深圳发展银行
SHENZHEN DEVELOPMENT BANK CO.,LTD.

Annual Report 2006

Cultivating Quality Growth

A healthy start

The year 2006 was a memorable one for Shenzhen Development Bank. Not only did SDB achieve its financial targets, it also saw significant improvements in management, its products and market recognition. This annual report illustrates the key accomplishments of SDB during 2006, a foundation year for quality growth.

Cover: Cultivating Quality Growth
Sustaining healthy growth in nature requires careful nurturing, sunshine and good soil. SDB continues to build on its quality capital assets as well as providing innovative products for our customers.

319% growth in net profit

In 2006 net profit grew 319% to 1,303 million yuan. Profit before tax and provisions grew to 3,331 million yuan, 37% higher than 2005. Asset growth, improvement in net interest margin, better loan quality and a lower tax rate all contributed to this outstanding performance.

ROE reached 23%

Return on Average Equity rose from just 7% in 2005, a year of great transition, to 23% in 2006. The Bank's ROE was among the best in China's banking industry for the year.

	Shenzhen	Hainan & Guangdong Province (Excl. Shenzhen)	China (Excl. Guangdong, Shenzhen and Hainan)
Number of banking outlets	89	37	117
Total Assets *(mil yuan)*	46,696	42,271	163,878

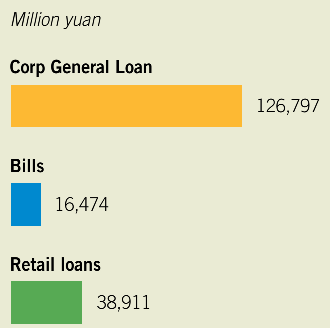
	Region				
	South	East	Northeast/ North	West	Offshore
2006 growth rate					
– Corporate deposits	▲ 8%	▲ 14%	▲ 17%	▲ 39%	▲ 46%
– Retail deposits	▲ 14%	▲ 31%	▲ 34%	▲ 41%	
– Corporate loans	▲ 19%	▲ 27%	▲ 43%	▲ 117%	
– Retail loans	▲ 80%	▲ 61%	▲ 171%	▲ 188%	

Contents

Financial Highlights

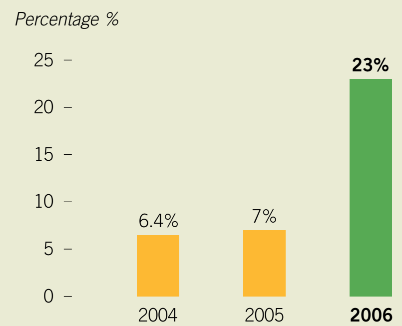
	2005	**2006**	Change in %
For the year ended 31 December *RMB million*			
Net interest income	4,894	**6,482**	32%
Net fee & commission income	239	**307**	28%
Profit before provision and tax	2,437	**3,331**	37%
Net profit	311	**1,303**	319%
Earnings per share	0.16	**0.67**	319%
At the year end *RMB million*			
Total shareholder equity	5,054	**6,474**	28%
Total assets	222,325	**260,576**	17%
Net assets per share (yuan)	2.60	**3.33**	28%
Key ratios			Improvements
Non-performing loan ratio	9.33%	**7.98%**	-135bps
Return on average equity	7.00%	**23%**	+1600bps
Capital adequacy ratio			
Core capital	3.71%	**3.68%**	
Total capital	3.70%	**3.71%**	

Loan mix (at year end)



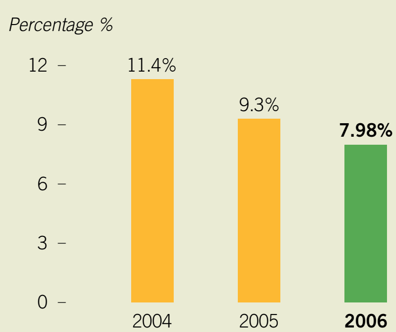
The Bank's retail loans as a percentage of total loans was 21.4% at year end 2006, among the highest for China banks.

ROAE



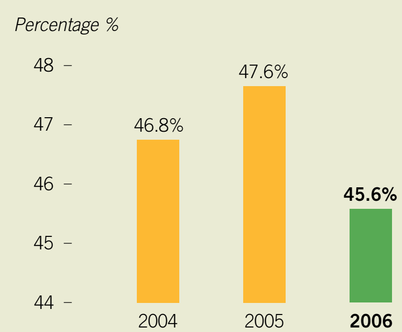
ROAE was 23% for the Bank, among the highest for China banks.

NPL / loans (at year end)



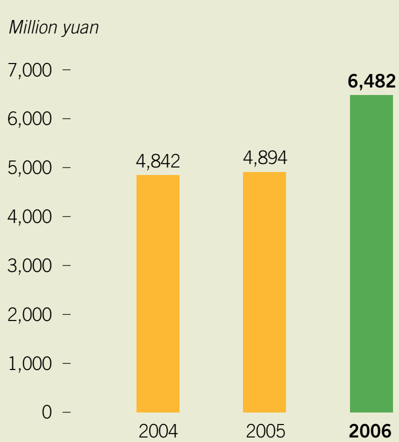
NPL ratio dropped steadily from 11.4% in 2004 to 7.98% in 2006.

Cost / income



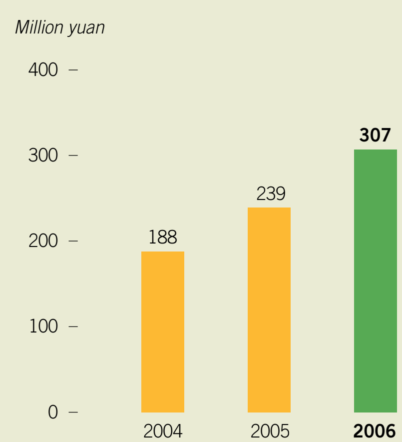
Cost income ratio is under control and dropped to 45.6% in 2006.

Net interest income



Net interest income rose 32% in 2006.

Growth in net fee and commission income

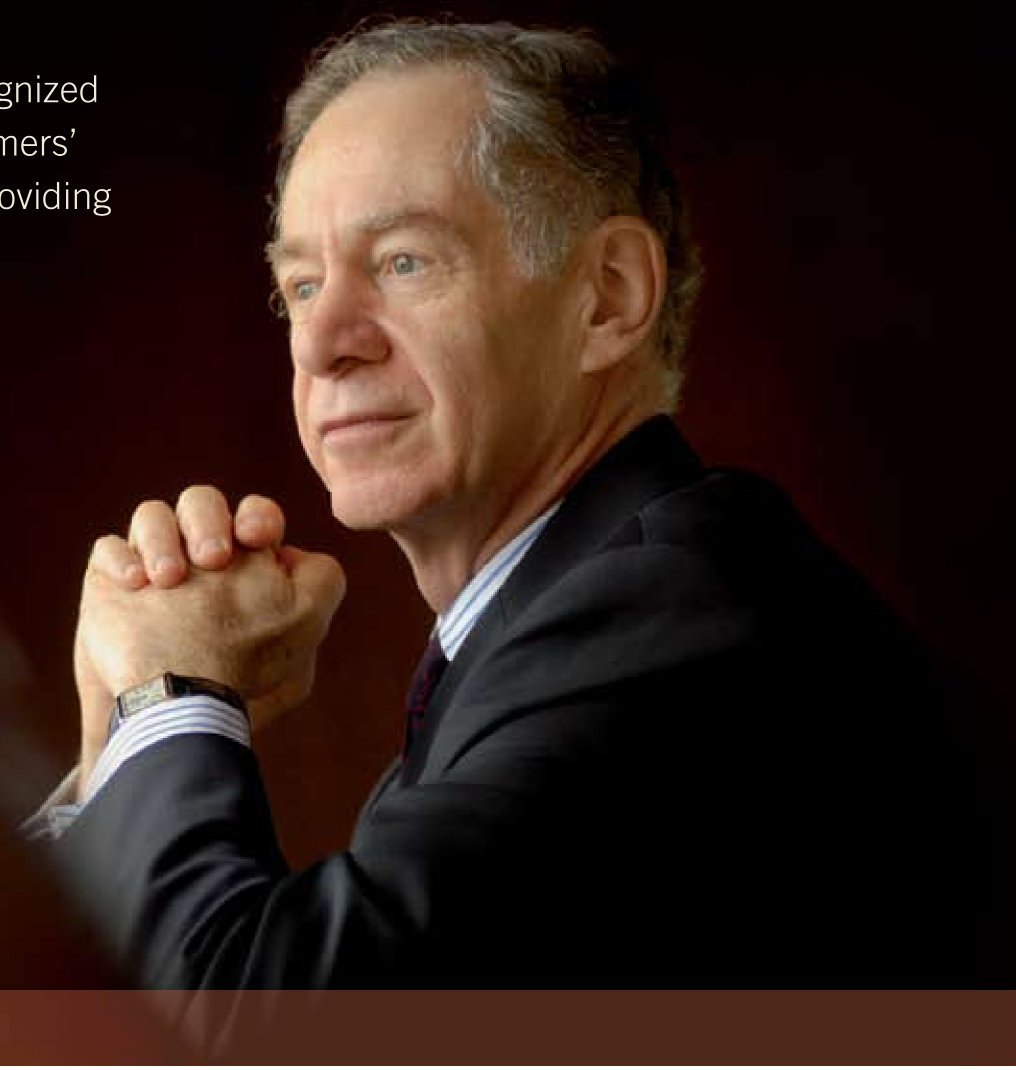


Net fee and commission income rose 28% for the year.

Message from the Chairman and CEO

"In both retail and commercial banking, the Bank is now recognized for its responsiveness to customers' needs and its capabilities in providing innovative products."

"Moving forward, the Bank will continue to uphold the highest standards of professionalism, integrity, customer service and efficiency while contributing to China's banking sector and economy."



To Our Shareholders

On behalf of the Board of Directors, the senior management and entire staff of Shenzhen Development Bank ("the Bank"), I am very pleased to report to you that the Bank made an outstanding improvement in 2006. There were a number of challenges in the process of turning around the Bank in the fast-changing environment of 2006. Thanks to the work of our staff, their good faith and spirit, as well as the guidance and support of the Board and government authorities, the Bank achieved impressive results during the year and is now much better positioned as a stronger, healthier bank. We know that further improvements need to be made; nevertheless, we are pleased with the significant improvement of 2006.

In 2006, the Bank made extraordinary progress in profitability due to its effective business growth strategy, careful management of balance sheet and spread, the successful development and launch of new products, attention to new credit quality, the reduction of the NPL ratio and refinements in financial management. During the year, the Bank also paid serious attention to improving internal processes in key areas such as human resources management, proper practices and clear standards for our staff, checks and balances to enhance internal controls, and the establishment of modern corporate governance. These are some of the highlights I would like to share with you.

Net income in 2006 was up 319% from 2005, setting a historic high for the Bank. Compared with 2005, net interest income was up 32%, profit before credit provision up 43%, and profit before tax up 234%. Net fees and commission increased by 28%, and the cost income ratio was 45.6%, 1 percentage point lower than 2005. After-tax annualized Return on Average Equity rose from 7% in full-year 2005 to 23% for full year 2006, compared with 7.4% in the first half of 2006. EPS rose from 0.16 yuan to 0.67 yuan for the full year.

In 2006, both the retail and commercial business of the Bank grew significantly, especially in our target markets and areas. Retail loans grew 87% in 2006 with the launch of innovative mortgage products and a more streamlined operation. The Bank continued its cooperation with our strategic partner, GE, on a number of retail projects, including credit card. Our commercial business continued to be the principal business of the Bank, and the Bank's expertise and focus on trade finance and medium sized companies were further emphasized in 2006, with commercial general loans growing by 31%. In both retail and commercial banking, the Bank is now recognized for its responsiveness to customers' needs and its capabilities in providing innovative solutions.

The CAR and CCAR of the Bank as of end 2006 was 3.7%, compared with 3.7% in 2005. As the Bank has significantly improved its earnings strength and internal generation of capital, the business grew robustly, resulting in little change in CAR. The NPL ratio went down further, from 9.3% as of 31 December 2005 to 8% as of 31 December 2006. The Bank achieved satisfactory results in NPL collection and the credit quality of new loans after 2005 continued to be very good.

With high quality senior management in place, the Bank explored various approaches for improvement. In credit management, the Bank established proper credit policies and processes, enhanced centralized management and control, and improved its credit portfolio management. In financial management, the Bank focused more on measuring and reporting for its business operations, the budgeting process, and balance sheet management. In human resources management, the Bank streamlined its policies and practices in regard to compensation and hiring, which are now more coordinated all across the Bank. In internal control and compliance, the Bank has assembled a good team and paid special attention to operational risks and new business risks. These and other management processes and operations are a solid base for healthy and sustainable business growth.

The 6th Board of Directors acted diligently in regard to strategic and other important matters of the Bank, in accordance with the highest standards of good corporate governance. After dealing with some of the more immediate issues from 2005, this session of the Board was able to pay more attention to a variety of important business issues, make timely decisions and offer sound guidance.

On behalf of the management and the Board, I also thank our customers for their confidence and trust, our staff for their hard work and good spirit, the regulators for their support and guidance, government officials for their advice, and our investors and the general public for their faith in us. In particular, in the past year, the Bank made a strong effort to communicate with our investors and the public, which proved very productive and beneficial.

The Bank is now off to an excellent start towards becoming a great bank in China. Together, we have made progress in the most critical matters, and the Bank is now better prepared to compete in China's fast-growing economy. We know there are many tasks that remain but we are ready to take on all opportunities and challenges. We will continue maintaining the highest standards of professionalism, integrity, customer service, and efficiency and will continue contributing to our shareholders, customers, staff, and the development of the China banking sector and economy. I look forward to reporting more good news about Shenzhen Development Bank in the years ahead.

Frank N Newman

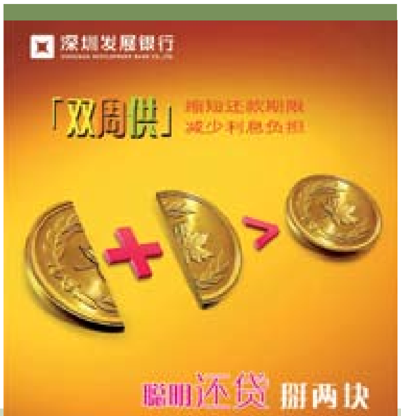
Frank N. Newman
Chairman of the Board of Directors
and Chief Executive Officer

Milestones in 2006

January

- The Bank reformed and realigned its retail banking organization structures to operate in four departments: the private banking department, retail marketing and channel management department; retail operations management department; and mortgage and consumer finance department. A new personal finance credit risk management center was set up in the mortgage and consumer finance department.

February



The Bank introduced the “biweekly repayment mortgage product”.

March

- The Bank established a vertical internal audit management structure, replacing internal audit departments at the branch level with regional audit centers. This new internal audit management structure has regional audit centers in the south, north, east and west of China.

April

- Beijing Branch signed an agreement with the Central Finance and Economics University on establishing an MBA practical training base at SDB.

May

- The Bank introduced its “Revolving Mortgage Loan” business.

深发展供应链金融
SDB SUPPLY CHAIN FINANCE

The Bank formally launched the Supply Chain Finance brand.

- The Bank signed an Automobile Sales and Financing Service Cooperation Agreement with Huacheng BMW. This is the 5th key auto maker the Bank has signed up after Shanghai Volkswagen, Shanghai GM, Dongfeng Kia, Beijing Hyundai.

June

- The Bank’s Shenzhen operation is renamed "Shenzhen Branch".
- The Bank’s Biweekly Repayment Mortgage product and Shanghai Youth Card won China Outstanding Marketing Award.
- The Bank’s Dalian Branch won the Best Product Award for the Top 10 Most Popular Wealth Management Organizations in the City of Dalian.

July

The Bank introduced the Export A/R Pool Financing business.

- Hangzhou Branch anti-money laundering practices won recognition from the People’s Bank of China.

August

The Bank successfully hosted the 2006 Joint Presidents Meeting of Shareholders-owned Commercial Banks.

September

- The Bank was voted as one of the Top 10 Growth Financial Institutions in China.
- The Bank was selected as winner of the China Top Corporate Image Award.

October

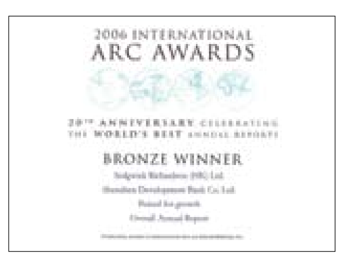
- After the Shanghai Gold Exchange started trading silver, the Bank started proprietary silver trading business.

The Bank's Circular Loan product won the 2006 Best Financial Product Award in Foshan city.

The Bank successfully developed the Online Interactive Password Identity system.

- The Bank introduced SDB Wal-Mart credit card along with Wal-Mart China and GE Money.

SDB Chairman & CEO Frank Newman (2nd from right) at the introduction ceremony of SDB Wal-Mart Credit Card.



The Bank's Annual Report 2005 won Bronze prize at the International Annual Report Competition, the highest prize ever achieved by a bank in China.

November

- The Bank's website was selected at the Top China Financial and Securities Websites Award as the second prize winner for bank websites and the first prize winner for the most innovative bank website category.
- Chairman & CEO Frank Newman named by CCTV among the 20 China "Economic Persons of the Year".

SDB Chairman & CEO Frank Newman (2nd from left) at CCTV "China Economic Persons of the Year" with Ms Zhang Yin (2nd from right), named as the most successful businesswoman in China by Forbes magazine.

December

- The Bank's Supply Chain Finance service won 2nd prize at the 3rd Shenzhen Financial Innovation Award.

Review of Our Businesses

nurturing

Robust and healthy growth is not achieved by accident. It requires careful nurturing. In the banking industry, healthy growth in lending is based on the careful sourcing and utilization of funds.

Vigorous Balance Sheet Management

SDB manages the funds that it sources actively and dynamically, from planning and forecasting to reporting, across all 19 branches in the Bank's network to its head office treasury, every day, every week and every month.

Capital is valuable.

In recognition of this, SDB re-engineered the Bank's balance sheet management processes in 2006, placing particular emphasis on striking the right balance between sourcing funds to support business growth and reserving funds as a safety cushion of liquidity. With better planning and the introduction of new performance measurement tools, the Bank has been able to impose greater accountability on its branches and optimize the utilization of capital.

SDB pools funds and directs them so that they are used most efficiently.

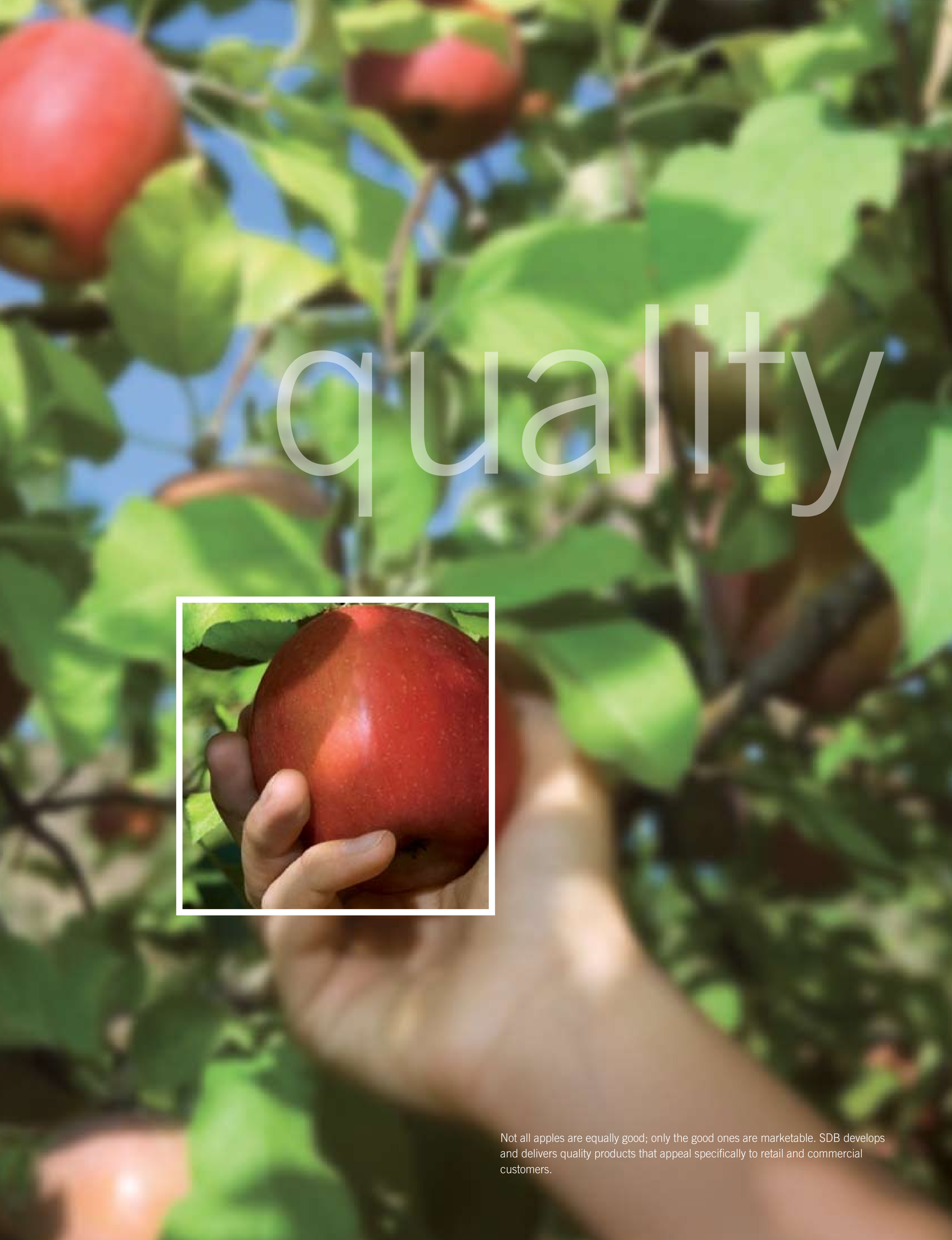
Compared with 2005, the interest spread improved by 43 basis points, while net interest margin increased to 2.82%

Innovative Products

Our organic high quality business growth was driven by our innovative products, which were well accepted by our customers. SDB is the customer's natural choice because our product quality stands out from the competition.

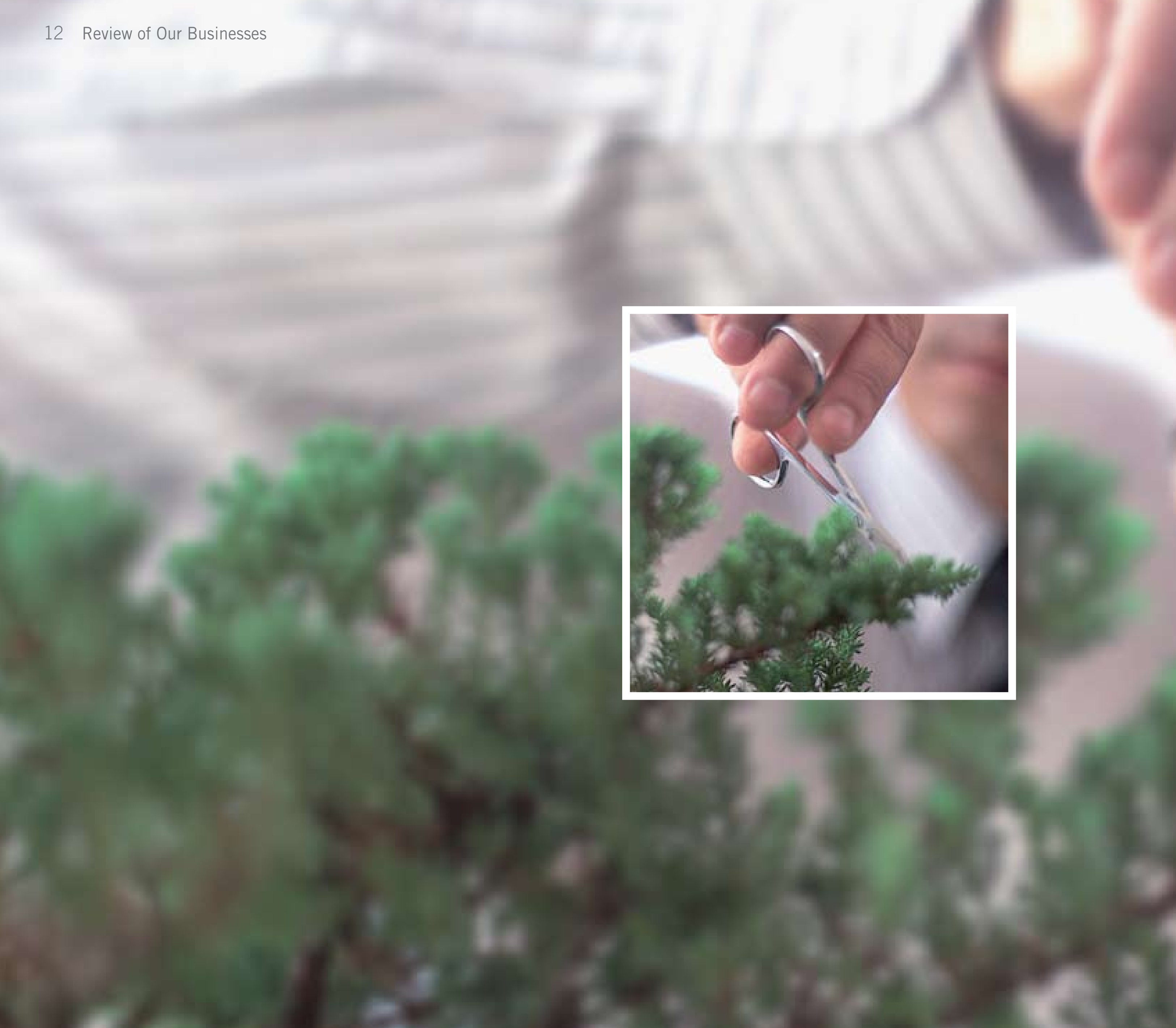
Customers are smart and selective. Only the best products will be chosen. SDB built a cross-department work group to design and develop products that are not only innovative but also of the highest quality and best suited to customers' needs. We not only hear, but also listen to our customers feedback at all times.

