,953)	(656,382)	(72,707)	(26,610)	(420,280)	-	(1,571,739)
Provision for impairment of other assets	62,306	(13,151)	825	(41,383)	(13,913)	(406)	(75)	(3,409)	-	(9,206)
Profit before income tax	(487,011)	946,624	616,120	810,731	205,307	740,235	291,068	647,039	-	3,770,113
Loan	7,750,857	42,365,272	22,988,459	29,447,869	37,506,714	32,662,241	12,170,115	57,679,980	-	242,571,507
Total assets	199,213,847	70,433,968	53,610,589	65,211,264	69,119,327	51,052,010	22,576,921	95,204,948	(151,661,978)	474,760,896
Total liabilities	190,874,248	69,430,411	53,007,492	64,410,697	68,728,190	50,336,071	22,337,180	94,513,201	(151,661,978)	461,975,512
Capital expenditure	112,594	47,200	12,516	13,978	65,943	67,878	20,275	75,125	-	415,509
Credit commitment	2,929,519	8,313,874	3,359,007	2,781,670	16,468,035	19,171,755	9,729,478	31,623,809	-	94,377,147

(b) Business segment information

Business segment information comprises the Company's secondary segment. The Company provides services through four main business segments: corporate banking, personal banking, treasury operation and other operations. Segment revenues and assets presented in business segment information include items directly attributable to the relevant segments as well as those that can be allocated on a reasonable basis to the respective segments. Funding is provided to and from the relevant business segments through the treasury operations as part of the asset and liability management process.

Corporate banking represents services provided to corporate customers including deposits, loans, settlements, trade finance products and other services.

Personal banking represents services provided to personal customers including deposits, credit and debit cards, consumer loans, personal mortgages, personal wealth management and other services.

Treasury operation represents business like inter-bank lending and borrowing, reverse repos and repos, investments, derivatives and foreign exchange activities, etc.

Other operations comprise other miscellaneous activities, none of which constitute an independently reportable segment.

2006

	Corporate banking	Personal banking	Treasury operation	Other operations	Total
Interest income	15,487,641	2,340,670	7,125,556	-	24,953,867
Interest expense	(3,889,166)	(493,900)	(7,319,834)	-	(11,702,900)
Net interest income/(expense)	11,598,475	1,846,770	(194,278)	-	13,250,967
Net fee and commission income	216,262	148,832	66,790	879	432,763
Other income/(expenses), net	5,922	23,852	(4,964)	(17,118)	7,692
Operating income/(expenses)	11,820,659	2,019,454	(132,452)	(16,239)	13,691,422
Total assets	**255,463,533**	**63,876,166**	**292,919,392**	**5,405,454**	**617,664,545**

(c) Business segment information

2005

	Corporate banking	Personal banking	Treasury operation	Other operations	Total
Interest income	11,600,567	1,226,368	4,562,818	-	17,389,753
Interest expense	(3,277,332)	(362,339)	(4,219,238)	-	(7,858,909)
Net interest income	8,323,235	864,029	343,580	-	9,530,844
Net fee and commission income/(expenses)	172,858	(8,524)	43,864	29,030	237,228
Other income/(expenses), net	5,541	4,443	157,457	42,932	210,373
Operating income	8,501,634	859,948	544,901	71,962	9,978,445
Total assets	**208,207,274**	**30,198,381**	**232,038,334**	**4,316,907**	**474,760,896**

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:

(a) 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 comparable economic characteristics.

The Company operates the lending business in the PRC 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 so credit risks are also different. For the geographical concentration of the loan portfolio and major off-balance sheet items, please refer to note 38(a). Loan customers of the Company are classified into different industries. Please refer to note 14(a) for an analysis of the concentration of loans by industry.

(b) Liquidity risk

A maturity analysis of assets and liabilities of the Company at the balance sheet date is as follows:

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	-	-	43,885	8,455	3,129	1,000	56,469
Loans	2,565	-	41,461	129,401	81,056	63,753	318,236
Investments	-	21	8,639	29,387	62,745	34,498	135,290
Deferred tax assets, net	-	-	-	157	51	764	972
Other assets	2	1,492	878	1,541	587	4,105	8,605
TOTAL ASSETS	2,567	70,709	112,415	177,252	150,282	104,440	617,665
LIABILITIES:							
Due to and placements from banks and other financial institutions	-	86,019	10,333	7,617	2,161	350	106,480
Repurchase agreements	-	-	17,734	5,471	-	-	23,205
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
Other liabilities	-	2,645	3,328	1,289	312	9	7,583
TOTAL LIABILITIES	-	334,322	92,690	92,434	65,357	16,662	601,465
NET LIQUIDITY GAP	2,567	(263,613)	19,725	84,818	84,925	87,778	16,200