The Bank's corporate banking products were named "the Best financing solution to SME customers", and the Bank's retail mortgage products won numerous awards for excellence and quality throughout the country.



quality

Not all apples are equally good; only the good ones are marketable. SDB develops and delivers quality products that appeal specifically to retail and commercial customers.



Risk Awareness

Our ability to change and transform quickly is reflected in this year's robust growth. However, the market environment remained volatile, and it was the constant strengthening of our risk management system that enabled us to achieve such excellent financial results in 2006.

alert

Careful and frequent pruning is necessary for healthy plant growth. Similarly, a systematic process of identifying and recovering impaired assets is critical to sustaining healthy growth in the banking industry.

Impaired assets will lower yield, which will subsequently lower the Bank's profitability. SDB keeps a keen eye on its assets with prudence and care to ensure the healthy growth of the Bank's assets. Impaired assets are promptly identified with our effective system, which we use to monitor, control, manage and quickly reduce any unnecessary loss.

The NPL ratio dropped to 7.98%, and the Bank recovered over 2 billion yuan in 2006, of which over 80% was cash recovery.

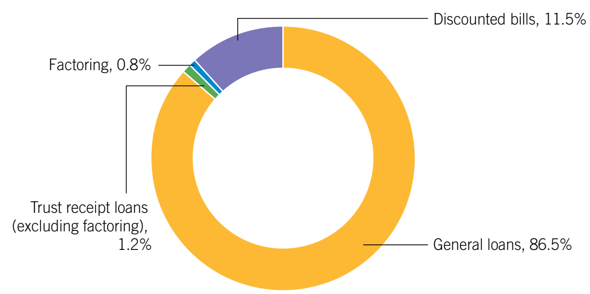
Corporate Banking

up 31%

Corporate general loans rose 31% over 2005. The Bank actively adjusted its asset mix to improve profitability.

- Corporate loans (including discounted bills) comprised 79% of total loans in 2006.
- Corporate deposits made up 85% of total deposits in 2006.
- Corporate loans generated 80% of the Bank's loan interest income.

Corporate Loans



	31 December 2006	%
General loans	123,904	86.5
Trust receipt loans (excluding factoring)	1,719	1.2
Factoring	1,174	0.8
Discounted bills	16,474	11.5
Total	**143,271**	**100.0**

In corporate banking, SDB is increasingly focusing on serving medium-sized companies and trade finance customers. The Bank has already become a leader in trade finance in many major city markets.

"We are glad to see that through the adjustment in earning assets, the growth in fee business and cost management, corporate banking spread is widening and profitability is rising."

Hu Yuefei *Vice President, Head of Corporate Banking*

In 2006, corporate banking contributed 80% of the Bank's loan interest income. SDB's Supply Chain Finance led the Bank's corporate banking business and spearheaded its successful transition into a leading trade finance bank. Adopting advanced international trade finance practices, the Bank developed and implemented a self-liquidating trade finance credit rating system. The Bank also launched a full-range supply chain finance product, developed and implemented a trade finance operational system and hired staff to manage its trade finance products.

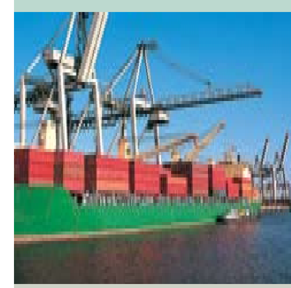
The Bank strengthened its cooperation with large strategic partners, such as Sinotrans, Zhongchu, Cosco-Logistics and China BusinessNet, to build a comprehensive service platform covering all their trade finance needs, from supply chain finance logistics to information flow. The Bank also signed head office to head office business cooperation agreements with Yunnan Copper, First Automobile Works Mazda and 20 other large group companies. The progress made in strengthening the Bank's key processes, service platform and marketing channels will motivate and sustain confidence for the fast growth of supply chain finance.

In 2006, the Bank made significant progress in the scale and efficiency of its corporate banking business. Its Supply Chain Finance service won the Second Shenzhen Financial Innovation Award and was voted the best SME finance solution by the China Small Business Association, China Banking Association and Financial Times.

The Bank is pleased to note that through the adjustment in earning assets, the growth in fee business and cost management, the corporate banking spread is widening and profitability rising.

Sun Chenming,
General Manager,
Merchants Group Shekou Industrial Zone Co. Ltd

"Shekou Industrial Zone Co. Ltd worked with SDB for over 10 years and our mutually beneficial cooperation has brought success to us both. Our cooperation in the future will be more effective and expansive."



Guangzhou Zhongyi Huahai Import and Export Company

"Guangzhou Zhongyi Huahai Import and Export Company has been working with Shenzhen Development Bank in the trade finance sector for over 6 years. The professional energy finance department at SDB and the highly efficient green-lane really paved the way for Guangzhou Zhongyi Huahai Import and Export Company to become one of the key fuel and crude oil importers in Guangzhou."

Retail Banking

87%

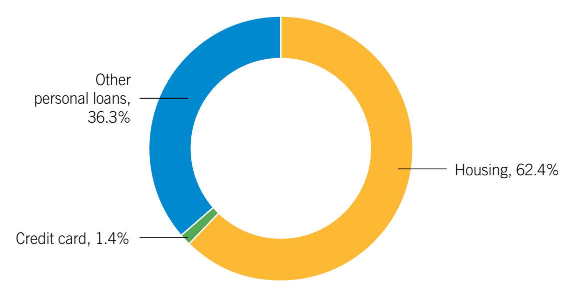
Retail loans grew 87% for 2006. NPL ratio for retail loans was at 1.2% at year end 2006.

- The Wal-Mart card is expected to become an important component of the Bank's credit card business.
- SDB had over 30,000 VIP clients at year end 2006, with total deposits of over 20 billion yuan. The wealth management business is expected to continue driving retail growth in 2007.
- SDB's mortgage loans grew more than 100% in many cities across China.

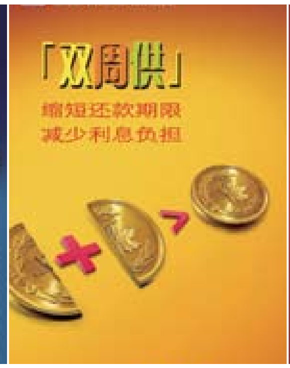
"In 2006, retail banking brought 20% of the Bank's loan interest income. The Bank's daily average retail loan growth made up 31% of total loan growth."

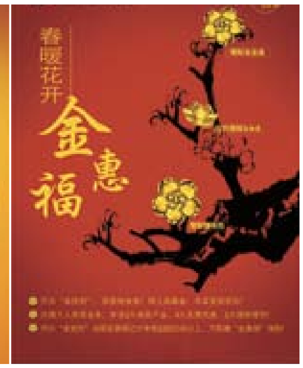
Liu Baorui Vice President,
Head of Retail Banking

Retail Loans



	31 December 2006	%
Housing	24,275	62.4
Credit card	527	1.4
Other personal loans	14,109	36.3
Total	**38,911**	**100.0**





In 2006, retail banking contributed 20% of the Bank's loan interest income. The Bank's daily average retail loan growth made up 31% of total loan growth (not including discounted bills).

The Bank emphasized product, channels, foundation and scale in developing its retail banking business platform during the year. New products rolled out in 2006 included mortgage products, such as non-transactional mortgages, biweekly mortgage payments, circular loans and off-setting loans, as well as multi-period structural wealth management products. The Bank also successfully introduced an international debit card and the first domestic dual currency co-branded credit card — the Wal-Mart SDB card.

The Bank utilized innovative marketing models and broadened its marketing channels and media resources during the year. In recognition of its marketing efforts, SDB's bi-weekly mortgage payment marketing case won second prize in the China Outstanding Marketing Awards and the 2006 China Aifi Award. Other marketing activities in 2006 included group marketing, telephone outbound calls and cross selling techniques, all of which played a significant in role in achieving rapid growth for the Bank's retail banking business.

Retail loans in 2006 recorded an 87.1% growth, a rate that put SDB in the number three ranking among national commercial banks. The retail NPL ratio dropped from 2.23% at the beginning of the year to 1.24% at year end, a considerable achievement given the impact of the Bank's historic retail NPL stock. New retail loans in 2006 had an NPL ratio of only 0.07%. Valid credit cards rose 49% compared with a year ago, and a 71% growth was recorded in credit card commission income.

SDB is fast expanding its retail business and customer base by tapping into VIP clients.

Li Shunmian, Manager

"Biweekly payments really meet my money management needs. I work at a foreign company, and I get paid biweekly in accordance with overseas custom. It is very convenient for me to make a mortgage payment when I get paid. Because biweekly payments increase the frequency of payments, they reduce my total interest expense."

Zhang Yongping, Reporter

"I often travel overseas for business purposes. In the past I had to take a foreign currency credit card with me. Now with the SDB Wal-Mart card, I can use it either in China or overseas. Also, I can accumulate points as high as 1% of my total purchases for shopping credit at Wal-Mart. It is much better than receiving unwanted gifts."

Ye Wanling, Retired

"Gold-for-interest brings both good luck and good return. I applied and got a Gold-for-interest at SDB before the Chinese New Year. Its yield is better than a term deposit, as gold is doing very well. It also feels good to hold a bar of gold in my hand. I can use it as a gift for friends and relatives too. I hope there are more products like it."

Special Assets

2,089
million yuan

The Bank collected 2,089 million yuan in 2006, with more than 80% of the collection in cash.

The Bank continued to promote NPA management structure reform and set collection targets by clarifying goals, refining its incentive system, strengthening write-off management, exploring NPA risk pricing and reforming the NPA collection model. NPA collection performed well in 2006 with a total of 2.089 billion yuan in NPA collected, of which 80% was in cash. In 2006, the Bank wrote off 620 million yuan in NPA.

"In 2006, we will further deepen the management mechanism reform. We will designate credit risk officers to the special assets lines and increase the write-off and NPL restructuring process."

Wang Ji Special Advisor,
Head of Special Assets

Financial Institutions

400%

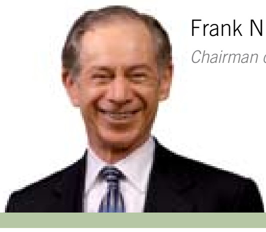
Sales of structured wealth management products rose 4 times compared with last year.

In 2006, the Bank introduced a series of innovative financial market products and investment banking products. Short-term investment was done through mismatching of terms. Structured wealth management products were introduced, and sales rose fourfold compared with last year. The Bank actively promoted its inter-bank credit asset transfer business and researched financial derivatives such as swaps. The Bank further explored cooperation with inter-bank participants and added 56 new financial cooperation partners. Also during the year, the Bank won licenses for foreign currency futures trades and home and foreign currency cross-wealth management. These measures greatly improved the Bank's fund utilization efficiency and fund-raising capabilities.

"The Bank achieved good results in the expansion of its business relationships and the growth of trading revenue. Interest spread for inter-bank rose significantly"

Hao Jianping Vice President, Head of Financial Institutions

Board of Directors



Frank N. Newman
Chairman of BOD & CEO

Jin Shiru
Director

Shan Weijian
Director

Daniel A. Carroll
Director

Qian Benyuan
Director

Frank N. Newman *Chairman of BOD & CEO*

1963–1969	Consultancy Manager of KPMG
1969–1973	Vice President of Citigroup
1973–1986	Vice President, Senior Vice President, Executive Vice President, and Chief Financial Officer of Wells Fargo
1986–1993	Vice Chairman & CFO, Bank of America
1993–1995	Chief Secretary of U.S. Finance, and Deputy Treasury Secretary of the United States Treasury Department
1995–1999	Chairman, President & CEO, Bankers Trust Co.
2000–2005	Director of Korea First Bank
2004	CEO and Vice Chairman (non-executive) of the Broad Center for Management of School Systems
2004.12–2005.6	Independent Director of SDB
2005.5–2005.6	Acting Chairman and CEO of SDB
2005.6–Present	Chairman and CEO of SDB

Jin Shiru *Director*

1985–Present	Retired, Principal of Shenzhen Experimental School
2003–2006	Director of Management Committee of Shenzhen Experimental Education Group
1992–Present	Director, 2nd to 6th BOD of SDB

Shan Weijian *Director*

1998–Present	Newbridge Managing Partner
2000–2005	Director of Korea First Bank
2005.6–Present	Director of SDB

Daniel A. Carroll *Director*

1995–Present	Newbridge Managing Partner
2000–2005	Director of Korea First Bank
2004.12–Present	Director of SDB

Qian Benyuan *Director*

1981–2005	Salesman and Vice Director of China Electronics Import & Export Corporation General Manager, President of representative office in USA, President's office director, Vice President, Acting President, President, China Electronic Import & Export Company
2003–Present	Chairman of BOD of Shenzhen Zhongdian Investment Co., Ltd.
2004.12–Present	Director of SDB

Cai Zhengxiang
Director

Justin Chang
Director

Au Ngai
Director

Wang Kaiguo
Director

Cai Zhengxiang *Director*

2000–Present	Director of Research Office and Assets & Equipment Office of Shenzhen University
1995–Present	Chairman of Association of Ph.Ds in Nanshan, Shenzhen
1999–2002	International Software Development (Shenzhen) Co., Ltd.
2000–Present	Member of People's Political Consultative Committee of Shenzhen City
1998–Present	Director, 4th, 5th and 6th BOD of SDB

Justin Chang *Director**

1993–Present	Partner of Texas Pacific Group
2006.6–Present	Director of SDB

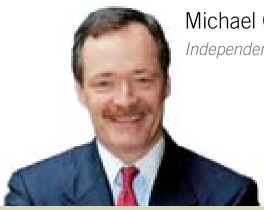
Au Ngai *Director*

1995–2006.3	Newbridge Managing Director
2006.4–2006.12	Newbridge Senior Advisor
2003.9–Present	Director of Hong Kong Metropolitan Life Insurance
2004.12–Present	Director of SDB
2006.12–Present	General manager of Bohai Property Investment Fund Management Co., Ltd.

Wang Kaiguo *Director**

2001.6–Present	Chairman and Party Secretary of Haitong Securities Co., Ltd.
2006.6–Present	Director of SDB

* *Application for Approval as Director has been submitted to CBRC*



Michael O'Hanlon
Independent Director

Zheng Xueding
Independent Director

Hao Zhujiang
Independent Director

Yuan Chengdi
Independent Director

Michael O'Hanlon *Independent Director*

2006–Present	Managing Director, Financial Institution Dept., Marathon Asset Management
1980–2005	Managing Director of Lehman Brothers Inc.
2000–2002	Director of Aozora Bank Ltd.
2000–2005	Director of Korea First Bank
2004.12–Present	Independent director of SDB

Zheng Xueding *Independent Director*

1984–1988	Teacher of Accounting Department of Jiangxi University of Finance and Economics
1988–1991	Graduate student of Jiangxi University of Finance and Economics
1991–2005	Vice secretary-general, secretary-general of Shenzhen Association of CPAs
2005–Present	Shenzhen Tianjian Xinde Certified Public Accountants
2001–Present	Independent director of 5th and 6th BOD of SDB

Hao Zhujiang *Independent Director*

1997–2001	Director of Shenzhen Bureau of Legislative Affairs (retired in advance after working for 30 years)
2002–Present	Full-time lawyer of Beijing D.P.X. Law Firm Shenzhen Office
2001–Present	Independent director of Penghua Fund Management Co., Ltd.
2006–Present	Independent director of Luzhou Laojiao Co., Ltd.
2006–Present	Independent director of Tongzhou Electronic Co., Ltd.
2006–Present	Independent director of Shenzhen SDG Information Co., Ltd.
2004.12–Present	Independent director of SDB

Yuan Chengdi *Independent Director*

1996–2002	Director of Shenzhen Arbitration Committee
2002	Retired
1996–Present	Director of Expert Consultancy Committee of Shenzhen Arbitration Commission
2001–Present	Independent director of 5th and 6th BOD of SDB

Board of Supervisors

Kang Dian
Chairman of BOS

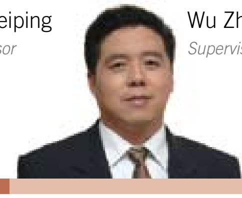
Guan Weili
External Supervisor

Wang Kuzhi
Supervisor

Luo Long
Supervisor

Huang Shouyan
Supervisor

Qiu Weiping
Supervisor



Wu Zhengzhang
Supervisor

Kang Dian *Chairman of BOS*

1984–1987	Vice Director/Director of CITIC
1987–1990	Vice General Manager of China Rural Trust & Investment Co., Ltd.
1990–1994	Vice General Manager of China National Packaging Corporation
1994–2000	Vice Managing Director of Guangdong Holdings Group Co., Ltd.
2001–2005	Chairman and CEO of Shirui Investment Management Co., Ltd.
2005.6–Present	Chairman of 5th BOS of SDB

Guan Weili *External Supervisor*

1996.3–2004.5	President of China Enterprises Consulting Co., Ltd.
1997.6–2004.3	Honorary chairman of BOD of China Enterprise Appraisals
2004.11–Present	Chairman of BOD of Beijing Baihuiqing Investment Management Co., Ltd.
2005.1–Present	External supervisor of 5th BOS of SDB

Wang Kuizhi *Supervisor*

1992–2005.1	Vice Chairman of four BOS of SDB
2005.1–Present	Supervisor of 5th BOS of SDB

Luo Long *Supervisor*

2001–2003	Chief representative in China of Manulife Financial
2003–2006	Managing Director of Asia Equity
2005.6–Present	Supervisor of 5th BOS of SDB

Huang Shouyan *Supervisor*

2001–Present	President of SDB Futian Sub-branch, General Manager of Business Department of Head Office, assistant to president and vice chairman of Trade Union of Head Office
2005.1–Present	Employee supervisor of 5th BOS of SDB

Qiu Weiping *Supervisor*

2001–Present	General Manager of SDB Wholesale Banking Corporate Department, General Manager of Corporate Banking Department, SDB Nanjing Branch manager, Shanghai Branch Manager
2005.6–Present	Employee supervisor of 5th BOS of SDB

Wu Zhengzhang *Supervisor*

2000.8–Present	Chief representative of Beijing Representative Office of SDB
2003.5–Present	Deputy Branch Manager, Beijing Branch of SDB
2005.1–Present	Employee supervisor of 5th BOS of SDB

Our Officers

Frank N. Newman
Chairman of BOD & CEO

Xiao Suining
President

Wang Bomin
Chief Financial Officer

Simon Lee
Chief Credit Officer

Bruce Sun
Chief Information Officer

Zhao Na
Chief Human Resources Officer

From left to right: Frank N. Newman, Xiao Suining, Wang Bomin, Simon Lee, Bruce Sun, Zhao Na

Wang Ji

Special Advisor, Head of Special Assets

Liu Baorui

Vice President, Head of Retail Banking

Hu Yuefei

Vice President, Head of Corporate Banking

Hao Jianping

Vice President, Head of Financial Institutions

Zhou Li

Assistant President, Head of Shenzhen Branch

Huang Shouyan

Assistant President, Head of the Head Office Branch

Xu Jin

Board secretary, GM of Legal Affairs Department

Chen Rong

Chief Internal Control Officer

He Zhijiang

Head of Treasury

From left to right: He Zhijiang, Chen Rong, Xu Jin, Huang Shouyan, Zhou Li, Hao Jianping, Hu Yuefei, Liu Baorui, Wang Ji

Our Governance

The Bank abides by the Company Act, the Securities Act, the Commercial Banking Act and relevant rules and regulations stipulated by the China Securities Regulatory Commission (CSRC) and China Banking Regulatory Commission (CBRC), and keeps improving corporate governance and enhancing the relevancy of the board decisions. In the reported period, the Bank further revised its Articles of Association, Shareholders' General Meeting Guide, Board meeting guide and the Supervisor Board Meeting Guide, which were approved by the Board of Directors and Shareholders' Meeting respectively.

The Board of Directors is elected by the Shareholders Meeting. There are 13 directors in the Board including 4 independent directors. Mr Frank N. Newman, as Chairman of the Board, leads the Board of Directors and chairs Board meetings.

SDB is committed to ensuring high standards of corporate governance in the interest of shareholders. The Board of Directors meets regularly and directors receive information between meetings about the activities and developments in SDB's business. As an integral part of good corporate governance, the Board has established the following Board Committees to oversee particular aspects of the Bank.

Audit and Related Party Transactions Committee	Michael O'Hanlon – Chairman
	Zheng Xueding – Vice Chairman
	Hao Zhujiang
Compensation Committee	Hao Zhujiang – Chairman
	Dan Carroll
	Jin Shiru
	Michael O'Hanlon
Nomination Committee	Michael O'Hanlon – Chairman
	Frank Newman
	Qian Benyuan
	Yuan Chengdi
	Zheng Xueding
Risk Management Committee	Yuan Chengdi – Chairman
	Frank Newman – Vice Chairman
	Shan Weijian
	Au Ngai
	Zheng Xueding
Strategy and Development Committee	Frank Newman – Chairman
	Shan Weijian
	Cai Zhenxiang
	Dan Carroll
	Qian Benyuan

For 2006, there were 2 Shareholders Meetings and 12 Board of Directors meetings.

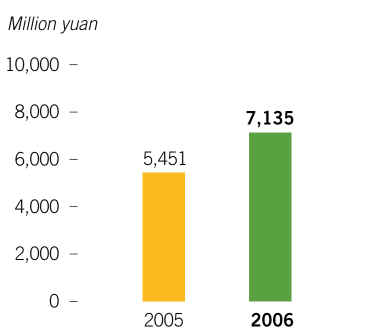
SDB's Board of Supervisors is required by law to ensure that the Board of Directors and Senior Management are in compliance with laws and regulation. There are 7 supervisors including 3 employee supervisors in the Board of Supervisors headed by Chairman of the Board of Supervisors Kang Dian. The Board of Supervisors held 13 meetings during the year.

Financial Results in Briefs

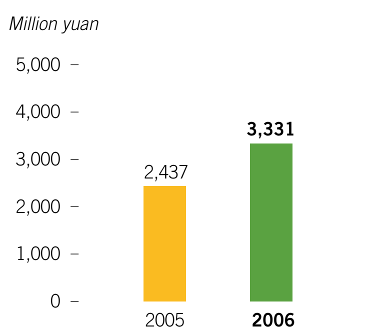
2006 Income Statement Highlights

Million yuan	**2006**	2005	Amount Change	% Change
Net operating income	**7,135**	5,451	1,685	+31%
Profit before provision & tax	**3,331**	2,437	894	+37%
Provisions	**1,426**	1,803	-377	-21%
Net profit	**1,303**	311	992	+319%
EPS (yuan)	**0.67**	0.16	0.51	+319%

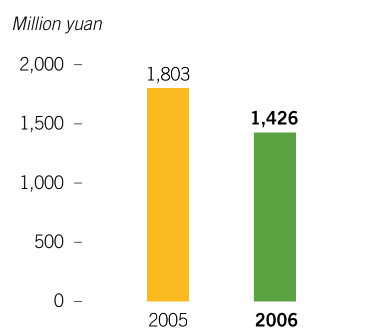
Net operating income



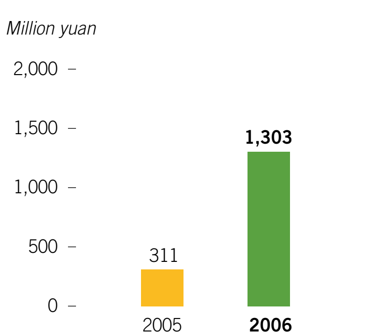
Profit before provision & tax



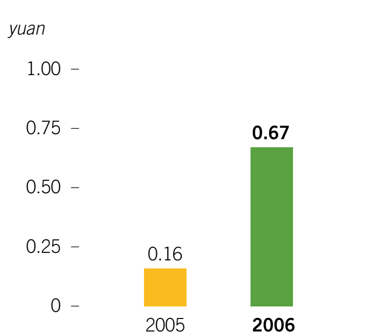
Provisions



Net profit



EPS



2006 Balance Sheet Highlights

	End of 2006 *(Million yuan)*	Change from 12 months 31 December 2005 – 31 December 2006
Customer deposits	**232,206**	up 15%
Total lending	**182,182**	up 17%
General loans	**165,708**	up 41%
Retail loans	**38,911**	up 87%
Shareholders' equity	**6,474**	up 28%

SDB and its shareholders

A Changes in Share Capital

1 Table of changes in shares

Unit: share	Before the change		Changes (+, -)					After the change	
	Quantity	%	Share issue	Share splits	Reserve Transfer	Others	Subtotal	Quantity	%
Non-floating shares									
Held by the state	1,717,146	0.09%	–	–	–	–	–	1,717,146	0.09%
Held by domestic institutions	186,639,733	9.59%	–	–	–	–	–	186,639,733	9.59%
Held by foreign institutions	348,103,305	17.89%	–	–	–	–	–	348,103,305	17.89%
Held by internal staff	–	–	–	–	–	–	–	–	–
Preferred shares & others	–	–	–	–	–	–	–	–	–
Total non-floating shares	536,460,184	27.57%	–	–	–	–	–	536,460,184	27.57%
Floating shares									
i Common shares in RMB	1,409,361,965	72.43%	–	–	–	–	–	1,409,361,965	72.43%
ii Foreign holdings of domestic-listed shares	–	–	–	–	–	–	–	–	–
iii Foreign holdings of foreign-listed shares	–	–	–	–	–	–	–	–	–
iv Others	–	–	–	–	–	–	–	–	–
Total floating shares	1,409,361,965	72.43%	–	–	–	–	–	1,409,361,965	72.43%
Total shares	1,945,822,149	100%	–	–	–	–	–	1,945,822,149	100%

2 Share issuance and listing information

i The bank has not issued any new shares in the three years up to the end of the reported period.

ii During the reported period, there was no change in the shareholding structure and shares outstanding of the bank.

iii The Bank has no internal staff shares.

B Shareholder Background Information

1 At the end of the report period, the bank had 406,233 shareholders, including 52 holders of non-floating shares and 406,198 holders of floating shares.

2 Shareholding position in the reported period:

SHAREHOLDER	Nature of shareholder	Shareholding %	Shares held	Non-floating shares held	Shares of collateralized or frozen
Newbridge Asia AIV III, L.P.	Foreign	17.89%	348,103,305	348,103,305	–
Shenzhen Zhongdian Investment Co., Ltd.	Others	3.20%	62,246,616	62,246,616	–
Haitong Securities Co., Ltd.	Others	1.74%	33,924,466	33,924,466	33,924,466
Shenzhen Hongye Science and Tech. Co., Ltd.	Others	1.29%	25,137,627	25,137,627	25,000,000
International banking – HSBC – JPMorgan Chase Bank, National Association	Others	1.12%	21,733,298	–	–
ICBC – Guangfa Policy Preferred Mixed Securities Investment Fund	Others	1.03%	20,109,706	–	–
ICBC – Jingshun Changcheng Growth Stock Securities Investment Fund	Others	1.01%	19,576,545	–	–
ABOC – Jingshun Changcheng Internal Growth No. 2 Stock Securities Investment Fund	Others	0.96%	18,664,904	–	–
ABOC SZ Branch Union	Others	0.80%	15,567,528	15,567,288	–
Hengtai Securities Co., Ltd.	Others	0.74%	14,459,734	–	–

Top 10 floating shareholders

SHAREHOLDER	Floating shares held	Share type
International banking – HSBC – JPMorgan Chase Bank, National Association	21,733,298	RMB common shares
ICBC – Guangfa Policy Preferred Mixed Securities Investment Fund	20,109,706	RMB common shares
ICBC – Jingshun Changcheng Growth Stock Securities Investment Fund	19,576,545	RMB common shares
ABOC – Jingshun Changcheng Internal Growth No. 2 Stock Securities Investment Fund	18,664,904	RMB common shares
Hengtai Securities Co., Ltd.	14,459,734	RMB common shares
Tongqian Securities Investment Fund	13,690,171	RMB common shares
Shanghai Fareast Securities Co., Ltd.	13,115,000	RMB common shares
Galaxy – Standard Chartered – Citigroup Global Markets Limited	12,325,825	RMB common shares
ICBC – Pufeng Securities Investment Fund	12,319,952	RMB common shares
International banking – HSBC – Morgan Stanley & Co. International Limited	10,245,987	RMB common shares
The relationship of the shareholders above and the explanation of any concerted action		The bank is not aware of its relationship or concerted action.

Note: 1. Among the top ten shareholders, shares held by Newbridge Asia AIV III, L.P. are foreign institutional shares while shares held by other shareholders are either domestic institutional shares or floating shares.

2. Among the top ten shareholders during the reported period, the following shares are collateralized or frozen:
Haitong's 33,924,466 are frozen by the court and Shenzhen Hongye Science and Tech. Co., Ltd.'s 25,000,000 shares are frozen as collaterals;

3. The bank is not aware of any connections among the top ten shareholders.

3 Brief introduction to the bank's largest shareholder: Newbridge Asia AIV III, L.P.

Newbridge Asia AIV III, L.P. was established on 22 June 2000 in Delaware, USA with a registered capital of US$724 million. It focused on strategic investment. All the investment and operational decisions of the company are made by unlimited liabilities partners Newbridge Asia GenPar AIV III, L.P. while the investment and operational decisions of Newbridge Asia GenPar AIV III, L.P. are made by unlimited liabilities partners Tarrant Advisors, Inc. and Blum G.A., LLC (of which Blum G.A., LLC is managed by Blum Investment Partners, Inc.) Tarrant Advisors, Inc and Blum G.A., LLC are controlled by David Bonderman, James G. Coulter, William S. Price III and Richard C. Blum (all of whom are U.S. citizens), namely, these four individuals are the eventual controlling parties of the company.

David Bonderman

Mr David Bonderman is the partner and co-founder of Texas Pacific Group. Before the establishment of Texas Pacific Group, Mr David Bonderman served as Chief Executive in RMBG Group (Now Keystone) in Fort Worth, Texas. Before joining RMBG in 1983, Mr David Bonderman was a partner of Arnold & Porter, a law firm in Washington D.C.

Mr David Bonderman has served and is serving as a director of the boards of many listed and unlisted global corporations as well as non-profit organizations.

James G. Coulter

Mr James G. Coulter is the partner and co-founder of Texas Pacific Group. Before Texas Pacific Group was incorporated, Mr James G. Coulter served as vice president of Keystone from 1986 to 1992. From 1986 to 1988, Mr James G. Coulter was closely associated with SPO Partners, an investment firm specializing in stock market investment and private placement financing. Mr James G. Coulter was also the financial analyst for Lehman Brothers Kuhn Loeb. He graduated with honors from Dartmouth College and acquired MBA degree from Stanford Graduate School of Business.

Mr James G. Coulter is now serving and has served as a director of the boards of many listed and unlisted global companies.

William S. Price III

William S. Price III is the partner and co-founder of Texas Pacific Group. William S. Price III served as Vice President for Strategic Planning and Business Development for GE Capital and reported directly to the company chairman. Mr William S. Price III was responsible for new business acquisition and current business consolidation and integration when working at GE Capital. From 1985 to 1991, Mr William S. Price III was working as the financial services manager at the Bain & Company. Before that, Mr William S. Price III worked at the law firm of Gibson, Dunn & Crutcher and was responsible for corporate securities dealings.

Mr William S. Price III is a member of the Californian Lawyers' Association. He graduated from Boalt Hall Law School, University of California at Berkeley and has a degree with honor from Stanford University.

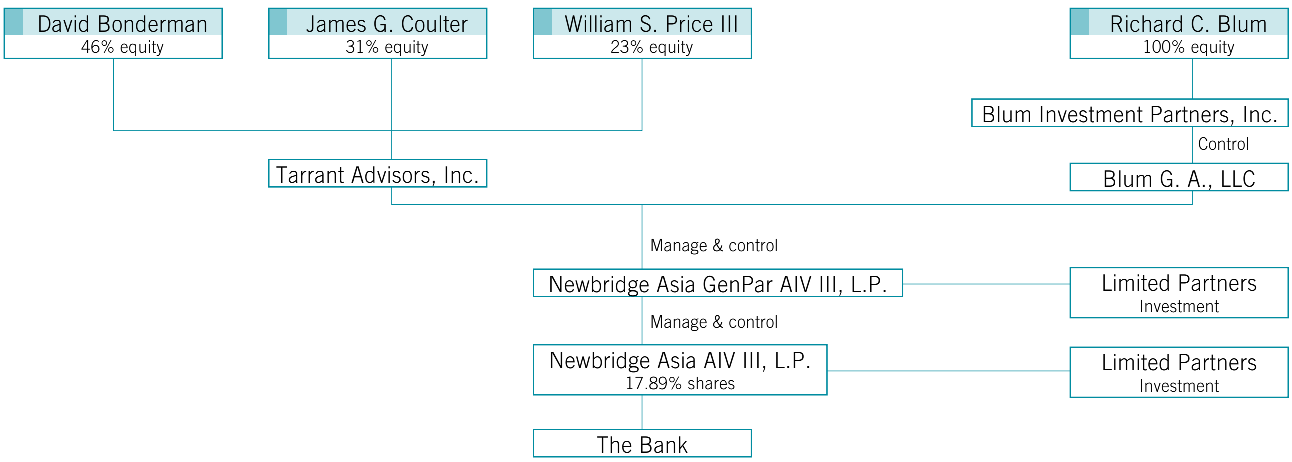
Mr William S. Price III is now serving and has served as a director of the boards of many listed and unlisted global companies.

Richard C. Blum

Mr Richard C. Blum is chairman of Blum Capital Partners. He founded Blum Capital Partners in 1975. Mr Richard C. Blum started his career in Sutro in 1958 and eventually became the youngest partner in the company's 130 years history. Mr Blum left Sutro in 1975 as a director, a major shareholder and a senior management leader to found Blum Capital Partners. Mr Richard C. Blum is now serving and has served as a director on the boards of many listed and unlisted global companies.

Mr Richard C. Blum has a bachelor degree and an MBA from University of California at Berkley. He had also studied at Vienna University.

The relationship between the Bank and the ultimate controlling parties of Newbridge Asia AIV III, L.P. is charted as follows:



Corporate Governance at the Bank

A Corporate Governance

The Bank abides by the Company Act, the Securities Act, the Commercial Banking Act and relevant rules and regulations stipulated by China Securities Regulatory Commission (CSRC) and China Banking Regulatory Commission (CBRC), and keeps improving corporate governance and enhancing the relevancy of the board decisions. In the reported period, the bank further revised its Articles of Association, Shareholders' General Meeting Guide, Board meeting guide and the supervisor board meeting guide, which were approved by the board of directors and shareholders' meeting respectively.

The corporate governance details of the Bank in the reported period are listed as follows:

1 Shareholders and general meeting

In the reported period, the bank and its largest shareholder are completely separate in staff, assets and financial matters. All shareholders of the bank enjoy equal status and can exercise their rights fully.

In the reported period, the Bank held two general meetings: annual general meeting, and extraordinary general meeting and share reform related meeting. The two meetings were convened and conducted pursuant to Company Law, Guidelines on Convening General Meetings of Listed Companies, other relevant laws and regulations, and the Articles of Association of the Bank. The law firms have also provided its legal opinions.

2 Directors and Board of Directors

All the directors of the bank have honored their public promises and performed their duties with loyalty, honesty and diligence.

The Bank's Board of Directors is directly responsible for the Shareholders' General Meeting. The Board holds meetings according to due legal procedures and exercises its rights in strict adherence to laws, regulations and incorporation articles. The special committees within the Board research specific important issues and exert important influence on the Board's decision-making process.

3 Supervisors and Board of Supervisors

The Bank's Board of Supervisors exercised its duties in accordance with the law, the rules and regulations and the Bank's incorporation articles. The Board of Supervisors supervised the Bank's finance, the legality and compliance of the Bank's senior executives to protect the legal interests of the Bank and the shareholders.

4 Information disclosure

The Bank discloses information in a truthful, accurate, complete and timely manner in strict conformity to laws, rules and regulations and the incorporation articles. In the reported period, the Bank has further strengthened investor relationship management and treats seriously all correspondences, telephone calls, personal visits and consultations from shareholders and investors and ensures that all shareholders have equal chances in accessing material information.

B Duty Performances of Independent Directors

Within the reported period, all independent directors performed their duties and participated in important decision-making at the Bank by expressing independent opinions on major events based on relevant laws, rules and regulations and defended the overall interests of the Bank, in particular the legitimate rights of small shareholders.

Meeting attendance records for the bank's Independent Directors

NAME OF INDEPENDENT DIRECTOR	Number of scheduled attendances	Actual attendances	Attendances by agents	Absences	Objections to proposals
Yuan Chengdi	12	12	0	0	0
Zheng Xueding	12	12	0	0	0
Hao Zhujiang	12	11	1	0	0
Michael O'Hanlon	12	12	0	0	0

C The Separation of the Bank from its Largest Shareholder in Areas of Business, Personnel, Assets, Organization and Finance

During the reported period, the Bank is completely separate from its largest shareholder in areas of business, personnel, assets, organization and finance. The Bank is equipped to operate independently with its own complete and self-standing businesses. The Board of Directors, the Board of Supervisors and other internal institutions at the Bank all function independently. The Bank has a sound financial accounting system and is fully accountable for its own profitability and loss.

D The Performance Appraisal and Incentive of Senior Executives

The Bank's Board of Directors and Compensation and Performance Appraisal Committee under the board evaluate the performances of senior executives based on the execution of annual work targets and plans. The senior executives are paid a bonus based on the performance appraisal results. The Bank is currently gradually refining the performance appraisal and incentive systems for senior executives.

Information on Directors, Supervisors' Senior Executives and Staff

A Brief Introduction

NAME	Position	Gender	Age	Office tenure	Shares held at year end	Shares held at year start	Changes in shares held
Frank N. Newman	Chairman of BOD, CEO	M	64	2005.5 – 2007	0	0	0
Daniel A. Carroll	Director	M	46	2004.12 – 2007	0	0	0
Shan Weijian	Director	M	53	2005.6 – 2007	0	0	0
Justin Chang	Director	M	39	2006.6 – 2007	0	0	0
Au Ngai	Director	M	38	2004.12 – 2007	0	0	0
Qian Benyuan	Director	M	62	2004.12 – 2007	0	0	0
Wang Kaiguo	Director	M	48	2006.6 – 2007	0	0	0
Jin Shiru	Director	M	63	2004.12 – 2007	210	210	0
Cai Zhenxiang	Director	M	49	2004.12 – 2007	78,350	78,350	0
Yuan Chengdi	Independent director	M	61	2004.12 – 2007	0	0	0
Zheng Xueding	Independent director	M	43	2004.12 – 2007	0	0	0
Hao Zhujiang	Independent director	M	53	2004.12 – 2007	0	0	0
Michael O'Hanlon	Independent director	M	51	2004.12 – 2007	0	0	0
Kang Dian	Chairman of BOS (External supervisor)	M	59	2005.6 – 2008	0	0	0

NAME	Position	Gender	Age	Office tenure	Shares held at year end	Shares held at year start	Changes in shares held
Wang Kuizhi	Supervisor	F	69	2005.1 – 2008	2,437	2,437	0
Luo Long	Supervisor	M	51	2005.6 – 2008	0	0	0
Huang Shouyan	Employee supervisor	M	57	2005.1 – 2008	0	0	0
Wu Zhengzhang	Employee supervisor	M	43	2005.1 – 2008	0	0	0
Qiu Weiping	Employee supervisor	M	46	2005.6 – 2008	0	0	0
Liu Baorui	Vice president	M	49	2000.3 –	0	0	0
Hao Jianping	Vice president	M	53	2003.9 –	50,000	0	50,000 (all purchased from secondary markets)
Hu Yuefei	Vice president	M	44	2006.5 –	0	0	0
Wang Bomin	Chief financial officer	M	43	2005.5 –	0	0	0
Xu Jin	Board secretary, GM of Legal Affairs Dept.	M	41	2005.5 –	0	0	0

B Positions held by Directors and Supervisors in Shareholder's Company

NAME	Name of Company	Position	Tenure
Daniel A. Carroll	Newbridge Asia AIV III, L.P.	Managing partner	2000 – Now
Shan Weijian	Newbridge Asia AIV III, L.P.	Managing partner	2000 – Now
Au Ngai	Newbridge Asia AIV III, L.P.	Senior advisor	2006.4 – 12
Justin Chang	Newbridge Asia AIV III, L.P.	Managing director	2004 – Now
Qian Benyuan	Shenzhen Zhongdian Investment Co., Ltd.	Chairman of BOD	2003 – Now
Wang Kaiguo	Haitong Securities Co., Ltd.	Chairman of BOD, CPC committee secretary	2001 – Now

C Positions held Concurrently by Directors, Supervisors and Senior Executives in Other Companies

NAME	Name of Company	Position
Frank N. Newman	Dow Jones & Company	Independent director
Daniel A. Carroll	Newbridge Capital	Managing Partner
	Advanced Interconnect Technologies, Inc.	Director
	Lenovo Group (Hong Kong)	Alternate director
	Raffles Holdings (Singapore)	Director
Shan Weijian	Bank of China (Hong Kong) Limited	Independent director
	Bank of China Hong Kong (Holdings) Co., Ltd.	Independent director
	China Civilink (Cayman)	Director
	China United Communications Co., Ltd.	Independent director
	Edenvale Holdings Limited	Director
	Newbridge Capital Limited	Managing partner
	Zoom Technologies Ltd.	Director
	TCC International Holdings Limited	Non-executive director
	Lenovo Group Co., Ltd.	Non-executive director
	Taiwan Cement Company	Independent director
	Taishin Financial Holding Co., Ltd.	Director
	Taishin Bank	Director
	Greenway Energy Limited	Director
Justin Chang	Texas Pacific Investment Group	Partner
	On Semiconductor	Director
	Lenovo Group	Alternate director

NAME	Name of Company	Position
Au Ngai	Bohai Property Investment Fund Management Co., Ltd.	General manager
	Newbridge IP Technologies	Director
	Zoom Technologies Ltd.	Director
	China Civilink (Cayman)	Director
	Edenvale Holdings Limited	Director
	Metropolitan Life Insurance Company of Hong Kong Limited	Director
Qian Benyuan	China Council for the Promotion of International Trade	Member
	China State-Owned Assets Administration Institute	Executive director
	China Chamber of International Commerce	Director
	British Fortune Oil Limited	Chairman of BOD
Wang Kaiguo	Shanghai Shimao Co., Ltd.	Director
Jin Shiru	Shenzhen Children Welfare Association	Vice president
Cai Zhenxiang	Assets and Equipment Dept. of Shenzhen University	Director
	Association of Ph.Ds in Nanshan, Shenzhen	President
	People's Political Consultative Committee of Shenzhen City	Member
	People's Political Consultative Committee of Changde City	Member
	Shenzhen Association of Science and Technology	Member of standing committee
	Chinese Association of University-Run Industries	Director
	Shenzhen Corruption Prevention Consulting Committee	Member
Yuan Chengdi	Expert Consultancy Committee of Shenzhen Arbitration Commission	President
	Beijing D.P.X. Law Firm	Lawyer
Zheng Xueding	Shenzhen Tianjianxinde Accounting Firm	Partner
	Shenzhen Fanda Group Co., Ltd.	Independent director
	Shenzhen Noposin Co., Ltd.	Independent director
	Guodu Securities Co., Ltd.	Independent director
Hao Zhujiang	Beijing D.P.X. Law Firm Shenzhen Office	Lawyer
	Penghua Fund Management Co., Ltd.	Independent director
	Luzhou Laojiao Co., Ltd.	Independent director
	Tongzhou Electronics Co., Ltd.	Independent director
	Shenzhen SDG Information Co., Ltd.	Independent director
Michael O'Hanlon	Marathon Asset Management, LLC	Managing director of Financial Institution Department
Kang Dian	Shirui Investment Management Co., Ltd.	Director
	Beijing Shirui Yihe Asset Management Consulting Co., Ltd.	Director
	Silver Grant International Industries Limited	Independent non-executive director
	BYD Co., Ltd.	Independent non-executive director
Guan Weili	Beijing Baihuiqing Investment Management Co., Ltd.	Chairman of BOD
	DongFeng Automobile Co., Ltd.	Independent director
	North China Pharmaceutical Co., Ltd.	Independent director
	China National Software & Service Co., Ltd.	Independent director
	Jilin Power Share Co., Ltd.	Independent director
	Shanghai Worldbest Pharmaceutical Co., Ltd.	Independent director
	China Textile Machinery Group Co., Ltd.	Director
	China Chemical Fiber Group Co., Ltd.	Director
	Tianjin Eteda Technology Co., Ltd.	Director
	China Cinda Asset Management Corporation	Member of Advisory Committee
Luo Long	Asia Equity Co., Ltd.	Managing director
Liu Baorui	China UnionPay Co., Ltd.	Supervisor
Xu Jin	China International Economic and Trade Arbitration Committee	Arbitrator
	Shenzhen Arbitration Committee	Arbitrator

D Work Experience of Directors, Supervisors and Senior Executives

NAME	Position	Work experience	
Frank N. Newman	Chairman of BOD & CEO	1963 – 1969	Consultancy manager of KPMG
		1969 – 1973	Vice president of Citigroup
		1973 – 1986	Vice president, senior vice president, executive vice president, and chief financial officer of Wells Fargo
		1986 – 1993	Vice chairman, chief financial officer and vice chairman of BOD of Bank of America
		1993 – 1995	Chief secretary of U.S. Finance, and Deputy Treasury Secretary of the United States Treasury Department
		1995 – 1999	Senior vice chairman, president, chairman and CEO of Bankers Trust Co.
		2000 – 2005	Director of Korea First Bank
		2004	CEO and vice chairman (non-executive) of the Broad Center for Management of School Systems
		2004.12 – 2005.6	Independent director of SDB
		2005.5 – 2005.6	Acting chairman and CEO of SDB
		2005.6 – Now	Chairman and CEO of SDB
Daniel A. Carroll	Director	1995 – Now	Newbridge managing partner
		2000 – 2005	Director of Korea First Bank
		2004.12 – Now	Director of SDB
Shan Weijian	Director	1998 – Now	Newbridge managing director and managing partner
		2000 – 2005	Director of Korea First Bank
		2005.6 – Now	Director of SDB
Justin Chang	Director	1993 – Now	Partner of Texas Pacific Group
		2006.6 – Now	Director of SDB
Au Ngai	Director	1995 – 2006.3	Newbridge managing director
		2006.4 – 2006.12	Newbridge senior advisor
		2003.9 – Now	Director of Hong Kong Metropolitan Life Insurance
		2006.12 – Now	General manager of Bohai Property Investment Fund Management Co., Ltd.
		2004.12 – Now	Director of SDB
Qian Benyuan	Director	1981 – 2005	Salesman and vice director of China Electronics Imports & Exports Corporation General manager, president of representative office in USA President's office director, vice president, acting president, president
		2003 – Now	Chairman of BOD of Shenzhen Zhongdian Investment Co., Ltd.
		2004.12 – Now	Director of SDB
Wang Kaiguo	Director	2001.6 – Now	Chairman and Party secretary of Haitong Securities Co., Ltd.
		2006.6 – Now	Director of SDB
Jin Shiru	Director	1985 – Now	Principal of Shenzhen Experimental School
		2003 – 2006	Director of Management Committee of Shenzhen Experimental Education Group
		1992 – Now	Director, 2nd to 6th BOD of SDB
Cai Zhenxiang	Director	2000 – Now	Director of Research Office and Assets & Equipment Office of Shenzhen University
		1995 – Now	Chairman of Association of Ph.Ds in Nanshan, Shenzhen
		1999 – 2002	International Software Development (Shenzhen) Co., Ltd.
		2000 – Now	Member of People's Political Consultative Committee of Shenzhen City
		1998 – Now	Director, 4th, 5th and 6th BOD of SDB
Yuan Chengdi	Independent director	1996 – 2002	Director of Shenzhen Arbitration Committee
		2002	Retired
		1996 – Now	Director of Expert Consultancy Committee of Shenzhen Arbitration Commission
		2001 – Now	Independent director of 5th and 6th BOD of SDB