31-12-2005 (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	-	29,914	3,111	3,978	2,535	-	39,538
Due from and placements with banks and other financial institutions	-	9,445	4,828	4,438	255	238	19,204
Reverse repurchase agreements	-	-	48,896	1,618	-	-	50,514
Loans	2,656	-	44,342	124,646	32,931	32,885	237,460
Investments	-	-	13,037	33,519	49,497	24,649	120,702
Deferred tax assets, net	-	-	-	(205)	26	699	520
Other assets	-	253	930	1,368	763	3,508	6,822
TOTAL ASSETS	2,656	39,612	115,144	169,362	86,007	61,979	474,760
LIABILITIES:							
Due to and placements from banks and other financial institutions	-	44,976	8,294	12,507	56	-	65,833
Repurchase agreements	-	-	6,390	12,733	-	-	19,123
Customer deposits	-	190,562	53,233	68,057	43,364	2	355,218
Subordinated bonds issued	-	-	-	-	3,000	3,000	6,000
Long-term debt securities issued	-	-	-	-	10,000	-	10,000
Other liabilities	-	2,285	2,472	764	280	-	5,801
TOTAL LIABILITIES	-	237,823	70,389	94,061	56,700	3,002	461,975
NET LIQUIDITY GAP	2,656	(198,211)	44,755	75,301	29,307	58,977	12,785

39. FINANCIAL INSTRUMENTS RISK POSITION *continued*

(c) Currency risk

The Company is incorporated in the PRC and the majority of the Company's operations are also conducted in the PRC, with RMB as its reporting and functional currency. The major foreign currency in which the Company transacts is US dollars ("USD").

A breakdown of relevant assets and liabilities by currency is as follows:

	31-12-2006 (in RMB million)				31-12-2005 (in RMB million)			
	RMB	USD	Others	Total	RMB	USD	Others	Total
ASSETS:								
Cash and balances with the central bank	75,559	702	218	76,479	38,574	751	213	39,538
Due from and placements with banks and other financial institutions	15,463	5,446	705	21,614	15,705	2,900	599	19,204
Reverse repurchase agreements	56,469	-	-	56,469	50,514	-	-	50,514
Loans	315,052	2,865	319	318,236	232,640	4,573	247	237,460
Investments	129,550	5,658	82	135,290	115,642	4,942	118	120,702
Deferred tax assets, net	972	-	-	972	520	-	-	520
Other assets	8,397	173	35	8,605	6,670	143	9	6,822
TOTAL ASSETS	601,462	14,844	1,359	617,665	460,265	13,309	1,186	474,760
LIABILITIES:								
Due to and placements from banks and other financial institutions	101,190	4,530	760	106,480	62,304	3,274	255	65,833
Repurchase agreements	22,940	265	-	23,205	18,924	199	-	19,123
Customer deposits	414,249	6,910	2,038	423,197	347,240	5,924	2,054	355,218
Subordinated bonds issued	6,000	-	-	6,000	6,000	-	-	6,000
Long-term debt securities issued	35,000	-	-	35,000	10,000	-	-	10,000
Other liabilities	7,376	162	45	7,583	5,667	122	12	5,801
TOTAL LIABILITIES	586,755	11,867	2,843	601,465	450,135	9,519	2,321	461,975
NET POSITION	14,707	2,977	(1,484)	16,200	10,130	3,790	(1,135)	12,785

(d) Interest rate risk

The following tables indicate the effective interest rates for the relevant periods and the expected next repricing dates or maturity dates, whichever is earlier, for the assets and liabilities 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 ears	3 to 5 years	Over 5 years	Overdue/ Non-interest-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	43,884	8,456	1,679	1,000	450	1,000	-	56,469
Loans	173,730	122,593	7,349	4,817	4,630	2,207	2,910	318,236
Investments	14,586	40,784	8,896	22,781	22,300	25,893	50	135,290
Deferred tax assets, net	-	-	-	-	-	-	972	972
Other assets	-	-	-	-	185	-	8,420	8,605
TOTAL ASSETS	319,952	179,672	18,312	28,856	27,864	29,190	13,819	617,665
LIABILITIES:								
Due to and placements from banks and other financial institutions	97,570	7,800	40	520	500	50	-	106,480
Repurchase agreements	17,734	5,471	-	-	-	-	-	23,205
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
Other liabilities	-	-	-	-	-	-	7,583	7,583
TOTAL LIABILITIES	458,956	85,068	14,932	4,741	17,832	12,353	7,583	601,465
NET ASSETS	(139,004)	94,604	3,380	24,115	10,032	16,837	6,236	16,200