NAME	Position	Work experience	
Zheng Xueding	Independent director	1984 – 1988	Teacher of Accounting Department of Jiangxi University of Finance and Economics
		1988 – 1991	Graduate student of Jiangxi University of Finance and Economics
		1991 – 2005	Vice secretary-general, secretary-general of Shenzhen Association of CPAs
		2005 – Now	Shenzhen Tianjian Xinde Certified Public Accountants
		2001 – Now	Independent director of 5th and 6th BOD of SDB
Hao Zhujiang	Independent director	1997 – 2001	Director of Shenzhen Bureau of Legislative Affairs (retired in advance after working for 30 years)
		2002 – Now	Full-time lawyer of Beijing D.P.X. Law Firm Shenzhen Office
		2001 – Now	Independent director of Penghua Fund Management Co., Ltd.
		2006 – Now	Independent director of Luzhou Laojiao Co., Ltd.
		2006 – Now	Independent director of Tongzhou Electronic Co., Ltd.
		2006 – Now	Independent director of Shenzhen SDG Information Co., Ltd.
		2004.12 – Now	Independent director of SDB
Michael O'Hanlon	Independent director	1980 – 2005	Managing director of Lehman Brothers Inc.
		2000 – 2002	Director of Aozora Bank Ltd.
		2000 – 2005	Director of Korea First Bank
		2006 – Now	Managing Director, Financial Institution Dept., Marathon Asset Management, LLC
		2004.12 – Now	Independent director of SDB
Kang Dian	Chairman of BOS	1984 – 1987	Vice director/director of CITIC
		1987 – 1990	Vice general manager of China Rural Trust & Investment Co., Ltd.
		1990 – 1994	Vice general manager of China National Packaging Corporation
		1994 – 2000	Vice managing director of Guangdong Holdings Group Co., Ltd.
		2001 – 2005	Chairman and CEO of Shirui Investment Management Co., Ltd.
		2005.6 – Now	Chairman of 5th BOS of SDB
Wang Kuizhi	Supervisor	1992 – 2005.1	Vice chairman of 4th BOS of SDB
		2005.1 – Now	Supervisor of 5th BOS of SDB
Guan Weili	External supervisor	1996.3 – 2004.5	President of China Enterprises Consulting Co., Ltd.
		1997.6 – 2004.3	Honorary chairman of BOD of China Enterprise Appraisals
		2004.11 – Now	Chairman of BOD of Beijing Baihuiqing Investment Management Co., Ltd.
		2005.1 – Now	External supervisor of 5th BOS of SDB
Luo Long	Supervisor	2001 – 2003	Chief representative in China of Manulife Financial
		2003 – 2006	Managing director of Asia Equity
		2005.6 – Now	Supervisor of 5th BOS of SDB
Huang Shouyan	Supervisor	2001 – Now	President of SDB Futian Sub-branch, general manager of Business Department of Head Office, assistant to president and vice chairman of Trade Union of Head Office
		2005.1 – Now	Employee supervisor of 5th BOS of SDB
Wu Zhengzhang	Supervisor	2000.8 – Now	Chief representative of Beijing Rrepesentative Office of SDB
		2003.5 – Now	Deputy Branch Manager, Beijing Branch of SDB
		2005.1 – Now	Employee supervisor of 5th BOS of SDB
Qiu Weiping	Supervisor	2001 – Now	General manager of SDB Wholesale Banking Department, general manager of SDB Head Office Branch, SDB Nanjing Branch manager, Shanghai Branch manager
		2005.6 – Now	Employee supervisor of 5th BOS of SDB
Liu Baorui	Vice president	1998.8 – 2000.3	Assistant president, SDB
		2000.3 – Now	Vice president, SDB
Hao Jianping	Vice president	1993.8 – 2001.5	Executive Duputy Branch manager of Macao Branch of Guangdong Development Bank
		2001.6 – 2002.7	Zhuhai Branch manager, Guangdong Development Bank
		2002.8 – 2003.10	Vice president equivalent of SDB
		2003.10 – Now	Vice president, SDB

NAME	Position	Work experience	
Hu Yuefei	Vice president	1990–2006.3	SDB Nantou Sub-branch manager, SDB Guangzhou Branch manager, assistant president,
		2006.3–Now	SDB Vice president, SDB
Wang Bomin	Chief financial officer	1995.6–2002.8	Vice President of Treasury Group financial engineering and market risk supervision, Citibank Taiwan
		2002.8–2003.1	Head of Treasury Group of Taishin Financial Holding Co., Ltd. (Senior vice president, Deputy CFO)
		2003.1–2005.5	Head/senior vice president of Risk Control Group of Taishin Financial Holding Co., Ltd.
		2005.5–Now	Chief financial officer of SDB
Xu Jin	Board secretary	1999.4–2003.6	Vice general manager of Asset Security Department of SDB Head Office
	GM of Legal Affairs Dept.	2001.5–2003.6	Director of Shenzhen Special Asset Management Center of SDB
		2003.6–Now	General manager of Legal Affairs Department of SDB Head Office
		2005.1–2005.5	Employee supervisor of 5th BOS of SDB
		2005.5–Now	Board secretary of SDB

E Annual Compensation

Annual compensation of directors, supervisors and senior executives of the bank is decided in the following procedures and based on the following resolutions: The compensation program for directors of the 6th board of directors and supervisors of 5th board of supervisors was reviewed and approved by the 2004 SDB annual shareholders meeting; the compensation program for senior executives at the bank was reviewed and approved by the 12th meeting of the 6th board of directors.

Please refer to the following table for compensation (after-tax) paid in 2006 for directors, supervisors and senior executives of the bank:

NAME	Position	Total amount paid in 2006 (in RMB ten thousand)
Frank N. Newman	Chairman of BOD & CEO	995
Daniel A. Carroll	Director	39
Shan Weijian	Director	44
Justin Chang	Director	11
Au Ngai	Director	42
Qian Benyuan	Director	65
Wang Kaiguo	Director	15
Jin Shiru	Director	46
Cai Zhenxiang	Director	46
Yuan Chengdi	Independent director	53
Zheng Xueding	Independent director	57
Hao Zhujiang	Independent director	50
Michael O'Hanlon	Independent director	78
Kang Dian	Chairman of BOS (External supervisor)	65
Wang Kuizhi	Supervisor	31
Guan Weili	External supervisor	48
Luo Long	Supervisor	42
Huang Shouyan	Employee supervisor	169
Wu Zhengzhang	Employee supervisor	69
Qiu Weiping	Employee supervisor	125
Liu Baorui	Vice president	177
Hao Jianping	Vice president	146
Hu Yuefei	Vice president	173
Wang Bomin	Chief financial officer	243
Xu Jin	Board secretary GM of Legal Affairs Dept.	102

F Changes of Directors, Supervisors and Senior Executives

1 Changes of directors

Zhou Jun, John D. Langlois and Timothy D. Dattels resigned their directorship on 18 April 2006, 18 June 2006 and 26 June 2006 respectively; On 26 June 2006, the Bank's 2005 annual shareholders meeting elected Justin Chang and Wang Kaiguo as non-independent directors of the 6th board;

2 Changes of supervisors

There was no change in the supervisors of the Bank in the reported period.

3 Changes of senior executives

Hu Yuefei was appointed as vice president of SDB in accordance with relevant resolutions of the 12th meeting of the 6th board of the Bank and "Reply of China Banking Regulatory Commission Concerning Qualifications of Hu Yuefei" (Yin Jian Fu [2006] 125).

G Employees of the Bank

By the end of 2006, the Bank had 7,737 members of staff including (by educational background) 639 with master degree or above, 3,871 with a bachelor degree, 2,283 with junior college degree, and 895 with polytechnic education or below. The Bank has 155 retirees.

Report of the Board of Directors

A Discussion and Analysis of Operations in the Reported Period

1 Banking Operations

The Bank is mainly engaged in various commercial banking activities approved by the People's Bank of China. These activities include:

- Renminbi deposits, loans, settlement, remittance;
- Renminbi drafts acceptances and discounting;
- Trust business;
- Issuance and trading of Renminbi-denominated securities permitted by the PBOC;
- Foreign currencies deposits and remittance;
- Borrowing in and outside of China;
- Issuance and brokering the issuance of foreign currency securities;
- Trade and non-trade settlement;
- Foreign currency drafts acceptances and discounting;
- Foreign currency loans;
- Brokering foreign currency and foreign securities trading, proprietary foreign currency trading;
- Creditworthiness investigation, consultation and certification;
- Other businesses approved by the PBOC

We are one of the 17 commercial banks which are licensed to operate nationwide in China. The bank has strategically concentrated our distribution networks in China's relatively affluent regions such as Pearl Delta Region, Bohai Rim, Yangtze River Delta whereas we are developing networks in key cities in Western China.

2 The operating results in the reported period

As at 31 December 2006, the bank had 19 branches (including head office branch) and 243 sub-branches, and 693 ATMs across 18 cities of China. The bank is highly selective in opening new distribution networks and there are 6 new sub-branches opened in 2006. Our business was mainly driven by organic growth and there is no major acquisition of branch networks in 2006.

Our net profit increased by 319% to RMB 1,303 million yuan for the year ended 31 December 2006.

The significant profit increase for 2006 was mainly driven by the improved interest spread, more efficient use of funds, and healthy loan growth. In addition, continued success in collection and improved asset quality contributed to lower credit provision charge, and reduction in the effective tax rate further enhanced profitability.

The bank, in accord with PBC macro-economic policy, continues its commercial banking focus on active development of SME financing and fee business. Meanwhile, the strategic development in retail business, especially in mortgages, has proceeded very well, and wealth management products launched were received positively by the market.

In 2006, the Bank took initiatives in enhancing internal management in various areas, including active asset and liabilities management to utilize funds more efficiently with risks under better control, improving credit risk management to maintain good credit quality in the new portfolio, and implementing matrix management at the branch level to encourage professional operation and quality customer service.

All of the above are factors that contributed to our organic growth in business and improvement in overall capital utilization efficiency.

Net operating income

Net interest income is the largest component of our net operating income, representing 90.9% and 89.8% of our net operating income for the year ended 31 December 2006 and 2005 respectively.

Net interest income increased by 33% to RMB 6.5 billion yuan in 2006. Supported by deposit funding, basic corporate and retail lending business generated interest income amounted to RMB 9.9 billion yuan in 2006. Though interest income from loan and advances business remains as the largest component of interest income, the mix of interest income from loan and advance business strategically skewed to general loan business. In 2006, interest income from general loans accounted for 67% of the total interest income from loan and advances. For the year ended 31 December 2006, as a result of our asset mix management, discounted bills fell by 56.3% whereas corporate general loans increased by 30.9%. Retail loans increased by 87.1%. In which credit card receivables balances and mortgages increased by 71.8% and 112% respectively. Rising interest rates, loan structure adjustment and remarkable growth in mortgage business all have positive impact to the 42% increase in interest income from general loans in 2006.

Interest expenses increased by 34% to 5.1 billion in 2006.

In 2006 The Bank strengthened asset liability management and adjusted asset liability structure to increase the portion of interest-earning assets and reduce high-cost interest-bearing liabilities. Coupled with spread management and fund management, spread of average interest-earning assets rose 0.43 percentage point to 2.82%. These factors contributed more efficient use of fund and boosted the bank's net interest income growth.

Corporate banking business

In 2006, corporate banking business brought 80% of loan interest income for the bank. The Bank used Supply Chain Finance to lead the bank's corporate banking business and its successes in the business transition to a trade finance expert bank had won wide endorsement. The bank developed and implemented self-liquidating trade finance credit rating system by borrowing advanced international trade finance practices. The bank also innovated and refined the full-range supply chain finance product, developed and implemented trade finance operational system and established a trade finance product manager workforce. The Bank strengthened cooperations with large strategic partners such as Sinotran, Zhongchu, Cosco-Logistics, China BusinessNet, etc. to build a service platform from supply chain finance, logistics to information flow. The bank also signed head office to head office business cooperation agreement with Yunnan Copper, First Automobile Works Mazda and 20 other large group companies. These progresses in strengthening key processes, service platform and marketing channels would provide sustainable motivation and confidence for fast growth of supply chain finance.

In 2006, the Bank made significant progress in corporate banking business in scale and efficiency. Supply Chain Finance won award in the Second Shenzhen Financial Innovation Award, and it was voted jointly by China Small Business Association, China Banking Association and Financial Times as the best SME finance solution.

The bank is glad to see that through the adjustment in earning assets, the growth in fee business and cost management, corporate banking spread is widening and the profitability is rising.

Retail banking

In 2006, retail banking brought 20% of the bank's loan interest income.The bank's daily average retail loan growth made up 31% of total loan growth (not including discounted bills).

In 2006, the bank emphasized product, channel, foundation and scale in developing retail banking business platform and rolled out a series of new products including new mortgage products such as non-transactional mortgage, bi-weekly mortgage payment, circular loan, off-setting loan, etc, multi-period structural wealth management product. The bank also successfully introduced an international debit card and the first domestic dual currency co-branded credit card-the Wal-Mart SDB card. The bank also innovated marketing models and widened marketing channels to fully use the media resources to implement new marketing techniques. The bi-weekly mortgage payment marketing case won second prize in China Outstanding Marketing Award and 2006 China Aifi Award. The bank also organized various marketing activities by group marketing, telephone out-bound calls and other cross-selling approaches to achieve fast growth in retail banking business.

In 2006, retail loans recorded an 87.1% growth and the growth rate ranked number 3 among national commercial banks. Retail NPL ratio dropped from 2.23% at the beginning of the year to 1.24% at yearend even with the impact of historic retail NPL stock, among which new retail loans made in 2005 and 2006 had an NPL ratio of 0.07%. Valid credit cards rose 49% compared with a year ago and a 71% growth was recorded for credit card commission income.

NPA management

The bank continued to promote NPA management structure reform and tried to achieve collection targets by clarifying the goals, refining incentive system, strengthening write-off management, exploring NPA risk pricing, reform NPA collection model. NPA collection performed quite well in 2006. In 2006, the bank collected a total of 2.089 billion yuan in NPA and 80% of the collection was in cash. Besides, the bank wrote off 620 million yuan NPA.

Inter-bank business

In 2006, the bank introduced and innovated a series of financial market products and investment banking products. Short-term investment is done by mismatching the terms. Structured wealth management products were introduced and sales rose fourfold compared with last year. The bank actively promoted inter-bank credit asset transfer business and researched financial derivatives such as swap, etc. The bank actively explored cooperation with inter-bank participants and added 56 new financial cooperation parters. The bank also won foreign currency futures trade, home and foreign currency cross wealth management licenses. These measures above greatly improved the bank's fund utilization efficiency and fund raising capabilities.

Electronic banking business

In 2006, the bank made huge progress in electronic banking business. Online banking business transactions totaled 218.1 billion in 950,000 transactions. Among which, corporate electronic banking business volume rose 17% and the number of transactions rose 35%. Personal internet banking transaction yuan value rose 173% and the number of transactions rose 130%. Online payment business yuan volume rose 8.8 times with the number of transactions rising 7.5 times. Commission income rose 11 times.

Geographic regions

Total assets in South China rose 12% compared with 2005, or 26% of the bank's total growth. Loan interest income rose 21%, before-provision profit rose 57%, or 45% of total growth in the bank. This is mainly due to the decline of non-accrual loans, the adjustment in asset and liabilities and the improvement of spread.

Total assets in East China rose 18% compared with 2005, or 34% of the bank's total growth; loan interest income rose 25%, before-provision profit rose 23%, or 27% of total growth in the bank. Profitability improved significantly. This is mainly due to the adjustment in assets and liabilities, new breakthroughs in operational models, product types, industry and scale; new products like entrepreneur loans, bi-weekly mortgage payment, circular loan, off-setting loan, etc.

Total assets in North China rose 20% compared with 2005, or 25% of the bank's total growth; loan interest income rose 43%, before-provision profit rose 29%, or 18% of total growth in the bank. This is mainly due to expansion in market share, introduction of new products like gurantee merchandising, bi-weekly mortgage payment, circular loans, etc., adjustment in asset liability structure, reduction in off-balance sheet assets, and the elevation of loan yield.

Total assets in West China rose 56% compared with 2005, or 12% of the bank's total growth; loan interest income rose 74%, before-provision profit rose 98%, or 9% of total growth in the bank. This is mainly due to business expansion, decline of NPL, etc. In 2006, loan growth in West China branches ranked above most of competitors locally.

Net fee and commission income

Our net fee and commission income increased by 28% to RMB 307 million yuan for the year ended 31 December 2006.

Remittance and settlement fees increased by 23% to RMB 216 million yuan primarily due to the increase in volume of remittance and settlement transactions. Besides, our transition to supply chain financing and trade financing focus strategy on corporate banking business also facilitate this growth.

Bank card fee increased by 71% to RMB 99 million yuan primarily due to the increase in issuance of credit card by 49% and the increase.

Other non-interest income

Other non-interest income increased by 8.5% to RMB 346 million yuan primarily due to the growth in other businesses and the increase in net gain in foreign exchange by 10%.

Net gain in foreign exchange should have been increased by 43% if the one-off change in accounting policy on foreign currency translation were not taken in the financial year ended 31 December 2006. In view of the upcoming change in PRC GAAP in 2007 and for narrowing the gap between IFRS and PRC GAAP, the bank has early adopted the accounting principles in foreign currency translation and has charged a one-off RMB 43 million yuan foreign currency translation loss into profit and loss.

Operating expenses

Our operating expenses increased by 25% to RMB 3,251 million yuan for the year ended 31 December 2006. Although continue expenses were made for investment for future and special expenses were made for improvement in the bank's internal control, operation efficiency and MIS, the cost-to-income ratio improved to 45.6% from 47.6% in 2005.

Staff costs remains as the core cost of the bank and accounted for 44% of the total operating expenses (2005: 42%). This is mainly due to the increase in headcount and per employee compensation and this compares favorably with the 37% growth in profit before provision and tax, staff costs increased by 32% to RMB 1,435 million yuan in 2006.

Other general & administrative expenses increased by 38% whilst net operating income increased by 31%. In 2006, there are special consulting expenses amounted to RMB 107 million yuan incurred for the improvement of our internal control and operations, product development and MIS. Although these expenses do not necessarily generate income in the current period, they are specifically invested for generating long-term economic benefit of the bank. If these consulting expenses are excluded in the variable expenses which ties to income generation, our general & administration expenses should have been increased by 31%.

Capital adequacy ratio

At 31 December 2006, capital adequacy ratio and core capital adequacy ratio were at 3.71% and 3.68% respectively, at par with 3.70% and 3.71% for applicable ratios at 31 December 2005. The bank plans to raise capital adequacy ratios further by continuing internal capital generation and raising new capital.

Asset quality and provision reserve

With the gradual resolution of historic problem loan portfolio, the bank's provision in 2006 declined 20.9% compared with last year. The bank believes that the significant drop in provision is a positive and reasonable trend. From Q1 2006, the bank completed eliminated the provision gap in accordance with the provision standard by the CBRC.

In 2006, the bank continued to deal with historic problem loans and carried out a number of fruitful collection and disposal projects. In 2006, the bank collected and disposed 2.089 billion yuan with most of the principals collected in full. At 31 December 2006, total NPL of the bank stood at 14.565 billion yuan compared with 14.572 billion yuan at 31 December 2005, 14.672 billion at 30 June 2006. New loans made in 2005 and 2006 continued to be good quality. NPL ratio improved significantly from 9.33% at 31 December 2005 to 7.98% at 31 December 2006. Therefore, NPL as a proportion of the total loan portfolio has declined dramatically.

3 The operating revenues based on business types and geographical areas

BUSINESS TYPE

In RMB	Operating revenue
Loans	9,896,603,408
Inter-bank businesses	774,332,758
Bond investment	880,281,113
Others	817,939,314

REGION

In RMB	Operating revenue	Operating expenses	Operating profit
South China	3,247,258,167	1,671,873,791	137,789,976
East China	2,277,781,770	885,144,758	1,066,112,034
North & Northeast China	1,223,665,943	551,351,355	540,231,912
West China	325,019,551	142,410,097	99,542,815
Offshore	61,492,115	–	61,492,115
Subtotal	7,135,217,546	3,250,780,001	1,905,168,852

4 Businesses with over 10% all operating revenues

Most of the Bank's operating revenues come from loans and discounting. In 2006, the Bank's loan interest revenues stood at RMB 9.897 billion yuan or 80.01% of total operating revenues.

5 The operating results of companies controlled or partially owned by the Bank

There was no increase in investment in companies controlled by the Bank or other equity investments. As required by CBRC, the Bank is currently de-linking with Yuansheng Company, a company controlled and owned by the Bank, and other equity investments. For more information, refer to Note 15 to the accounting statement.

6 Challenges in the Bank's operations and their solutions

In the reported period, the Bank has the following problems and difficulties in its business operations: slowed growth of credit businesses of commercial banks in 2006 because of a series of control measures taken by the government to further check the excessive economic and investment growth and surplus liquidity; escalating competition resulting from further opening of the banking industry to foreign investment and expanding market presence of foreign-funded banks on the market; unresponsive replenishment of capital, somewhat affecting the business development of the Bank; and excessive non-performing assets.

The Bank has done the following to counter the challenges in the operations:

i Further reformed the Bank's operations and management system; specialized the business lines to make it flatter and more market-oriented; exercised vertical management on credits, planned finance and audit; input more resources in business product updating, brand buildup, technical platform and marketing efforts in order to enhance Bank's core competitiveness;

ii Strengthened assets/liabilities management, optimized assets/liabilities structure, implemented strict management on interest differences and capital utilization, and enhance profitability based on risk control;

iii Enhanced the profit level and stepped up internal supplement of capital; Optimized business structure and further developed less capital-intensive businesses and break the confinements imposed on the bank's business growth by capital constraint; and sought capital infusion proactively;

iv Further expanded corporate banking business and strategic co-operation with GE; sped up the investment in retail banking to develop wealth management, personal loans, credit card and electronic banking businesses;

v Intensified NPL collection efforts to reform NPL management structure and effect NPL category management; drafted collection policies and measures and expanded NPL write-off efforts.

B The Bank's Financial Conditions and Operating Results

1 Changes in major financial statistics and causes for them

MAJOR FINANCIAL STATISTICS

In RMB thousand	Yearend amount	Percentage change	Major cause
Total assets	260,576,263	17.21%	Loan growth
Total liabilities	254,101,800	16.95%	Deposit growth
Shareholders' equity	6,474,463	28.10%	Profit growth
Profit from main businesses	1,905,169	200.48%	Growth in net interest income and fee income, lower provision,etc
Net Profit	1,302,907	318.93%	Growth in profit from main business
Net increase in cash and cash equivalents	18,007,515	-7.41%	Investment growth

2 Items with over 30% growth in comparative financial statements

ITEM IN FINANCIAL STATEMENT *In RMB thousand*	Percentage of change	Cause for change
Interbank placement	-53.17%	Funding structure change
Financial assets at fair value and with changes included in P & L	-49.58%	Funding structure change
Trading financial derivatives	297.24%	Change in fair value
Reverser repo	30.08%	Funding structure change
Interests receivable	46.35%	Growth in interest-earning assets
AFS financial assets	-31.23%	Financial assets classification under new accounting rules
HTM investment	100%	Financial assets classification under new accounting rules
Intangible assets	-36.11%	Amortized this year
Interbank deposits	63.04%	Funding structure change
Repo	-36.63%	Funding structure change
Salaries payable and benefits	49.94%	Personnel, bank business growth
Net interest income	32.50%	Business growth
Fees and commission revenue	38.53%	Business growth
Fees and commission expense	74.81%	Higher fees paid to brokers
Fair value change net revenue	-312.55%	Change in fair value
Other net business revenue	45.28%	Business growth
Business tax and surcharge	32.75%	Business growth
Non-operating revenue	251.80%	Net gains from disposal of settled assets, fixed assets, other pending funds, etc.
Non-operating net income	-70.18%	Improvement in expected liabilities
Profit before tax	233.59%	Better asset quality and lower provision
Income tax	141.07%	15% tax area turned into a net profit and 33% tax area had more profit
Net profit	318.93%	Net interest income and fee income growth, lower provision due to better asset quality

C Influence of Changes in Business Environment, Macro Policies and Laws on the Financial Position and Operating Results of the Bank

1 The People's Bank of China increased the interest rate twice on 28 April 2006 and 19 August 2006 respectively: the 1-year deposit benchmark interest rate rose by 0.27, from 2.25% to 2.52%; the 1-year loan benchmark interest rate rose by 0.27 twice, from 5.58% to 6.12%; the benchmark interest rates of other deposits and loans were adjusted accordingly, with the long-term interest rates rising higher than short-term interest rates. At the same time, to further marketize the personal housing loan interest rate, the lower limit of personal housing loan interest rate was adjusted from 0.9 times to 0.85 times of the benchmark interest rates, while the lower limit of interest rates of other commercial loans remained at 0.9 times. The increased interest rate brought more interest revenues for commercial banks. Meanwhile, the expanded adjustment space of personal housing loan interest rate and the Bank's new housing loan products boosted the development of the Bank's retail banking.

2 In view of the surplus liquidity of the banking system, the People's Bank of China increased the RMB deposit reserve rate of deposit-type financial institutions by 0.5% for four times on 5 July, 15 August and 15 November 2006 and 15 January 2007 respectively, from 7.5% to 9.5%. The increased deposit reserve rate has some influence on the amount of cash the Bank has available for other uses.

3 The new RMB intermediary exchange rate and the reform of foreign exchange management system provided greater space for the intermediary businesses of commercial banks.

4 On 11 December 2006, in line with China's promises for entry into World Trade Organization, China opened its mainland citizens' RMB business to foreign-funded banks, canceled the regional restrictions and other non-prudent restrictions on RMB businesses, and granted national treatment to foreign-funded banks. After implementation of the new "Regulations of the People's Republic of China on Foreign-Fund Banks" and "Commercial Bank Business Innovation Guidelines" issued by CBRC, China's financial market has entered into an age of competition between domestic and foreign-funded banks and has posed a challenge to the Bank.

D The Bank's Operating Plan in the New Year

The stable growth in the macro-economy provided nice growth opportunities for the banking industry in China. However, with the gradual lifting of entry limit for foreign-owned banks and the progressing of domestic commercial bank reform, the competition among banks will get likely increase. Further more, with the heightened level of market-oriented interest rate and reform in the RMB exchange rate formation mechanism, new requirements are being posted to the risk identification and management capabilities for commercial banks. After the entry of a strategic investor into the bank, corporate governance was improved and the bank built internationalized board and management team to learn from international banking leaders and reformed the original management structure at the bank with good results. In 2007, in the spirit of creating rich returns to shareholders, bringing service value to customers and career growth for employees, the board and the management team will further control risks, enhance product innovation, tighten financial management, upgrade the information technology to ensure that businesses at the bank can grow steadily and persistently in 2007.

The Bank is looking to do the following work in the new year:

1 Boost Capital Adequacy Ratio and break the limit placed on business growth by capital constraints. In this aspect, the bank will depend first on internal capital generation by boosting profits, by controlling on risk weighted assets and reducing non-interest-bearing assets; the bank hopes to have designated placements and introduce strategic investors to make the CAR coming up to regulatory requirements as soon as possible. And the bank plans to issue sub-ordinated debts and hybrid tier-2 capital instrument to build tier-2 capital.

2 Optimize business structure and boost profitability. First, the Bank will develop retail banking and fee businesses, reduce capital usage and boost profitability; second, the Bank will further grow preferred corporate banking businesses and establish brand and customer value; third, the Bank will strengthen the cooperation with GE to introduce advanced experiences and technology, boost product innovation and market competitiveness.

3 Improve service quality to effectuate greater customer satisfaction by establishing new servicing standards based on advanced international experiences and by establishing customer service management system to provide diversified and differentiated quality customer service.

4 Promote systematic risk management building, improve internal control. With centralized credit management and strengthened mitigation of operational risks, the bank intends to control market risk risk through optimized financial instruments to closely watch market changes and control interest rate, currency and liquidity risks.

5 Continue credit risk control and mitigation; effect liquidity gap management and foreign exchange management. Introduce special talents to get actively involved with domestic capital and money market operations. By using a combination different financial market instruments and portfolios, the bank will boost its risk detection and mitigation capabilities by allocating funds more efficiently to lessen market risks.

6 Strengthen human resources management at the bank to provide support to management decision-making. Adjust HR organizational structure and personnel to establish a proper incentive system to motivate employees and boost productivity; strengthen HR project management and optimize HR work processes; standardize HR budget and resources allocation to ensure the building of strategic projects.

E The Impact on the Company after the Implementation of New Accounting Rules in Financial Results and Operational Figures

Ministry of Finance issued on 15 February 2006 the Caikuai 3 "On Issuing the Corporate Accounting Standards #1 Inventory etc. and other 38 detailed rules", listed companies should implement the new accounting rules from 1 January 2007.

On the listing and disclosure dimensions, based on different requirements of international and domestic accounting, the formats for international and domestic accounting statements are different. In order to minimize the differences between the two sets of financial reports, the bank has volunatarily implemented the reporting standards required by PRC accounting to be effective in 2007 so that readers of our domestic and international financial statements can all have the same understanding on the financial results of the bank.

Out of the 38 new accounting standards, not all will be applicable to, or have material financial impact to our bank; Amongst those have impact to the bank, most of them are at the same time the current GAP difference between PRC And IFRS which the financial impact to the bank has been estimated and publicly disclosed in the past 5 financial years; Therefore, the bank has been very well aware of the change in accounting standards and its impact to the Bank.

On top of that, the adoption of MOF 14 to PRC financial statements in 2006 and the respective note on accounting policy change financial impact, has already reflected the key financial impacts in terms of financial instruments recognition and measurement as stated in Standard #22 one year early than the new accounting standard really become effective in 2007;

In view of the new accounting standard change in 2007, we have taken into consideration the coming changes in key principles of measurement and estimation to areas like employee benefits and share-based payments. Although full compliance to the disclosure and presentation requirements will be effective in 2007, we have already adopted some of the key concepts and methods in our estimation process for respective figures in 2006;

However, amongst the new accounting standards, the #3 standard on investment properties will have a relatively material impact to the reported net assets of 2007;

The Bank will adopt fair value method in investment properties and therefore the net asset value of the bank will be adjusted; The change to a fair value approach of investment properties is more in line with the measurement basis already adopted in IFRS financial statements. Therefore, this provide a more consistent reflection of the Bank net assets under both accounting standards and narrow down the gap difference between PRC and IFRS to a minimum.

F Investments of the Bank in the Reported Period

1 The bank did not make any new external equity investment.

2 Use of funds raised

The Bank did not raise any new fund in the reported period, and the fund raised last time has been used fully as planned.

G The Board Explanation on Accounting Policy Adjustment

Based on MOF 14 and through the resolution of August 17 board meeting, the bank has changed its accounting policies based on Corporate Accounting Standards #22 – the confirmation and measurement of financial instruments (see footnote 4-2, 3, 9). At the same time, the bank will retroactively adjust the accounting reports at the beginning of the year based on MOF 14 rules.

The accounting policy changes for transactions and issues other than those listed above, future applicable method should be used.

H The Work Summary at the Board of Directors

1 Meetings and resolutions of the board of directors in the reported period

On 30 March 2006, the 12th meeting of the 6th board was held. The meeting reviewed and approved “Proposal of Appointing Mr Hu Yuefei as Vice President of Shenzhen Development Bank Co., Ltd.”, “Accounting Statements and Audit Report of Shenzhen Development Bank Co., Ltd. for the Year Ended 31 December 2005” (Shenzhen Pengcheng Accounting Firm), “Annual Audit Report of Shenzhen Development Bank Co., Ltd. (31 December 2005)” (Ernst & Young), “Liquidation Plan for Shenzhen Yuansheng Enterprises Co. Ltd.”, “Proposal of Profit Distribution Plan 2005”, “Proposal of Accounting Policy Changes”, “Annual Report 2005 of Shenzhen Development Bank Co., Ltd.”, “Summary of Annual Report 2005 of Shenzhen Development Bank Co., Ltd.”, “Proposal of Writing off Loans of the 1st Quarter 2006”, “Proposal of Total Bonus for Senior Executives in 2005 and Target-based Total Bonus of Senior Executives in 2006”, and other proposals. The relevant resolutions were published on China Securities Times and Securities Times on 1 April 2006.

On 31 March 2006, the 13th meeting of the 6th board was held. The meeting reviewed and approved “Proposal of Budget 2006 of Shenzhen Development Bank Co., Ltd.” and “Proposal of Business Plan 2006 of Shenzhen Development Bank Co., Ltd.”.

On 24 April 2006, the 14th meeting of the 6th board was held. The meeting reviewed and approved “First Quarterly Report 2006 of Shenzhen Development Bank Co., Ltd.”, “Proposal of Appointing Mr Justin Chang as Candidate Director of the 6th Board of Directors of Shenzhen Development Bank”, “Proposal of Appointing Mr Wang Kaiguo as Candidate Director of the 6th Board of Directors of Shenzhen Development Bank”, “Proposal of Appointing Mr Frank N. Newman as Chairman of Strategic Development Committee of the 6th Board of Directors of Shenzhen Development Bank”, and other proposals. The relevant resolutions were published on China Securities Times and Securities Times on 26 April 2006.

On 23 May 2006, the 15th meeting of the 6th board was held. The Meeting reviewed and approved “Proposal of Passing Share Reform for Conditional Directional Dividend Distribution to Floating Shareholders”, “Proposal of the Board Collecting Proxy Votes for the 1st Extraordinary General Meeting 2006 cum Relevant General Meeting”, “Proposal of Convening the 1st Extraordinary General Meeting 2006 cum Relevant General Meeting”, “Proposal of Authorizing Company Management to Handle Matters Relating to Share Reform”, “Proposal of Deferring Bonus Plan for Important Executives of the Company”, “Report of the Board of Directors 2005”, “Report on Financial Accounting 2005”, “Budget

Report 2006", "Proposal of Buying Responsibility Insurance for Directors and Senior Executives of the Company", "Proposal of Amending 'Articles of Association of Shenzhen Development Bank Co., Ltd.'", "Proposal of Appointing Accounting Firm for the Year 2006", "Proposal of Convening Annual General Meeting 2005", and other proposals. The relevant resolutions were published on China Securities Times and Securities Times on 27 May 2006.

On 7 June 2006, the 16th meeting of the 6th board was held. The meeting reviewed and approved "Proposal of Amending and Passing Share Reform for Conditional Directional Dividend Distribution to Floating Shareholders", and approved of authorizing the chairman of BOD to negotiate and sign relevant documents with General Electric and extend the validity period of the original agreement. The relevant resolutions were published on China Securities Times and Securities Times on 9 June 2006.

On 26 June 2006, the 17th meeting of the 6th board was held. The meeting reviewed and approved "Proposal of Appointing Mr Li Wenhuo as Chief Credit Officer" and "Proposal of Changing Signatory Party of 'Strategic Cooperation Agreement'". The relevant resolutions were published on China Securities Times and Securities Times on 27 June 2006.

On 4 July 2006, the 18th meeting of the 6th board of directors was held by telecommunications vote. The meeting reviewed and approved "Proposal of Adjusting Interim Financial Statement 2005 of Shenzhen Development Bank Co., Ltd.".

On 17 August 2006, the 19th meeting of the 6th board was held. The meeting reviewed and approved "Proposal of Changing Accounting Policies", "Accounting Statement Audit Report of Shenzhen Development Bank Co., Ltd. as at 30 June 2006", "Interim Report 2006 of Shenzhen Development Bank Co., Ltd.", "Summary of Interim Report 2006 of Shenzhen Development Bank Co., Ltd." and "Proposal of Writing off Bad Debts of 2nd Quarter 2006" produced by Shenzhen Pengcheng Accounting Firm. The relevant resolutions were published on China Securities Times and Securities Times on 18 August 2006.

On 12 October 2006, the 20th meeting of the 6th board was held. The meeting approved of the Board explaining the media report on matters relating to the new round of reforms restarted by the Bank on 17 October, and authorized the chairman of BOD to decide the contents of the explanatory announcement; approved of the Board explaining the media report on matters relating to the new equity investors of the Bank, and authorized the chairman of BOD to decide the contents of the explanatory announcement; approved of the Board authorizing the chairman to sign relevant temporary explanatory announcement of fact statement on behalf of the Board provided that trading of the Bank's stock is not suspended as required by Shenzhen Stock Exchange; and reviewed the pre-announcement of the results of the 3rd quarter 2006.

On 18 October 2006, the 21st meeting of the 6th board was held. The meeting reviewed and approved "Proposal Relating to Cooperation with GEMTC on Credit Card Project". The relevant resolutions were published on China Securities Times and Securities Times on 20 October 2006.

On 25 October 2006, the 22nd meeting of the 6th board was held. The meeting reviewed and approved "Proposal of Writing off Bad Debts of the 3rd Quarter", "3rd Quarterly Report 2006 of Shenzhen Development Bank Co., Ltd.", "Proposal of Authorizing Chief Credit Executive on Examining and Approving Inter-bank Credits", and other proposals. The relevant resolutions were published on China Securities Times and Securities Times on 28 October 2006.

On 13 December 2006, the 23rd meeting of the 6th board was held. The meeting reviewed and approved "Proposal of Extending Validity Period of Relevant Agreements with General Electric", "Proposal of Continuing 23 Connected Transactions Including a New Credit Business of Jingwei Textile Machinery Co., Ltd.", and other proposals. The relevant resolutions were published on China Securities Times and Securities Times on 15 December 2006.

2 The Execution of resolution made on the general meeting by the board

I The 2006 SDB Profit Distribution Plan and the Plan of Capital Reserve Conversion into Share Capital

Under the PRC GAAP statutory financial statements (audited by SZ Pengcheng CPA), the reported net profit for 2006 was reported as RMB 1,302,906,538 yuan, undistributed profits are RMB 2,076,219,978 yuan. Based on the undistributed profits level and in accordance with the relevant national requirements, the profit appropriation for the year ended 31 December 2006 is:

1 Appropriate 10% of the net profit (or RMB 130,290,653 yuan) to the statutory surplus reserve.

2 Appropriate RMB 1,200,000,000 yuan to general reserve.

3 For the long-term development of the bank, the bank will not have a cash dividend payout this year, nor would the bank have a reserve capital reversal.

4 After the profit appropriations as mentioned above, ending balance of the statutory surplus reserve is RMB 454,490,813 yuan; ending balance of general reserve is RMB 1,679,704,345 yuan; and the ending balance of retained earnings is RMB 745,929,325 yuan, which will be distributed in future years.

These plans have to be reviewed and approved by the 2006 SDB annual general meeting.

Report of the Board of Supervisors

In 2006, the board of supervisors (BOS) of Shenzhen Development Bank has focused on our work emphasis and has exercised their supervising and investigative functions in a highly responsible attitude. We continued to improve our degree and methodologies of supervision, which leads to improvement in supervision over senior executives and corporate financial status, and had important impacts on protecting the interests of shareholders, the bank, customers and employees.

A Meetings of the BOS

There has been 13 BOS meetings concerning 27 subjects and their decisions, detailed contents are as follows:

1 BOS audit committee held the 1st meeting on 26 March 2006. The meeting has reviewed “report from independent financial consultant” from externally hired special financial consultants based The Bank’s 2005 annual report (draft), briefed on the descriptions and analysis from the special financial consultants, discussed items about 2005 financial status and risk factors that might affect The Bank’s financial healthiness.

2 BOS held the 9th meeting on 29 March 2006. The meeting has concluded the followings:

i Briefed by the CFO about 2005 financial status;

ii Briefed about the summaries of the 1st audit committee meeting and the 8th board audit and related-parties transaction control committee meeting

iii Reviewed and approved “SDB board of supervisors report” , “SDB board of supervisors’ report on 2005 annual reports” , “SDB board of supervisors’ report on changes of 2005 accounting statements and policies”.

3 BOS held the 10th meeting on 24 April 2006. The meeting discussed “SDB broad of supervisor guideline on attending issues” and decided on the change of names for special committee name and organization structure.

4 BOS performance measurement and nomination committee held the 1st meeting on 5 November 2006; the meeting discussed performance measurement issues for senior executives.

5 BOS held the 11th meeting on 22 May 2006. The meeting discussed The Bank’s “code of practice” chapter 7 concerning the board of supervisors, also reviewed and approved “2005 SDB board of supervisors report” and “SDB board of supervisor guideline on attending issues”.

6 BOS held the 12th meeting on 13 June 2006. The meeting briefed and discussed status on the recent stock reform, briefed the letter of regulating from the CBRC and discussed related HR issues.

7 BOS held the 13th meeting on 26 June 2006. The meeting discussed issues raised in the board of directors meeting and shareholders meeting, which also took place on the same date, and recent development of the stock reform.

8 BOS held the 14th meeting on 4 July 2006. The meeting voted and approved “SDB board of supervisors’ report about restating 2005 semi-annual reports”.

9 BOS held the 15th meeting on 17 July 2006. The meeting discussed The Bank’s work on stock reform.

10 BOS held the 16th meeting on 17 August 2006. The meeting reviewed and approved “SDB board of supervisors’ report on validation report of SDB 2006 semi-annual report”, “SDB board of supervisors’ report on restating The Bank’s financial statements and change of accounting policies”, discussed The Bank’s stock reform and matters concerning the Chief Credit Officer’s (authorized by the board of directors) handling of the 950 million of restructuring loan of the “New Century Plaza” project.

11 BOS audit committee held the 2nd meeting on 19 October 2006. The meeting briefed on summaries of The Bank’s audit and related-parties dealing control committee 13th meeting which have taken place on the morning, also has reviewed The Bank’s 3rd quarter financial reports (draft).

12 BOS held the 17th meeting on 25 October 2006. The meeting reviewed “SDB broad of supervisors’ report on validation report of SDB 2006 3rd quarter reports”.

13 BOS held the 18th meeting on 13 December 2006. The meeting concluded the followings:

i Briefed about major matters about the Chairman of BOS' involvement in The Bank's stock reform and its recent development;

ii Briefed about summaries of the broad of supervisors for listed commercial banks conferences attended by Chairman of BOS Kang Dian, General Secretary Liu Zhi Ling.

iii HR performance measurement of BOS staff and staff welfare fund.

B BOS Hereby Express its Independent Opinion on the Following Matters

1 Legal compliance of corporate operation

BOS has conducted supervision to The Bank in accordance of the law, members of the BOS has attended all generations of the broad of directors meetings and part of the committee meetings under the broad of directors, also conducted inspections for 4 branches. BOS believe that The Bank's decision processes was in full compliance with the law and there is no discoveries of directors or senior executives breaching the laws, policies, codes or conduct any actions that might hurt the interest of The Bank when carrying out his/her responsibilities.

2 Inspection of the Bank's financial status

BOS has faithfully executed the responsibility of inspecting corporate financial status. Attendees from the broad of directors were briefed by the CFO and on-/off-shore auditors report, and have communicated on relevant matters. The Bank's has been given clean-audit opinion from both Shenzhen PengCheng and Ernst & Young. The BOS believe that these reports truly reflect The Bank's financial status and operation performance.

3 Fund raising, purchase/sell-off of assets

There is no major purchase/sell-off of assets and no fund raising during this reporting period.

4 Related-parties dealings

All related-parties dealings are conducted under normal business processes and policies during the reporting period and there is no occurrence of any actions that might hurt shareholder's and/or The Bank's interests.

Important Events

A Material Lawsuits and Arbitrations

Within the reported period, there are no lawsuits and arbitrations that have material impact on operation of the bank. By the end of 2006, the Bank was involved as plaintiff in 641 unsettled lawsuits involving RMB 4,397,540,000 yuan in principal and interest. The Bank, as defendant, was involved in 28 lawsuits and up to RMB 182.82 million yuan in disputed funds, all of which had no verdicts yet.

Cases over RMB 30 million yuan where the bank was the defendant are stated as follows:

1 Loan contract suit filed by Asian Holdings Co. Ltd. (abbreviated as "Asian Company") against the Bank's Changcheng sub-branch

In May, 2004, Asian company appealed to the Guangdong Province Superior People's Court after the Bank won the initial trial. Asian company sued the Bank's Changcheng sub-branch about the case of loan contract, in witch it required that the Bank to return RMB 36 million yuan and related interests to the company. Asian argued that its return of RMB 36 million yuan to the Bank was against the law and thus invalid. The Bank argued that the return of the fund to the bank was legitimate and valid, and had prepared for the trial defense. A trial has been held in court and the verdict was for the sub-branch to return the RMB 36 million yuan to Asian company along with relevant interests. The sub-branch has appealed that decision and it is still pending retrial.

2 Shaanxi Province Modern Agricultural Center sued Yongan Property Insurance Co. Ltd. and SDB Baoan sub-branch was also listed as a defendant in the collateral dispute

In August, 2005, Shaanxi Province Modern Agricultural Center sued Yongan Insurance Property Insurance Co. Ltd. at the Xi'an Intermediate People's Court for causes of share ownership disputes. They asked the court to confirm that the shares ownership certificates held by Yongan Property Insurance Co. Ltd. and the shareholder name list offered in conjunction with the collateralized shares to SDB were invalid. SDB and Yanlian Enterprises Group company were listed as third parties in trials. This case involved the bank's issue of loans to Fujian Shida Computer Group secured by the 31 million shares in Yongan Property Insurance Co. Ltd. The sub-branch believed that the collateral was legal and valid. This case is currently going through trial with results pending. The first trial has issued a verdict declaring the aforesaid share ownership certificates and shareholder list are invalid. The Bank has appealed to the Shanxi Superior People's Court.

3 Anhui Securities Registration Company sued SDB Hongbao sub-branch in the RMB 30 million yuan remittance case

The plaintiff appealed to Guangdong Provincial Superior People's Court after the bank's victory in the initial trials. Guangdong Provincial Superior People's Court called for a retrial. In September 2001, Shenzhen Intermediate People's Court opened the trials and added Bank of Communications Guangyuan sub-branch as a co-defendant. In December 2004, the court turned down the appealing of the plaintiff. The plaintiff further appealed. The appeal court now issued a verdict ordering the bank to pay RMB 30 million yuan plus interests owed to the plaintiff. The bank has appealed for a retrial and a stop on the execution. Guangdong Superior People's Court has agreed with a retrial and has stopped the execution of the verdict.

B There were no Mergers and Acquisitions, Asset Sales during the Reported Period

C Important Related Party Transaction during the Reported Period

During the reported period, the bank has always sticked to the policy of integrity and fairness and all related party loans were made in accordance with "Commercial Bank shareholders and insiders related parties transaction management guide" issued by the CBRC as well as the internal loan approval and review processes of the bank. The current related transactions do not have any significant impact on the regular operations of the Bank.

1 On 31 December 2006, the bank has accounts receivable from Shenzhen Yuansheng totaling 10,988,978 yuan (31 December 2005: 6,985,388 yuan). Other long-term receivables total 507,347,529 yuan (listed as long-term equity investment, provision of 391,117,893 yuan already made)

2 Related party transactions between the bank and key management in 2006

At 31 December 2006, the bank approved related party loans to legal persons where the bank's directors, supervisors and senior executives hold positions and relatives of these parties totaling 2,415.25 million yuan with 1.18694 billion in outstanding balance, discounting and other credit line balance totaled 140.04 million yuan.