39. FINANCIAL INSTRUMENTS RISK POSITION *continued*

(d) Interest rate risk *continued*

The following tables indicate the effective interest rates for the relevant periods and the expected next repricing dates or maturity dates, whichever is earlier, for the assets and liabilities at 31 December 2005:

31-12-2005(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	33,978	3,879	91	156	248	-	1,186	39,538
Due from and placements with banks and other financial institutions	14,739	4,405	-	60	-	-	-	19,204
Reverse repurchase agreements	48,895	1,619	-	-	-	-	-	50,514
Loans	99,928	130,338	1,472	1,103	1,381	373	2,865	237,460
Investments	42,733	33,754	6,864	7,152	16,667	13,482	50	120,702
Deferred tax assets, net	-	-	-	-	-	-	520	520
Other assets	-	-	-	-	214	-	6,608	6,822
TOTAL ASSETS	240,273	173,995	8,427	8,471	18,510	13,855	11,229	474,760
LIABILITIES:								
Due to and placements from banks and other financial institutions	53,270	12,507	36	20	-	-	-	65,833
Repurchase agreements	6,390	12,733	-	-	-	-	-	19,123
Customer deposits	281,474	66,373	1,551	2,667	3,151	2	-	355,218
Subordinated bonds issued	3,000	1,140	-	-	1,860	-	-	6,000
Long-term debt securities issued	-	-	-	10,000	-	-	-	10,000
Other liabilities	-	-	-	-	-	-	5,801	5,801
TOTAL LIABILITIES	344,134	92,753	1,587	12,687	5,011	2	5,801	461,975
NET ASSETS	(103,861)	81,242	6,840	(4,216)	13,499	13,853	5,428	12,785

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 placement 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.

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.

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 placement 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.

(In RMB'000)

40.FAIR VALUE OF FINANCIAL INSTRUMENTS *continued*

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, all of which are not stated at fair values.

	Carrying value	Fair value
31-12-2006		
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
31-12-2005		
Subordinated bonds issued	6,000,000	6,260,904
Long-term debt securities issued	10,000,000	9,900,000

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 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.

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.

41. POST BALANCE SHEET EVENTS

a) Initial public offering of "A" shares

The Company's initial public offering ("IPO") of "A" shares was approved in the 1st meeting of 2007 by the China Securities Regulatory Commission's Department of Public Offering Supervision on 8 January 2007.

According to the announcement dated 2 February 2007, the offer price was RMB 15.98 per share and the offering volume was 1,001 million shares. The Company received a consideration of RMB 15,996 million via IPO. After deducting the issuing fee (including the issuing fee for stock exchange and service a fee for underwriters) of RMB 274 million, a net amount of RMB 15,722 million was received. The paid-in capital was increased by RMB 1,001 million and capital surplus was increased by RMB 14,721 million.

The Company's IPO A shares were listed on the Shanghai Stock Exchange on 5 February 2007.

The increased paid-in capital has been verified by Fujian Huaxing Certified Public Accountants Ltd. by issuing a capital verification report.

b) Proposal on distribution of retained earnings and net profit for the year of the IPO

Pursuant to the board of directors' resolution passed on 4 January 2007, the directors have approved the proposal of the distribution of retained earnings and net profit for the year of the IPO. The board of directors resolved that the retained earnings and net profit for the year of the IPO will be shared by the old and new shareholders. The proposal is subject to the approval of the annual general meeting of shareholders. Up to 8 January 2007, twenty-five shareholders with shareholding of 83.97% have issued confirmation to support this proposal and promised to approve it in the forthcoming annual general meeting of shareholders.

As at the approval date of these financial statements, there is no material post balance sheet event which is required to be disclosed.

42. COMPARATIVE FIGURES

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

43. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorized for issue by the board of directors on 26 March 2007.

INDUSTRIAL BANK CO.,LTD. ANNUAL REPORT 2006

The annual report was printed on enviormentally friendly paper.

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