3 On 28 September 2005, Shenzhen Development Bank Co. Ltd. signed a "Subscription Agreement" with GE Capital International Financing Corporation. Based on the agreement and subject to the approval of regulators and shareholders, GE Capital International Financing Corporation may become a shareholder of the company by purchasing the company's shares at a price of 5.247 yuan per share for 100 million US dollars worth.

On 28 September 2005, the bank signed a strategic agreement with GE Capital (China) Ltd. are fully-owned subsidiaries of the General Electric Company. Based on the "Strategic Cooperation Agreement", GE will provide retail banking consulting services to the bank in areas of risks, operations, marketing, system support, strategies and financing, etc. In consumer finance area, GE will provide product development, system and marketing, financing techniques, risk management, operations and employee training, etc. The Agreement will last 5 years.

The “Strategic Cooperation Agreement” stipulates that the consulting fees could be computed on a cost-recovery basis in line with the average fees charged by international companies when providing similar services, subject to an upward adjustment of 40% in addition to that. Based on the agreement, five years from the date when the agreement was signed, the bank will pay 85% of the accumulated consulting fee and 100% of the travel expenses to GE in the form of new SDB shares or the bank will pay 100% of the accumulated consulting fee and 100% of the travel expenses to GE in cash. The budget for the consulting fee would be from US$2 million to US$4 million.

On 26 October 2006, the board agreed to let GE transfer all rights and responsibilities belonging to GE Capital (China) Ltd. for agreement signed under the Strategic Agreement between the bank and GE Capital (China) to GE Management Technology Consulting (Shanghai) Company Ltd.

In January 2007, the bank signed an extension letter with GE Capital International Financing Corporation and GE Management Technology Consulting (Shanghai) Company, Ltd. Based on the extension letter, the Subscription Agreement signed with GE Capital International Financing Corporation and the Strategic Cooperation Agreement with GE Capital Finance (China) Company, Ltd. On 28 September 2005 are extended to 30 June 2007. The conditions are that the parties involved, out of the principle of integrity, based on relevant rules already announced or to be announced, revised the share subscription agreement and strategic cooperation agreement considering the opiions of the other party and signed this agreement in writing.

In October, 2006, with the approval of People’s Bank of China, the bank issued a co-branded credit card jointly with Wal-Mart Investment Co. Ltd. (China) and GE Consumer Finance Group. With the approval of the board, the bank signed with GE Management Technology Consulting (Shanghai) Co. Ltd. a processing system outsourcing and related consulting service agreement including the IT and Consulting Service Agreement, Software Access Agreement, Letter of Guarantee, Work Arrangement Plan. The key contents of the related agreements are as follows:

i GE Management Technology Consulting (Shanghai) Co. Ltd. will provide IT service and consulting to the bank’s related credit card project. The bank will pay for relavant services. Based on the agreements, fees the bank will pay include:

1) the bank will pay GE Management Technology Consulting (Shanghai) Co. Ltd. a fixed fee of 48,834,593 yuan in 5 years

2) initial operating cost will be paid at 10% over the actual amount;

3) data management fee will be paid at 10% over the actual credit card issued and the transacted volume;

4) additional service fee including consulting fee and others. Consulting fee should be on a cost-recovery basis plus a 40% upward adjustment, consistent with fees charged for similar services provided by international companies. The bank can opt to pay either in cash with a 21.4% discount or in new shares issued. If the bank choose to pay in new shares, then upon signing of this contract and under the permit of relevant laws (with the approval of relevant regulators and shareholders meeting), the number of shares the bank will pay will be based on the total of 85% of accumulated consulting fees and 100% of travel expenses divided by the average price of tradable shares for the company in the preceding month. If for any reasons, the bank is not able to pay in new shares after it selected that option, it should immediately pay in cash at 100% accumulated consulting fees and 100% of travel expenses.

5) Other transitional expenses;

ii GE Management Technology Consulting (Shanghai) Co. Ltd. will provide software access service to the bank for free.

iii GE Management Technology Consulting (Shanghai) Co. Ltd. will utilize its global cooperational partners to provide service support to the bank.

In 2006, the bank has set aside 41.09 yuan million as consulting fees based on the agreement signed above and until 31 December 2006, unpaid consulting fee balance totaled 35.81 yuan million (31 December 2005: 10.1 million yuan).

GE Capital International Financing Corporation is registered in New York and it is a financial holding company. GE Capital (China) Ltd. and GE Management Technology Consulting (Shanghai) Co. Ltd. are wholly owned foreign invested companies in China. These three companies are all eventually controlled by GE.

Apart from the related party issues stated above, the bank does not have other significant related party transactions which should be disclosed.

D Important Contracts and their Implementation

1 There were no significant custodian, contracting and leasing business in the reported period.

2 Except normal bank guarantees, the bank had no significant guarantees to be disclosed in the reported period.

3 The Bank did not entrust others to handle management of cash assets in the reported period.

4 Significant contract dispute: Within the reported period, the bank had no significant contract disputes.

E No Commitment by the Bank or the Bank's Shareholders Holding 5% Stake or Above

F Engaging Certified Public Accountants

Within the reported period, the Bank engaged Shenzhen Pengcheng Certified Public Accountants for the auditing assignment. According to regulations by the China Securities Regulatory Commission, the Bank employed Ernst & Young to workout the supplementary financial statement in compliance with international practice.

In 2006, the Bank paid RMB 2.98 million yuan to Shenzhen Pengcheng CPAs, and RMB 4.73 million yuan to Ernst & Young. Travel expenses of these two accountant firms were not reimbursed by the Bank.

Shenzhen Pengcheng CPAs and Ernst & Young have provided services for the Bank for 7 years.

G During the Reported Period, the Bank, the Board of Directors and its Members were not Examined or Penalized by China Securities Regulatory Commission, nor Publicly Denounced by the Shenzhen Stock Exchange

H The Fund Utilization of the Bank's Fund by Controlling Shareholders and Their Subsidiaries

At the end of the report period, the funds used by controlling shareholders of the Bank and other related parties were as follows:

Shenzhen Pengcheng CPAs issued Special Audit Remarks on Fund Utilization by Controlling Shareholders and Other Related Parties at Shenzhen Development Bank Co., Ltd. (Shen Peng Suo Zhuan Shen Zi [2006] 085)

NONOPERATIONAL USE OF FUND *In RMB ten thousand*	Name of fund users	Relationship between user & listed company	Accounting GL for listed company	Balance at begining of 2006	Change in 2006	Amount paid back in 2006	Balance at yearend 2006	Reasons	Essence of fund use
Current major Shareholders & their affiliates	Newbridge Asia AIV III, L.P.	Controlling shareholder	Other receivables	4.00	–	4.00	–	Paying on behalf for announcement	Non-operating use
Previous major Shareholders & their affiliates				–	–	–	–		Non-operating use
Total				4.00	–	4.00	–		

OTHER RELATED FUND FLOW *In RMB ten thousand*	Name of fund users	Relationship between user & listed company	Accounting GL for listed company	Balance at begining of 2006	Change in 2006	Amount paid back in 2006	Balance at yearend 2006	Reasons	Essence of fund use
Major Shareholders & their affiliates				–	–	–	–		
Subsidiaries of listed company & their affiliates	Shenzhen Yuansh Eng Co Ltd.	Controlled Subsidiaries	Other A/R	– 698.54	– 400.36	– –	– 1,098.90	Regular	Non-operating use
			Long-term equity investment	50,871.92	-137.17	–	50,734.75	Long-term fund appropriation	Non-operating use
Related natual person & their controlled legal persons				–	–	–	–		Non-operating use
Other related parties & affiliates				–	–	–	–		Non-operating use
Total				51,570.46	263.19	–	51,833.65		

I Explanations and Independent Opinions of Independent Directors Concerning Security Offered by the Bank

We, as independent directors of Shenzhen Development Bank, checked the security offered by the Bank in an impartial, fair and objective manner pursuant to Document [2003] 56 of CSRC. We think that the external guarantee business conducted by Shenzhen Development Bank is a regular banking business approved by PBOC and CBRC. Shenzhen Development Bank attaches importance to the risk management of the security business, and strictly follows the relevant operation flow and examination and approval procedure, thus ensuring effective control of the risk of the security business.

J Share Reform Situation at the Bank

The Bank actively helped the non-floating shareholders and floating shareholders to communicate with each other, in an effort to complete share reform in 2007.

K Researches, Interviews, etc. Sponsored by the Company

Within the reported period, the company communicated for dozens times with institutions on company financial position, operational results and other issues in financial results meeting, analyst meeting, road show, accepting investor visits, etc. The bank was interviewed by the press for many times and answered individual investors inquiries over the telephone for over 1,000 times. The contents of these communications are: development strategy of the company, financial reports, extraordinary announcements, financial results that the company can disclose under law, corporate culture events and other information of the company.

Witin the reported period, the company adhered to the requirement in the "Information Disclosure Guide for Listed Companies", when there is an interview or visit paid to the company, the company and related information disclosure parties strictly stick to the information disclosure rules and treated all investors request without difference. There has not been any specific targeted disclosure of unpublized material information. The bank based on these communications meetings on information authorized to be released by rules and has recorded the visits and communications in writing.

Introduction on General Shareholders Meetings

In the reported period, the Bank held two general meetings: annual general meeting, and extraordinary general meeting cum equity split reform related meeting. Details of the general meetings are stated as follows:

A The Bank held the 2005 annual general shareholders meeting on 26 June 2006. "The Announcement of Resolution of Annual General Shareholders Meeting 2005 of Shenzhen Development Bank Co., Ltd." was published on China Securities Times and Securities Times on 27 June 2006.

B The first 2006 extraordinary general shareholders meeting cum equity split reform related meeting was held on 17 July 2006 (the time for online voting: 13 July 2006 – 17 July 2006). "The Announcement of Resolution of the First Extraordinary General Meeting 2006 of Shenzhen Development Bank Co., Ltd." was published on China Securities Times and Securities Times on 18 July 2006.

Our Financial Results

Key Financials

PRC GAAP Financial Statements

IFRS Financial Statements

Our financial reporting team
(Front) Dong Shanrong, Huang Ying, **Wang Bomin (CFO)**, Wang Lan, Yang Jing, Chen Yanping, Liao Xiaoyun (Back) Zhong Xiujuan, Liu Xiaobin, Zeng Yin, Li Qingbo, Luo Zheng, Yang Shengbo

Key Financial Data Highlights

A Key Financial Statistics 2006

ITEMS *In RMB*	Audited figures (under PRC GAAP)
Total profit	1,994,521,965
Net profit	1,302,906,538
Net profit less non-recurring gains/losses	1,226,956,392
Profit from main businesses	1,905,168,852
Operating profit	1,905,168,852
Investment income	110,564,976
Subsidy revenue	–
Net non-operating revenue and expenses	89,353,113
Net cash flows from operating activities	7,410,385,467
Net decrease in cash and cash equivalents	1,440,384,933

Notes: 1. Total profit refers to profit before tax;

2. Non-recurring gains/losses are determined and calculated according to Q & A No. 1 on Regulation Governing Information Disclosure of Publicly Listed Companies – Non-recurring Gains/Losses; 75,950,146 yuan from non-recurring gains/losses, 59,927,542 yuan from disposal of long-term equity investment, fixed assets, intangible assets, construction-in-progress, etc., 29,425,571 yuan from other non-operating revenue and expenses after assets loss provision based on corporation accounting standards. -13,402,967 yuan of the impact on the income tax from the adjustments above;

3. Operating profit: refers to the total profit before income tax and non-operating net revenue;

4. Investment income refers to income differential of security sales;

5. For difference between the composition of net profit between domestic and international audit, please refer to section 3 in this chapter;

6. Cash and cash equivalents represent cash on hand, general deposits with the Central Bank due from banks and interbank placements maturing in less than three months, and short term highly liquid investments (maturity within three months starting from purchase date) which are readily convertible into known amounts of cash, subject to an insignificant risk of changes in value and which are within three months of maturity when acquired.

ITEMS *In RMB*	Audited figures (under IFRS)
Total profit	2,169,244,455
Net profit	1,463,386,391
Net profit less non-recurring income	1,402,287,806
Profit from main businesses	2,097,363,767
Operating profit	2,097,363,767
Investment income	110,564,976
Subsidy revenue	–
Net non-operating revenue and expenses	89,353,113
Net cash flows from operating activities	7,379,829,788
Net decrease in cash and cash equivalents	1,440,384,933

B Key Financial Statistics for 2004-2006

ITEMS *In RMB*	2006 Audited figures (under PRC GAAP)	2006 Audited figures (under IFRS)	2005 Audited figures (under PRC GAAP) After adjustment*	2005 Audited figures (under PRC GAAP) Before adjustment*	2004 Audited figures (under PRC GAAP) After adjustment*	2004 Audited figures (under PRC GAAP) Before adjustment*
Revenue from main businesses	**7,135,217,546**	**7,920,685,608**	5,450,550,760	5,491,270,580	5,256,156,154	5,247,795,930
Net profit	**1,302,906,538**	**1,463,386,391**	311,007,640	351,727,460	294,569,669	289,774,275
Total assets	**260,576,263,238**	**260,498,023,68**	222,324,686,641	229,216,415,808	204,442,759,083	204,286,424,020
Shareholders' equity (excluding minority shareholders' equity)	**6,474,463,247**	**6,597,039,727**	5,054,410,625	5,043,041,955	4,734,314,280	4,684,662,288
Fully diluted EPS	**0.67**	**0.75**	0.16	0.18	0.15	0.15
Weighted average EPS	**0.67**	**0.75**	0.16	0.18	0.15	0.15
Net asset value per share	**3.33**	**3.39**	2.60	2.59	2.43	2.41
Adjusted net asset value per share	**3.25**	**3.31**	2.53	2.52	2.36	2.34
Net operating cash flow per share	**3.81**	**3.79**	-2.20	-2.20	3.62	3.62
Return on ending equity (fully diluted)	**20.12%**	**22.18%**	6.15%	6.97%	6.22%	6.19%
Return on average equity (weighted avg)	**22.83%**	**25.27%**	6.99%	7.16%	6.42%	6.38%

Notes: 1. After adjustment figures represent figures after prior period adjustments which arise from a change of accounting policy required by MOF under No 14 rule.

2. Adjusted net asset value per share is calculated based on "No. 2 Regulation on Contents and Format of Information Disclosure on Publicly Listed Companies: Contents and Format of Annual Reports (Revised 2005), that is:

Adjusted net asset value per share = (year-end shareholders' equity - net receivables aged over 3 years – deferred expenses – long-term deferred expenses)/year-end total number of ordinary shares

3. Domestic financial statements are legal financial statements formulated under PRC GAAP while foreign financial statements are affiliated financial reports formulated under IFRS.

C Differences in Important Audit Figures between Financial Statements under PRC GAAP and under IFRS

1 Key GAAP differences and financial statistics

ITEMS *In RMB*	**31 December 2006 Net Assets**	**2006 Net Profit**	31 December 2005 Net Assets (recompiled)	2005 Net Profit (recompiled)
As reported in audited financial statements under PRC GAAP	**1,302,906,538**	**6,474,463,247**	311,007,640	5,054,410,625
Available-for-sale investments	**–**	**–**	250,000	–
Write off cost for setting up sub-branches	**18,669,168**	**–**	4,175,000	-18,669,168
Revaluation of investment properties	**117,865,627**	**171,142,263**	11,804,274	52,733,087
Adjustment in foreign exchange gains/losses	**43,002,702**	**–**	-43,002,702	–
Financial guarantee contract at fair value	**-4,815,007**	**-32,996,037**	-3,871,148	-28,181,030
Impact of deferred tax	**-14,242,637**	**-15,569,746**	3,474,140	-1,642,161
Under IFRS	**1,463,386,391**	**6,597,039,727**	283,837,204	5,058,651,353

i Notes on difference in financial statements presentation under PRC and IFRS

Financial results are presented differently under respective requirement under IFRS and under PRC GAAP. Presentation differs in terms of classification and grouping of financial figures, as well as format of presentartion. As a result of the difference in grouping and presentation, there will still be difference in key definitions such as operating income and operating profits. With an objective to present the financial results of the Company in a more consistent way in both sets of financial statements, the bank has voluntarily early adopted substantially the presentation requirement of the PRC accounting standards to be effective in the financial year 2007 and the differences in presentation of financial statements between PRC and IFRS are kept to a minimum.

ii Notes on difference in reported profits and net assets in PRC and IFRS financial statements

1) Since the adoption of MOF 14 in 2006, the net profit and net assets of the Company as reported in the PRC financial statements and the IFRS financial statements are now generally in line except for the difference in treatment of foreign exchange translation loss, non-operating expenses and investment properties. In order to further narrow down the difference in net asset value as reported in PRC and IFRS financial statements for the financial year ended 31 December 2006 before the adoption of the new PRC accounting standards, respective adjustments were being made to the financial statements prepared under PRC GAAP in 2006.

2) Investment properties are reflected by fair value under IFRS whereas the PRC GAAP applicable in 2006 does not recognize fair value to properties held for investment purpose. Therefore the net profit and net asset value needed to be adjusted upward to fulfil the respective requirement under IFRS. With an objective to fairly reflect the net asset value of the Company and in line with the international standards, the Company will adopted fair value model for investment properties in 2007 (please refer to section 9 Board of directors report PART IV on transition to the new PRC accounting standard in 2007).

3) Off-balance sheet guarantee contracts and banker's acceptance bills issued by the Company are required to be stated as fair value under the revised IAS 39 and IFRS 4 effective from 2006.

2 Loan impairment provisions

ITEMS *In RMB*	Audited figures (under PRC GAAP)	Audited figures (under IFRS)
Opening balance	6,232,551,493	6,232,551,493
Add: Reserves in the current year	1,303,298,163	1,863,719,175
Less: Reduced interest from impaired loan	–	560,421,012
Net provisions in the current year	1,303,298,163	1,303,298,163
Add: Recoveries in the current year	2,398,395	2,398,395
Add: Exchange difference	-37,150,918	-37,150,918
Less: Write-off for the current year	563,956,472	563,956,472
Ending balance	6,937,140,661	6,937,140,661

Notes on unwinding of discount on loan impairment provisions

Since the provisional regulations on the recognition and measurement of Financial instrument (Tentative) (the regulation Caikuai [2005] No. 14) does not have specific application guidance regarding the unwinding of discount on loan impairment provisions, no decomposition of the unwinding of discount is presented in the loan provision movement table.

D Appendix to Income Statement 2006 of the Bank

Pursuant to the CSRC "The Information Disclosure Guidelines for Companies with Publicly Issued Securities, Rule No. 9 – On Calculation and Disclosure of Return on Net Assets and Earnings per Share", the Bank's return on net assets and earnings per share calculated under PRC GAAP and IFRS are as follows:

1 Figures audited under PRC GAAP

	Return on equity (%)		Earnings per share (RMB)	
PROFIT IN THE REPORTED PERIOD	Fully diluted	Weighted average	Fully diluted	Weighted average
Profit from main businesses	29.43	33.39	0.98	0.98
Operating profit	29.43	33.39	0.98	0.98
Net profit	20.12	22.83	0.67	0.67
Profit less non-recurring gains/losses	18.95	21.50	0.63	0.63

2 Figures audited under IFRS

	Return on equity (%)		Earnings per share (RMB)	
ITEMS	Fully diluted	Weighted average	Fully diluted	Weighted average
Profit from main businesses	31.79	36.22	1.08	1.08
Operating profit	31.79	36.22	1.08	1.08
Net profit	22.18	25.27	0.75	0.75
Net profit less non-recurring gains/losses	21.26	24.22	0.72	0.72

E Changes in Shareholders' Equity in the Reported Period

1 Figures audited under PRC GAAP

ITEMS *In RMB*	Opening balance	Increase in the current year	Decrease during the year	Ending balance
Share capital	1,945,822,149	–	–	1,945,822,149
Capital reserve	1,574,373,233	113,640,262	39,496,880	1,648,516,615
Surplus reserve	324,200,160	130,290,653	–	454,490,813
Including: Statutory public welfare fund	107,630,481	–	–	107,630,481
General provision	479,704,345	1,200,000,000	–	1,679,704,345
Undistributed profits	773,313,440	1,302,906,538	1,330,290,653	745,929,325
Including: Dividend recommended for distribution	–	–	–	-
Currency translation difference	-43,002,702	43,002,702	–	-
Total shareholders' equity	5,054,410,625	2,789,840,155	1,369,787,533	6,474,463,247

Notes: The changes are due to the net profit and profit distribution in the reported period.

2 Figures audited under IFRS

ITEMS *In RMB*	Opening balance	Increase in the current period	Decrease in the current period	Ending balance
Share capital	1,945,822,149	–	–	1,945,822,149
Capital reserve	1,571,729,344	–	–	1,571,729,344
Reserve	803,904,505	1,330,290,653	–	2,134,195,158
Accumulated change in fair value – available-for-sale investments	2,247,304	136,392,115	61,852,149	76,787,270
Revaluation of investment properties	297,989	543,549	81,532	760,006
Undistributed profits	734,650,062	1,463,386,391	1,330,290,653	867,745,800
Total	5,058,651,353	2,930,612,708	1,392,224,334	6,597,039,727

Key Business Data Highlights

Pursuant to "Rule No. 7 – Special Regulations on Contents and Format of Annual Reports of Commercial Banks – of Editing and Reporting Rules Regarding Information Disclosure for Publicly Listed Companies" issued by CSRC, the Bank's major financial and business statistics and relevant information are as follows:

A Important Financial Statistics of the Bank for the Three Years up to the End of the Reported Period

ITEMS *In RMB*	**2006**	2005	2004
Total liabilities	**254,101,799,991**	217,270,276,016	199,708,444,803
Total deposits	**232,206,327,694**	201,815,801,002	167,266,248,457
Long-term deposits and inter-bank borrowings	**14,897,794,418**	16,102,216,340	14,875,731,585
Total loans	**182,181,946,961**	155,847,983,835	126,195,463,240
Loan balance by type:			
Including: Short-term loans	**93,069,355,598**	66,269,601,189	64,094,308,309
Trade finance	**1,718,801,587**	1,886,572,642	1,154,051,709
Discounted bills	**16,473,658,742**	38,159,232,598	16,701,407,260
Factoring	**1,174,384,091**	569,181,364	309,694,918
Medium and long-term loans	**55,059,044,480**	32,483,604,299	31,238,496,393
Overdue loans	**279,028,132**	496,724,787	1,264,560,541
Non-accruing loans	**14,407,674,331**	15,983,066,956	11,432,944,110

B Year-end and Average Monthly Financial Indices for the Three Years up to the End of the Reported Period

		2006		2005		2004	
ITEMS *In %*	Benchmark value	**Year-end**	**Monthly average**	Year-end	Monthly average	Year-end	Monthly average
Capital adequacy ratio	≥8	**3.71**	**3.63**	3.70	3.17	2.30	2.13
Core capital adequacy ratio	≥4	**3.68**	**3.58**	3.71	3.28	2.32	1.65
NPL ratio	≤8	**7.98**	**8.63**	9.33	10.21	11.41	10.07
Loan to deposit ratio	≤75	**71.36**	**67.78**	58.23	56.40	65.46	70.32
Liquidity ratio							
RMB	≥25	**45.99**	**34.18**	35.89	33.34	25.39	26.79
In foreign currency	≥25	**305.70**	**139.03**	87.86	84.45	79.30	85.49
Ratio of loans to No. 1 client	≤10	**9.17**	**11.48**	20.67	15.11	16.92	23.23
Return on ending assets		**0.50**	**–**	0.14	–	0.14	–
Return on ending equity		**20.12**	**–**	6.15	–	6.22	–
Return on average equity		**22.83**		6.99		6.42	

Notes: Financial ratios listed in the table above have been redefined by the CBRC.

C Capital Structure and Changes

ITEMS *In RMB million*	**31 December 2006**	31 December 2005	31 December 2004
Net capital	**6,420**	4,880	3,310
Including: Net core capital	**6,379**	4,885	3,340
Net risk-weighted assets	**173,222**	131,713	143,681
Capital adequacy ratio	**3.71%**	3.70%	2.30%
Core capital adequacy ratio	**3.68%**	3.71%	2.32%

D Branches of the Bank

Information about the branches (excluding Head Office) of the Bank was as follows by the end of the reported period:

NAME OF BRANCH	Address	Number of outlets	Asset size (In RMB million)	Staff size
Head Office Branch	SDB Tower, 5047 Shennan Road E., Luohu District, Shenzhen	1	7,051	73
Shenzhen Branch	Yinzuo International Building, 1056 Shennan Road, Shenzhen	88	39,645	1472
Guangzhou Branch	66 Huacheng Avenue, New Pearl River City, Tianhe District, Guangzhou	17	25,579	628
Haikou Branch	22 Jinlong Road, Haikou	4	3,725	140
Zhuhai Sub-Branch	8 Yinhua Road, Xiangzhou District, Zhuhai	6	3,130	132
Foshan Branch	148 Lianhua Road, Chancheng District, Foshan	10	9,837	304
Shanghai Branch	1351 Pudong Road S., Pudong, Shanghai	23	36,433	715
Hangzhou Branch	36 Qingchun Road, Hangzhou	16	22,819	468
Ningbo Branch	138 Jiangdong Road N., Ningbo	7	9,998	295
Wenzhou Branch	Guoxin Building, Renmin Road E., Wenzhou	5	6,102	174
Beijing Branch	158 Fuxingmen Nei Dajie, Beijing	17	32,545	551
Dalian Branch	130 Youhao Road, Zhongshan District, Dalian	7	6,454	209
Chongqing Branch	1 Xuetianwan Main Street, Yuzhong District, Chongqing	7	3,735	209
Nanjing Branch	28 Zhongshan Road N., Nanjing	10	15,234	340
Tianjin Branch	10 Youyi Road, Hexi District, Tianjin	8	8,803	253
Jinan Branch	138 Lishan Road, Jinan	5	7,227	191
Qingdao Branch	Tower A, International Commercial Center, 6 Hong Kong Road C., Qingdao	4	5,168	200
Chengdu Branch	206 Shuncheng Street, Chengdu	5	6,389	175
Kunming Branch	450 Qingnian Road, Kunming City	3	2,971	136
Total		243	252,845	6,665

E 5-tier Loan Classification at the End of the Reported Period

5-TIER GRADING *In RMB million*	**Loan balance 31 December 2006**	Loan balance 31 December 2005	Change
Normal	**161,850**	131,916	22.69%
Special mention	**5,767**	9,360	-38.39%
Substandard	**6,897**	7,307	-5.61%
Doubtful	**6,037**	5,787	4.32%
Loss	**1,631**	1,478	10.35%
Total	**182,182**	155,848	16.90%

Notes: 1. On 23 May 2005, the Ministry of Finance issued "Regulation Governing Impairment Provisions of Financial Institutions" (Cai Jin [2005] No.49) (hereinafter abbreviated as "the Regulation"), which stated that the general provision reserve should be made by financial institutions at a certain percentage of risky asset balance (not lower than 1% of risky asset balance at year end) to cover unidentified potential losses. For specific loans incurred loss, impairment provision should be made from the income statement according to the risk level and recoverability. The Regulation took effects on 1 July 2005. Where previous relevant regulations disagree with this Regulation, this Regulation shall prevail.

In addition, according to "Notice from Ministry of Finance relating to impairment provisions" (Cai Jin [2005] No.90), financial institutions shall make sufficient general provision reserve in three to five years which will be implemented by the Bank.

2. The Bank analyzes the 5-tier grading information based on a number of factors including borrower's repayment capacity, principal and interest repayment status, the values of collaterals, the guarantor's capacity and the loan management status of the Bank as well as logically making loan impairment provision in a separate or combined way according to the risk level and recoverability and the estimated present value of future cash flow. At the end of the reported period, the loan impairment provision balance was RMB 6,937,140,661 yuan.

Besides RMB 1,425,796,034 yuan's loan impairment provision, another RMB 1,200,000,000 yuan was also prepared by the Bank as general provision to cover unidentified potential losses. And by 31 December 2006, the general provision balance for covering unidentified potential losses is RMB 1,679,704,345 yuan presented in Shareholders' equity.

3. The RMB 1.5 billion yuan loan of Zhongcai series of companies is the major NPL of the Bank which has been reported to regulatory and policy department, and the court proceedings concerning the NPL are underway. The Bank has engaged legal advisors to support the legal proceedings. Due to the uncertainty of future recoverability, the management has provided approximately RMB 500 million yuan loan impairment provision.

4. Loss coverage of NPL increased from 43% in 2005 to 48% in 2006.

F Top 10 Borrowers and Their Percentage of Total Lending at the End of the Reported Period

By the end of the reported period, the loan balance of the top 10 borrowers of the Bank totaled RMB 4.587 billion yuan or 2.52% of the ending loan balance. The top 10 borrowers are: Jiangsu Expressway Operations Management Center, Shenzhen City Citic Plaza Investment Co. Ltd., Nanjing Underground Railway Co., Ltd., Zhejiang Shunfeng Transportation Group Company, Shenzhen Yijing Central City Business Development Co., Ltd., Changchun Land Purchase, Reserve & Trading Center, Beijing Construction Engineering Group Co., Ltd., Zhongshang Trading Cooperation Co. Ltd., Zhongcai Guoqi Investment Co., Ltd., and Shouchuang Network (Tianjin) Co., Ltd.

G No soft loans equaling to or more than 20% of total lending were on record by the end of the reported period.

H The year-end balance of restructured loans of the Bank was RMB 3,925,760,000 yuan in which RMB 1,399,650,000 yuan was overdue.

I Average Annual Loan Balance and Interest Rates Classified Based on the Monthly Average

TYPE *In RMB million*	Average balance	Average interest rate
Short-term loans (home & foreign currencies)	83,888	5.75%
Medium and long-term loans (home & foreign currencies)	43,838	5.78%
Total	127,726	

J Detailed Information on Holdings of Large-value Treasury Bonds at the End of Reported Period

At the end of 2006, holdings of large-value treasury bonds of the Bank are as follows:

BOND TYPE	Amount (RMB million)	Annual interest rate	Maturity date
06 T-bond 06	2,850	2.62%	2013.5.25
06 T-bond 05	2,550	2.40%	2011.5.16
03 T-bond 02	740	2.80%	2013.4.9
03 T-bond 06	600	2.53%	2008.7.25
01 T-bond 01	500	2.82%	2011.3.23
01 T-bond 09	500	3.04%	2011.8.31
02 T-bond 09	500	2.70%	2012.7.19
02 T-bond 01	450	2.70%	2012.3.18
00 T-bond 02	400	2.80%	2010.4.18
05 T-bond 05	387	3.37%	2012.5.25
00 T-bond 01	300	2.90%	2007.2.24
01 T-bond 14	300	2.90%	2008.12.10
03 T-bond 04	300	2.45%	2008.4.24
01 T-bond 05	250	3.71%	2008.6.22
05 T-bond 07	250	1.58%	2007.7.15
05 T-bond 13	210	3.01%	2012.11.25
00 T-bond 12	200	3.12%	2007.12.20
06 T-bond 03	190	2.80%	2016.3.27
05 T-bond 14	170	1.75%	2007.12.15
06 T-bond 01	127	2.51%	2013.2.17
06 T-bond 18	100	2.48%	2011.10.25

K Provisions for Interests Receivable and Other Receivables in the Reported Period

TYPE *In RMB*	Amount	Provision
Receivables (interest receivable)	675,699,813	–
Other receivables	367,944,870	181,090,531

Notes: Interest receivables arising from interest-generated assets such as loans would offset interest income in case that interest receivables become overdue for 90 days and fail to be recovered. Such interest receivables were not included in the Balance Sheet and no provisions were made against them. Other receivables were dealt with one by one, and the bank analyzed the probability of their recovery and made provision for losses in a logical way.

L Average Annual Balances and Interest Rates of Principal Types of Deposits in the Reported Period

TYPE *In RMB million*	Average annual balance	Average annual deposit interest rate
Corporate deposits (home & foreign currencies)	181,715	1.68%
Household deposits (home & foreign currencies)	30,686	1.58%

M Measures that have been taken or will be taken on Issues of Balance of Non-performing Loans at the End of the Reported Period

Balance of non-performing loans was RMB 14.565 billion yuan at the end of reported period including substandard, doubtful and loss categories based on the 5-tier loan grading system. Measures that have been taken or will be taken on issues of balance of non-performing assets within the reported:

1 Continuing reforming the management framework in the reported period, the Bank further improved the vertical non-performing asset management system; established Head Office Special Assets Operation Center to manage the distressed assets to be disposed of; appointed asset protection credit executive to step up transformation of non-performing assets; and continued establishing and improving asset protection mechanisms at the branches.

2 Took diversified measures to attain the clearing target. In the reported period, the Bank formulated "Regulation on Important Cases of Asset Protection" to step up management and clearing of important cases; established the key clearing branch coordinator system to improve joint action between the Head Office and branches; took various legal or civil clearing measures with one policy for one case to enhance clearing efficiency; "operated" non-performing assets in the clearing process to maximize the value of non-performing assets; and strengthened management of bank-wide cleaning plan.

3 Improved the mechanism for encouraging clearing of non-performing assets. Implemented non-performing asset clearing reward policy to grant rewards based on the amount, type, mode, etc. of the non-performing assets recovered so as to give play to the initiatives of the clearing staff; implemented the budget system for non-performing asset clearing expenses so as to provide necessary conditions and guarantee for the clearing work.

4 Stepped up write-off management. On the one hand, strengthened management of loss-type non-performing assets and wrote them off on a quarterly basis, and on the other hand, cleared and classified the bad debts already written off and input more resources to valuable clearing work to reduce ineffective clearing work.

N There are No Outstanding Debts in Default owed by the Bank during the Reported Period

O Year-end Balance for Off-balance Sheet Business that may have Significant Impact on the Bank's Financial Situations and Operating Results

ITEMS *In RMB*	Amount
Banker's acceptance bills	101,280,502,321
Issuance of L/C	1,720,642,196
Issuance of letters of guarantee	2,531,815,404
Unused credit line	3,034,545,957

P Possible losses derived from risks revealed by previous reported period, and the possible impact of existing risks and corresponding policies adopted by the Bank.

The bank is fully aware of the risks disclosed in previous report and has taken precautionary measures to cope with the risks which have constituted neither significant impact nor grave loss for the Bank's operation.

The major risks faced by the Bank at the end of the report period and countermeasures taken:

Market risk, credit risk, operational risk and liquidity risk are the main risks the Bank faced in the reported period and will continue to be facing in the future. The Bank will be introducing advanced international risk management concepts, methods and techniques according to the regulation requirements to establish an overall risk management system and organizational structure to effect a full-scale dynamic risk management system on the Bank's whole operations.

1 Credit risk

In the reported period, the Bank assigned credit executives to all the branches and asset protection business lines; formulated bank-wide credit guidelines to strengthen credit policy guide and industry risk guide; designed and implemented 11-tier loan classification and management measures to enhance the risk sensitivity and predictability of the credit rating system; improved the credit risk monitoring and warning system to strengthen supervision of regulation compliance of credits and define the responsibilities of various credit posts; reformed the bank-wide credit centralized management system; and stepped up building credit management information system. In the reported period, the aforesaid measures achieved satisfactory results, realizing a decrease of both NPL and NPL ratio.

2 Market risk

Market risk applies to the volatility in interest rate, exchange rate, commodity price and other uncertain market factors that might cause unfavorable changes in the bank future earnings and cash flow resulting in potential losses to the bank. Market risk of the bank comes from the proprietary investment the bank made, other assets and liabilities, off-balance sheet promises and guarantees. The management target of the market risk for the bank is through independent identification, calculation and monitoring of market risk for the bank to control it at acceptable levels. In order to reach this target, the assets and liabilities committee of the bank drafted market risk management policies as well as introducing internationally commonly used market risk quantitative measurement models to determine the position of market risk. The financial information and Asset&Liability Department delivers periodic market risk reports to the Board Risk Management Committee and Asset&Liability Management Committee.

3 Operational risk

Operational risk refers to risk resulting from defective internal procedure, operator errors or malpractice and external events. The Bank controlled operational risk from six dimensions of “people, regulation procedure, system, inspection and supervision, report and database”; gradually established a business operation control system based on laws and regulations, operation standards, core and application systems; strengthened the operation risk control and monitoring means; and objectively and impartially assessed operational risk through field work.

4 Liquidity risk

Liquidity risk refers to the ability to quickly obtain cash assets without incurring loss of value or with the loss of value controlled within the allowed range. The key monitoring technique the bank is engaging in is through liquidity gap analysis, which is to analyze the maturity and position of different assets and liabilities to monitor whether this gap is within the control of the Asset&Liability Management Committee. Simultaneously, the bank is also engaging in the commonly-used scenario analysis to set up different extreme scenarios to test the liquidity risk of the bank and provide relevant funding solutions for reviewing at the Asset&Liability Management Committee. The key liquidity risk management technique at the bank is to have a two-way management of assets and liabilities to increase the proportion of those assets with good liquidity and strong abilities to be converted into cash on one hand and keep stability in liabilities and increase the proportion of longer-term, more stable good-quality core deposits on the other hand.

Q Integrity, Rationality and Effectiveness of Internal Control System

Internal control of commercial banks consists of a series of policies, procedures and measures on preventing risks with an aim to achieve the operational target. In accordance with Law of the People’s Republic of China on Commercial Banks, Guideline on Internal Control of Commercial Banks, and Guideline on Corporate Governance of Joint-Stock Commercial Banks, the Bank has established regulations and operation instructions for various businesses. Internal control policies have been practiced by various business procedures, operational levels, all departments and positions in the Bank which further strengthened and improved internal control system.

During the reported period, the Bank has effectively implemented planned financial vertical management system, credit vertical management system and independent vertical internal audit management system as well as establishing a multi-level supervision, inspection and auditing system to conduct the internal inspection and evaluation of all types of risks which guaranteed the practice of rules and operational regulations. The current internal control system of the Bank generally reflects integrity, rationality and effectiveness.

The Bank’s internal control system has been reviewed by Shenzhen Pengcheng Certified Public Accountants who found no significant weakness in the internal control system of the Bank.

Auditors' Report

SPSGSZ [2007] No. 034

To the shareholders of shenzhen development bank Co., Ltd.:

We have audited the accompanying balance sheet of Shenzhen Development Bank Co., Ltd. as of 31 December 2006 and the statements of income, changes in equity and cash flows for 2006, and the explanatory notes.

1 Management's responsibility for the financial statements

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

2 Certified Public Accountants' responsibility

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

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

3 Opinion

In our opinion, the financial statements of Shenzhen Development Bank Co., Ltd. have been properly prepared in accordance the requirements of the Accounting Standards for Business Enterprises and the Accounting Regulations for Financial Enterprises and present fairly, in all material respects, the state of affairs of Shenzhen Development Bank Co., Ltd. as at 31 December 2006 and of its results of operations and cash flows for the year then ended.

SHENZHEN PENGCHENG
CERTIFIED PUBLIC ACCOUNTANTS CO., LTD.

深圳市鹏城会计师事务所有限公司

Shenzhen, PRC
20 March 2007

Certified Public Accountant

Long Ying

Certified Public Accountant

Hou Lixun

Balance Sheet

as at 31 December 2006

In RMB	Note G	**31 December 2006**	31 December 2005 (Restated)
ASSETS			
Cash and balances with central bank	1	**26,288,175,902**	21,759,697,445
Deposits with banks	2	**3,081,003,224**	6,579,429,957
Inter-bank placements and advances	3	**3,369,175,966**	3,284,950,887
Financial assets measured at fair value through profit or loss	4	**427,358,435**	847,592,044
Positive value of derivative financial instruments held for trading	5	**22,763,357**	5,730,440
Amounts held under resale agreements	6	**11,271,768,336**	8,665,334,291
Interest receivable	7	**675,699,813**	461,714,999
Loans and advances	8	**175,244,806,300**	149,615,432,342
Available-for-sale investments	9	**18,052,341,651**	26,248,543,243
Held-to-maturity investments	10	**17,548,193,286**	–
Long-term equity investments	11	**213,994,842**	233,372,750
Fixed assets	12	**1,994,379,072**	2,417,722,573
Intangible assets	13	**26,567,410**	41,580,457
Deferred tax assets	14	**1,002,643,480**	1,000,888,827
Other assets	15	**1,357,392,164**	1,162,696,386
Total assets		**260,576,263,238**	222,324,686,641
LIABILITIES AND SHAREHOLDERS' EQUITY			
Deposits from banks and other financial institutions		**17,069,243,639**	10,469,234,116
Financial liabilities measured at fair value through profit or loss	4	**483,751,203**	679,059,418
Negative value of derivative financial instruments held for trading	5	**28,115,045**	16,172,992
Amounts arising from sale and repurchase agreements	6	**741,010,474**	1,169,429,752
Customer deposits	16	**232,206,327,694**	201,815,801,002
Staff cost payable		**614,628,342**	409,928,278
Tax payable	17	**474,579,671**	521,756,284
Interest payable		**942,538,161**	821,091,626
Provisions		**55,448,513**	58,718,373
Deferred tax liabilities	14	**233,812,075**	235,048,573
Other liabilities	18	**1,252,345,174**	1,074,035,602
Total liabilities		**254,101,799,991**	217,270,276,016
SHAREHOLDERS' EQUITY			
Share capital	19	**1,945,822,149**	1,945,822,149
Capital reserve	20	**1,648,516,615**	1,574,373,233
Surplus reserve	21	**454,490,813**	324,200,160
General reserve		**1,679,704,345**	479,704,345
Undistributed profits	22	**745,929,325**	773,313,440
Exchange difference		**–**	-43,002,702
Total shareholders' equity		**6,474,463,247**	5,054,410,625
Total liabilities and shareholders' equity		**260,576,263,238**	222,324,686,641

(The accompanying notes form an integral part of these financial statements)

Chairman & CEO	Chief Financial Officer	Financial Controller
Frank N. Newman	**Wang Bomin**	**Wang Lan**

Income Statement

for the year ended 31 December 2006

In RMB	Note G	**2006**	2005 (Restated)
Net operating income		**7,135,217,546**	5,450,550,760
Net interest income	23	**6,482,444,349**	4,893,675,757
Interest income		**11,551,217,279**	8,664,012,573
Interest expense		**5,068,772,930**	3,770,336,816
Fee and commission income		**425,394,842**	307,086,758
Fee and commission expense		**118,853,446**	67,990,465
Net fee and commission income	24	**306,541,396**	239,096,293
Investment trading income	25	**110,564,976**	111,475,992
Net (loss)/gain on financial assets and financial liabilities measured at fair value through profit or loss	26	**-16,271,119**	1,117,092
Net foreign exchange gain		**145,986,370**	132,256,165
Others business income		**105,951,574**	72,929,461
Other operating income		**346,231,801**	317,778,710
Operating income		**7,135,217,546**	5,450,550,760
Business tax and surcharges		**553,472,659**	416,921,653
General and administrative expenses	27	**3,250,780,001**	2,596,811,607
Operating expenses		**3,804,252,660**	3,013,733,260
Operating profit before impairment losses		**3,330,964,886**	2,436,817,500
Asset impairment losses	Note R.2	**1,425,796,034**	1,802,782,794
Operating profit	28	**1,905,168,852**	634,034,706
Add: Non-operating income	29	**109,402,350**	31,097,656
Less: Non-operating expense	29	**20,049,237**	67,235,621
Profit before tax		**1,994,521,965**	597,896,741
Less: Enterprise income tax	30	**691,615,427**	-286,889,101
Net profit		**1,302,906,538**	311,007,640
Earnings per share			
Basic earnings per share	Note R.1	**0.67**	0.16
Diluted earnings per share	Note R.1	**0.67**	0.16

(The accompanying notes form an integral part of these financial statements)

Chairman & CEO
Frank N. Newman

Chief Financial Officer
Wang Bomin

Financial Controller
Wang Lan

Statement of Changes in Equity

for the year ended 31 December 2006

In RMB	Share capital	Capital reserve	Surplus reserve	General reserve	Undistributed profits	Exchange difference	Total
31 December 2005 (before retrospective adjustments)	1,945,822,149	1,571,729,344	322,891,443	479,704,345	765,897,376	-43,002,702	5,043,041,955
Add: Changes in accounting policies	–	2,643,889	1,308,717	–	7,416,064	–	11,368,670
31 December 2005 (after retrospective adjustments)	1,945,822,149	1,574,373,233	324,200,160	479,704,345	773,313,440	-43,002,702	5,054,410,625
Movements during the year:	–	74,143,382	130,290,653	1,200,000,000	-27,384,115	43,002,702	1,420,052,622
1. Net profit	–	–	–	–	1,302,906,538	–	1,302,906,538
2. Gains and losses directly recognised in shareholders' equity	–	74,143,382	–	–	–	–	74,143,382
i) Fair value movements of available-for-sale financial assets	–	87,694,077	–	–	–	–	87,694,077
a) Amounts recognised in shareholders' equity	–	113,640,262	–	–	–	–	113,640,262
b) Amounts transferred to current year profit or loss	–	-25,946,185	–	–	–	–	-25,946,185
ii) Tax effect on amounts recognised in shareholders' equity	–	-13,550,695	–	–	–	–	-13,550,695
Total of i) and ii)	–	74,143,382	–	–	1,302,906,538	–	1,377,049,920
3. Share capital addition & reduction	–	–	–	–	–	–	–
4. Profit appropriations	–	–	130,290,653	1,200,000,000	-1,330,290,653	–	–
i) Appropriation to surplus reserve	–	–	130,290,653	–	-130,290,653	–	–
ii) Appropriation to general reserve	–	–	–	1,200,000,000	-1,200,000,000	–	–
iii) Distribution among shareholders	–	–	–	–	–	–	–
5. Internal shares transfer	–	–	–	–	–	–	–
6. Other changes	–	–	–	–	–	43,002,702	43,002,702
31 December 2006	**1,945,822,149**	**1,648,516,615**	**454,490,813**	**1,679,704,345**	**745,929,325**	**–**	**6,474,463,247**

(The accompanying notes form an integral part of these financial statements)

Chairman & CEO
Frank N. Newman

Chief Financial Officer
Wang Bomin

Financial Controller
Wang Lan

Statement of Changes in Equity *(continued)*

for the year ended 31 December 2006

In RMB	Share capital	Capital reserve	Surplus reserve	General reserve	Undistributed profits	Exchange difference	Total
31 December 2004 (before retrospective adjustments)	1,945,822,149	1,571,729,344	270,132,324	279,704,345	666,929,035	-2,917	4,734,314,280
Add: Changes in accounting policies	–	-486,991,941	7,416,690	–	42,027,911	–	-437,547,340
31 December 2004 (after retrospective adjustments)	1,945,822,149	1,084,737,403	277,549,014	279,704,345	708,956,946	-2,917	4,296,766,940
Movements during the year:	–	489,635,830	46,651,146	200,000,000	64,356,494	-42,999,785	757,643,685
1. Net profit	–	–	–	–	311,007,640	–	311,007,640
2. Gains and losses directly recognised in shareholders' equity	–	489,635,830	–	–	–	–	489,635,830
i) Fair value movements of available-for-sale financial assets	–	489,635,830	–	–	–	–	489,635,830
a) Amount included in equity	–	–	–	–	–	–	–
b) Profit & loss amount due to asset sale	–	–	–	–	–	–	–
c) Retrospective adjustments arising from changes accounting policies	–	489,635,830	–	–	–	–	489,635,830
ii) Income tax impact on equity	–	–	–	–	–	–	–
Total of i) and ii)	–	489,635,830	–	–	311,007,640	–	800,643,470
3. Addition and reduction of share capital	–	–	–	–	–	–	–
4. Profit appropriations	–	–	46,651,146	200,000,000	-246,651,146	–	–
i) Appropriation to surplus reserve	–	–	52,759,119	–	-52,759,119	–	–
ii) Appropriation to general reserve	–	–	–	200,000,000	-200,000,000	–	–
iii) Distribution to Shareholders	–	–	–	–	–	–	–
iv) Retrospective adjustments arising from changes in accounting policies	–	–	-6,107,973	–	6,107,973	–	–
5. Internal Share Transfer	–	–	–	–	–	–	–
6. Other changes	–	–	–	–	–	-42,999,785	-42,999,785
31 December 2005	1,945,822,149	1,574,373,233	324,200,160	479,704,345	773,313,440	-43,002,702	5,054,410,625

(The accompanying notes form an integral part of these financial statements)

Chairman & CEO
Frank N. Newman

Chief Financial Officer
Wang Bomin

Financial Controller
Wang Lan

Statement of Cash Flows

for the year ended 31 December 2006

In RMB	Note	**2006**	2005
Cash flows from operating activities			
Interest received		**10,347,634,060**	7,969,827,169
Increase in customer deposits		**30,390,526,692**	34,797,952,756
Increase in due to banks		**6,600,009,523**	1,953,161,626
Decrease in inter-bank placements and advances		**1,135,722,149**	2,665,629,058
Collections of amounts already written-off		**2,900,107**	3,664,616
Cash inflow from other operating activities		**1,009,763,098**	1,696,155,290
Cash inflow from operating activities		**49,486,555,629**	49,086,390,515
Interest paid		**4,947,326,395**	3,662,638,046
Decrease in repurchase agreements		**428,419,278**	12,728,402,739
Decrease in borrowing from other financial institutions		**–**	322,888,749
Increase in loan and advances		**27,054,477,206**	30,705,648,933
Increase in due from the central bank and banks		**2,675,420,079**	2,295,155,563
Increase in amounts held under resale agreements		**2,606,434,045**	–
Staff costs paid and amounts paid on behalf of staff		**1,230,566,326**	1,041,394,078
Tax paid		**1,342,544,835**	848,520,132
Cash outflow from other operating activities		**1,790,981,998**	1,767,326,761
Cash outflow from operating activities		**42,076,170,162**	53,371,975,001
Net cash inflow/(outflow) from operating activities		**7,410,385,467**	-4,285,584,486
Cash flows from investing activities			
Bond interest received and dividend received		**735,195,265**	853,575,232
Disposal of securities		**50,023,133,490**	8,140,440,997
Disposal of fixed assets and other long-term assets		**363,958,757**	648,678,348
Cash inflow from investing activities		**51,122,287,512**	9,642,694,577
Payments made in securities		**59,721,847,300**	622,935,586
Purchases of properties and equipment and others		**249,983,343**	872,695,516
Cash outflow from investing activities		**59,971,830,643**	1,495,631,102
Net cash flow (used in)/generated from investing activities		**-8,849,543,131**	8,147,063,475
Cash flows from financing activities			
Dividends paid		**1,227,269**	130,588
Cash outflow from financing activities		**1,227,269**	130,588
Net cash flow used in financing activities		**-1,227,269**	-130,588
Effect of exchange rates changes on cash and cash equivalents		**–**	-42,557,713
Net increase in cash and cash equivalents		**-1,440,384,933**	3,818,790,688
Add: Cash and cash equivalent at beginning of the year		**19,447,900,111**	15,629,109,423
Cash and cash equivalents an the end of the year		**18,007,515,178**	19,447,900,111

(The accompanying notes form an integral part of these financial statements)

Chairman & CEO
Frank N. Newman

Chief Financial Officer
Wang Bomin

Financial Controller
Wang Lan

Notes to the Financial Statements

(Amounts expressed in Renminbi Yuan "RMB", unless otherwise stated)

A Company Status

Shenzhen Development Bank Co., Ltd. (the "Company") was established in the Shenzhen Special Economic Zone as a result of the restructuring of six agricultural credit co-operatives into a joint stock commercial bank with limited liability. The Company was established on 22 December 1987 after the initial public offering of its RMB ordinary shares on 17 May 1987. The Company was the first entity listed on securities companies of the Shenzhen Special Economic Zone on 7 April 1988.

The Company obtained the Certificate of Financial Institution No. 00000008 and Institution Code No. B11415840H0001 issued by China Banking Regulatory Commission (CBRC), and Certificate of Business Enterprise No. N46884 issued by the Industrial and Commercial Administration Bureau of Shenzhen Municipality. The Company is authorized to conduct the following business activities:

Deposit-taking, lending, settlement and exchange of RMB; bills discounting and acceptance of RMB; trust business; issuance or dealing of RMB securities subject to the CBRC's approval; deposit-taking and remittance of foreign currency; domestic and overseas borrowing; issuance or underwriting of foreign currency securities in domestic or overseas market; trading or non-trading settlement; bills discounting and acceptance of foreign currencies; lending of foreign currency loans; trust or self dealing of foreign exchange; credit evaluation, consultation and notarization; and other activities approved by the CBRC.

The Company has established branches and networks in Beijing, Shanghai, Tianjin, Guangzhou, Shenzhen, Chongqing, Dalian, Hangzhou, Nanjing, Haikou, Jinan, Qingdao, Zhuhai, Foshan, Ningbo, Wenzhou, Chengdu and Kunming in 31 December 2006. The investment in subsidiary is as follows:

NAME OF SUBSIDIARY	Place of registration	Registered share capital	Percentage of equity interest attributable to the Company	Principal activities	Consolidated or not
Shenzhen Yuansheng Industrial Co., Ltd. ("Yuansheng")	Shenzhen	21,010,000	100%	Real estate	No (Note B.5)

B Basis of Preparation

1 Accounting principles

The financial Statements have been prepared in accordance with the requirements of the Accounting Standards for Business Enterprises and the Accounting Regulations for Financial Enterprises, and the related supplementary requirements.

In accordance with relevant requirements of the "Provision Rule on Recognition and Measurement of Financial Instruments (Trial)" (Cai Kuai [2005] No. 14) issued by the MOF, listed commercial banks should apply the relevant requirements of (Cai Kuai [2005] No. 14 from 1 January 2006. To apply Cai Kuai [2005] No. 14, the Company's financial statements for the current accounting period has bee prepared based on the relevant requirements of Accounting Standard for Business Enterprises 22, "Financial instruments: Recognition and measurement", taking into account the banking business features (see note 3). The Company is in the process of upgrading the financial reporting system to accommodate the relevant requirements of the new accounting standards and related guidelines.

In accordance with the "MOF's Notice in connection with the Publication of the 38 Generally Accepted Accounting Principles beginning with Accounting Standard for Business Enterprises 1 – Inventory", (Cai Kuai [2006] No. 3) issued by the MOF, listed commercial banks are required to comply with the 38 new Accounting Standards for Business Enterprises (see note 15) from 1 January 2007.

2 Financial year

The Company's financial year starts on 1 January and ends on 31 December.

3 Functional currency and foreign currency translation

The functional currency of the Company is RMB. The Company maintains multi-currency ledgers for foreign currency businesses. Transactions are recorded in the original currency of occurrence. Upon preparation of the financial statements, the foreign currency balances are translated into RMB at the applicable exchange rates prevailing at balance sheet date, and the equity items translated at historical exchange rate, exchange differences arising from changes in exchange are included in the income statement.

4 Basis of accounting and measurement bases

The Company follows accruals basis of accounting. Assets are recorded at historical cost except for financial assets and liabilities measured at fair value, or otherwise stated.

5 Consolidated financial statements

According to Commercial Bank Law and other regulations, the Company intends to spin off its sole subsidiary Yuansheng. Yuansheng is under disposal in the year and has no significant impact to the financial statements of the Company. According to the "Temporary Regulations on for Consolidated Financial Statements", the Company did not consolidate its financial statements. Information of Yuansheng is disclosed in Note Q .

The Company does not have other subsidiaries that would need to be consolidated in its financial statements. Accordingly, the Company has not prepared consolidated financial statements.

C Changes in Accounting Policies

In accordance with the Cai Kuai [2005] No. 14, the Board of Directors has approved on 17 August to retrospectively apply the relevant requirements of Accounting Standard for Business Enterprise 22, "Financial instruments: Recognition and Measurement" (see notes D (2), (3) and (9)). The Company has also applied the relevant requirements of Cai Kuai [2005] No. 14 to retrospectively adjusted the opening balances of the financial statements. The effects of retrospective adjustments on the opening balances of the shareholders' equity are as follows:

ITEMS	Undistributed profits brought forward	Capital reserve	Surplus reserve
Balances before adjustments	765,897,376	1,571,729,344	322,891,443
Fair value measurement of financial assets measured at fair value through profit and loss	(9,985,845)	–	–
Fair value measurement of available-for-sale financial assets	–	2,643,889	–
Recognition of interest income on available-for-sale financial assets	18,710,626	–	–
Adjustments to profit appropriations as a result of the above adjustments	(1,308,717)	–	1,308,717
Balances after adjustments	773,313,440	1,574,373,233	324,200,160

The effects of retrospective adjustments on the prior years' profit and loss are as follows:

ITEMS	Profit for 2005	Profit for 2004	Profit for years before 2004
Balance before adjustments	351,727,460	294,569,669	475,458,751
Fair value measurement of financial assets measured at fair value through profit and loss	544,604	(1,126,482)	(9,403,966)
Recognition of interest income on available-for-sale financial assets	(41,264,424)	(45,874,004)	(14,101,045)
Balance after adjustments	311,007,640	339,317,191	480,155,830

Other than the above transactions and events, the Company has followed the relevant requirements of Cai Kuai [2005] No. 14 to prospectively adopt changes in accounting policies.

D Summary of Significant Accounting Policies

1 Cash and cash equivalents

Cash and cash equivalents represent cash on hand, general deposits with the Central Bank, due from banks and interbank placements maturing in less than three months, and short term highly liquid investments (maturity within three months starting from purchase date) which are readily convertible into known amounts of cash, subject to an insignificant risk of changes in value and which are within three months of maturity when acquired.

2 Financial assets

Financial assets include cash, equity investments, contractual rights to receive cash or other financial assets from another entity and contractual rights to exchange financial assets and financial liabilities with another entity under conditions that are potentially favourable to the Company, such as receivables, loans, debt investments, equity investments and financial derivatives. Financial assets are classified into the following four categories when they are initially recognised:

- held-for-trading financial assets and financial assets measured at fair value through profit and loss;
- held-to-maturity investments;
- loans and receivables, and
- available-for-sale financial assets.

The Company's investments in subsidiaries, associated companies, jointly controlled entities and equity investments that are not quoted on an active market are classified as "Long term equity investments".

At initial recognition, all financial assets are measured at fair value. Transaction costs related to financial assets not held-for-trading are recognised in the initial measured amount.

i Held-for-trading financial assets and financial assets measured at fair value through profit or loss

1) Held-for-trading financial assets
Held-for-trading financial assets include those financial instruments sold or repurchased at fair value in recent periods or managed for the purpose of short term profit taking and derivative financial instruments.

2) Financial assets measured at fair value through profit or loss
The Company designates financial assets that have market quotes in an active market and whose fair value can be reliably measured as financial assets measured at fair value through profit or loss.

3) Subsequent measurement
Held-for-trading financial assets and financial assets measured at fair value through profit or loss are measured at fair value at the balance sheet date, without deducting any transaction costs that may occur upon sale or disposal in the future. All realised and unrealised gains or losses arising from changes in fair value recognised in the income statement.

ii Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed maturity and a fixed or determinable recoverable amount that the Company has the positive intent and ability to hold to maturity. Held-to-maturity investments are stated at the balance sheet date at amortised cost, using the effective interest rate method, minus the allowance for any impairment losses recognised at the balance sheet date. If the Company disposes or classify held-to-maturity investments of significant amounts in the current accounting period or the preceding two accounting years, the remaining balances of held-to-maturity investments are re-classify as available-for-sale financial assets.

iii Loans and receivables

Loans and receivables are non-derivative financial assets, held by the Company, with fixed or determinable recoverable amounts that are not quoted on an active market. The Company's management does not intend to dispose such assets immediately or in short term. Loans and receivables are stated at the balance sheet date at amortised cost (minus the allowance for impairment losses recognised) using the effective interest rate method.

Loans
Loans of the Company include short-term loans, medium-term and long-term loans, discounted bills, trust receipt loans, overdue loans and non-accrual loans.

Short term loans represent loans within one year, including collateralised loans, guaranteed loans, unsecured loans and trust receipt loans. Medium-term and long-term loans represent loans over one year.

Overdue loans represent unsettled loans after maturity (including maturing after extension), including the payments for discounted bills, accepted drafts, issued letter of credit or letter of guarantee due to inadequacy of pledged deposits.

Loans are recognised as non-accrual loans when the principals or interest receivables are overdue over 90 days.

Discounted bills and trust receipt loans represent payments under the Company's commercial discounted bills and letter of credit.

Receivables
Receivables refers to the Company's placements with banks and other financial institutions, balances under purchase and re-sell agreements, interest receivables, other receivables, balances paid on behalf of other parties and debt securities that are not quoted in active markets.

iv Available-for-sale financial assets

Available-for-sale financial assets include non-derivative financial assets that are designated as such when they are initially recognised and financial assets which do not fall into loans and receivables, held-to-maturity investments and financial asses measured at fair value through profit or loss. Financial asserts are quoted in active markets.

They include financial assets intended to be held of an indefinite period of time, but which may be sold in response to needs for liquidity or changes in the interest rates, foreign exchange rates and share prices.

Available-for-sale financial assets are stated at fair value at the balance sheet date, with gains or losses arising from changes in fair value be recognised in the capital reserve before such financial assets are transferred or deemed impaired. Gains or losses previously recognised in the capital reserve are recognised in the income statement when the financial asset is derecognised or impaired.

v Long term equity investments

The Company's investment in the capital of Shenzhen Yuansheng Industrial Co., Ltd. had been adjusted to $Nil in accordance based on equity accounting in prior years. Except for this, the Company's other long term equity investments whereby the Company does not control or cannot exercise significant influence are stated at cost.

De-recognition of financial assets

Financial assets are derecognised when one of the following conditions is fulfilled:

- when the contractual rights to future cash flows expire;
- the Company has transfer the risk and rewards associated with the financial assets; or
- the Company has not transferred the risk and rewards associated with the financial assets, but the Company has lose the controls over the financial assets.

Amounts held under resale and repurchase agreements

When the Company enters into a resale agreement, the Company has agreed a pre-determined future date to sell the same securities, loans or bills. When the Company enters into a repurchase agreement, the Company has agreed a pre-determined future date to purchase the same securities, loans or bills.

In resale and repurchase agreements, the cash advanced or received is recognised as amounts held under resale and repurchase agreements on the balance sheet. Securities received or delivered under the resale agreements are in general not recognised on or derecognised from the balance sheet, but are treated as collateral. Assets sold under repurchase agreements continue to be recognised in the financial statements.

Bills re-discounting with other banks or the People's Bank of China are of two types, namely sell-out or repurchase. The amounts received under sell-out re-financing are net against the carrying value of discounted bills. The amounts received under repurchase re-financing are recorded as liabilities and recorded under "Amounts held under repurchase agreements.

3 Fair value measurement

For investments and derivatives quoted in an active market, fair value is determined by reference to quoted market prices. Bid prices are used for assets and offer prices are used for liabilities.

The estimated fair value of deposits with no stated maturity, which includes non-interest-bearing deposits, is the amount payable on demand.

The fair value of forward exchange contracts is calculated by reference to forward exchange rates with similar maturities.

For unquoted financial instruments, fair value is normally based on the expected cash flows discounted at current rates applicable for items with similar terms and risk characteristics.

The fair value of unquoted derivatives is determined either by discounted cash flows or internal pricing models.

4 Impairment of financial assets

The Company assesses at each balance sheet date whether there is any objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (a "loss event") and the loss event (or events) has/ have an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. The amount of impairment loss is determined as follows:

i For financial assets carried at amortised cost, impairment is based on estimated cash flows discounted at the original effective interest rate. The Company first assesses whether objective evidence of impairment exists for financial assets that are individually significant. For those financial assets that are not individually significant, the Company will assess these assets either individually or collectively to determine whether there is objective evidence of impairment or not. For collective assessment, the Company will group the financial assets according to their credit risk characteristics and collectively assess them for impairment evidence.

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 the 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. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not the foreclosure is probable.

For the purpose of a collective assessment of impairment, financial assets are grouped on the basis of similar credit risk characteristics. Those characteristics chosen are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all the amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Company.

When a loan is uncollectible, it is written off against the related provision for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of the provision for loan impairment in the income statement. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the provision account. The amount of the reversal is recognised in the income statement for the year.

ii For available-for-sale financial assets, the impairment is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value. The Company assesses at each balance sheet date whether there is any objective evidence that a financial asset or group of financial assets is/are impaired. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the investments are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss less any impairment loss on that financial asset previously recognised in profit or loss is removed from equity and is recognised in the income statement for the year.

Impairment loss recognised in profit or loss for an investment in equity instruments classified as available for sale is not reversed through the income statement. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the income statement.

iii Impairment allowances on long term equity investments are not reversed.

5 Fixed assets

Fixed assets represent tangible assets used in production or rendering of services, held for rental to others, or held for management purposes, which have useful lives of more than one year and are with higher unit costs.

Fixed assets are recorded at cost. Subsequent expenditures are capitalized when it is probable that future economic benefits in excess of the original assessment of performance will flow to the Company, i.e. longer useful lives, higher product quality or lower production cost. Capitalized expenditures should not exceed the recoverable amounts of the fixed assets.

Fixed assets are depreciated using the straight-line method to write off the cost of the assets to their estimated residual values over their estimated useful lives. The estimated useful lives, estimated residual values expressed as a percentage of cost (0% – 2.8%) and annual depreciation rates are as follows:

ITEMS	Estimated useful lives	Annual depreciation rates
Buildings	30 years	3.30%
Motor vehicles	6 years	16.20%
Computers (medium and mainframe)	5 years	19.80%
Computers (mini and micro)	3 years	33.00%
Mechanical appliances	5 years, 10 years	19.80%, 9.90%
Fixed assets improvements	5 years, 10 years	20.00%, 10.00%
Leasehold improvements	Over the lease period	–

6 Intangible assets

Intangible assets are recorded at cost. Payments for software are amortized on a straight-line basis over a period of three to five years starting from the date when the software is brought into use.

7 Other assets

The Company's other assets include other receivables, repossessed assets, construction-in-progress, prepayments, deferred expenditure and long term deferred expenditure.

Repossessed assets obtained through legal proceedings are recorded at the amount of the related loan principal value plus any recognised interest receivable and minus relating taxes paid arising from the acquisition of the assets. At the balance sheet date, repossessed assets are stated in the balance sheet at cost less allowance for impairment losses. When the repossessed assets are sold, the difference between the net sale proceeds and the carrying value are treated as gains or losses on disposal in the income statement.

Construction-in-progress represents buildings under construction and projects pending installation, and is stated at cost. Cost of construction-in-progress includes the cost of construction, the cost of projects and interest charges and exchange differences arising from borrowings used to finance these projects during the period of construction or installation and testing, after deducting the income generated before the transfer to fixed assets. When the assets concerned are brought into use, the amounts are transferred to fixed assets.

Deferred expenditure and long term deferred expenditure are amortised over the beneficial period on a straight-line basis.

8 Allowance for impairment losses of non-financial assets

The carrying amounts of assets (including fixed assets, construction-in-progress, intangible assets and repossessed assets) are assessed regularly to determine whether their recoverable amounts have declined below their carrying amounts. Assets are tested for impairment whenever events or changes in circumstances indicating that their recorded carrying amounts may not be recoverable. When such a decline has occurred, allowance for impairment losses are recognised on an item-by-item basis for the deficit between the recoverable amount and the carrying amount. Changes in the allowance for impairment losses are recognised in the income statement when incurred.

9 Financial liabilities

Financial liabilities include contractual obligations of the Company to pay cash or other financial assets to other entities and contractual obligations to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the Company. Financial liabilities include customer deposits, payables, borrowings, debt issued and derivative financial instruments. Financial liabilities are classified into:

- financial liabilities measured at fair value through profit or loss; and
- other financial liabilities measured at amortised cost.

At initial recognition, all financial liabilities are measured at fair value. Transaction costs related to financial liabilities not held-for-trading are recognised in the initial measured amount.

Subsequent measurement of financial liabilities

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

a) Held-for-trading financial liabilities
Held-for-trading financial liabilities include:

- those financial liabilities to repurchased within a short period
- financial liabilities that are part of an investment portfolio and there are objective evidences that such portfolio is managed for the purpose of short term profit taking in recent period; and
- derivative financial instruments.

b) For those financial liabilities that were confirmed at the beginning by the management to use the fair value approach and its value changes would be recorded as the p & l of the current period, these liabilities would be still subject to the fair value approach within its term, moreover, expenses for future disposal were not deducted from its valuation. All realized or unrealized gain and loss were recorded in the current period's profit and loss.

2) Financial liabilities using the amortized cost allocation approach
After initial adoption, the actual interest rate approach would be used for this type of financial liabilities.

De-recognition of financial liabilities

Financial liabilities are fully or partly derecognised on the date when the current obligations specified in the contracts are fully or partly discharged.

10 Provisions and contingent liability

Provisions are recognised when the Company has:

- a present obligation as a result of a past event;
- it is probable that an outflow of economic benefits will be required to settle the obligations; and
- a reliable estimate can be made.

11 Revenue recognition

The Company recognises its income on accruals basis. Interest income from financial assets is accrued when it is probable that the economic benefits will flow to the Company and the income can be measured reliably using effective interest method. Revenue of services is recognised when the services are rendered, and when the proceeds are collected or relevant evidence is obtained that the proceeds are collectible.

For non-accrual loans and receivables (see note D.2 (iii)), the Company ceases the accrual of interest income. When repayments are received from impaired loans or receivables, the repayments are applied to reduce the principal balance first. Repayments over the principal balances are recognised as interest income.

12 Expenditure recognition

Interest expenses and other expense are recognized on an accruals basis.

13 Employee benefits

The Company participates in social insurance programs established by government agencies, including pension plans, medical insurance, housing provident funds and other social insurance. Insurance and provident funds contributions (a proportion of salaries not exceeding the prescribed maximum limit) are paid to the relevant labour and social insurance agencies and recognised as general and administrative expenses when incurred.

14 Income tax

The Company adopted the liability method of the tax-effected accounting on income tax. The current period income tax liabilities include a) income tax in the current period; b) deferred income tax assets or liabilities resulted from current accruals or reversals due to timing difference in the current period.; and c) the adjustments to prior year's balance of deferred income tax assets or liabilities caused by tax rate changes or the new taxes.

The Company calculated its tax liabilities on the basis of its profit or loss before taxation for financial reporting purpose, adjusted for items that are not assessable or deductible for income tax purposes and the applicable tax rates. The Company adopted incurred timing difference to calculate incurred or reversed future accrued income tax (deferred income tax liabilities) and future deductible income tax (deferred income tax assets) by current income tax rates in the current year.

E Taxation

TAXATION	Taxable items	Rate
Business tax	Operating income (excluding interest income from financial institutions)	5%
City maintenance and construction tax	Assessable business tax	1%, 7%
Enterprise income tax ("EIT")	Tax assessable profit	10%, 15%, 33%
	of which: Profit from offshore business	10%

According to Guoshuihan [2004] No. 1113 issued by the State Administration of Taxation, the head quarter of the Company calculates and files EIT centrally for all the branches; the branches are not required to file EIT locally.

F Profit Appropriation

In accordance with the "Company Laws of the People's Republic of China" and the Articles of Association of the Company, the Company is required to provide certain statutory reserves, which are appropriated from net profit under Accounting Standards for Business Enterprises. The Company shall set aside 10% of net profit for statutory revenue reserve (except where the fund has reached 50% of the registered capital) and accumulated statutory revenue reserve balances are transferred to statutory capital reserve.

According to the Accounting Regulations for Financial Enterprises and the CaiJin [2005] No. 49 "The Regulation of Financial Institutions' Bad Debt Provisions" which issued by MOF, the Company should provide general reserve as the amount of 1% of the risk assets balance.

Pursuant to "No. 4 Answers to Questions about Regulations Regarding Disclosure Requirements For Companies with Publicly Issued Shares – Audit Difference and Basis for Profit Appropriation of Financial Institutions" issued by China Securities Regulatory Committee, the Company shall provide statutory revenue reserve and statutory common welfare fund based on net profit audited by local auditors. For discretionary revenue reserve and dividends, the basis should be the lower of profit attributable to shareholders audited by local auditors and International Financial Reporting Standards (IFRS) auditors. Profit appropriation scheme is subject to the resolution of the broad of directors and the approval of shareholders' general meeting.

G Notes to the Major Items of the Financial Statements

1 Cash and balances with Central Bank

ITEMS	**31 December 2006**	31 December 2005
Cash on hand	**909,080,069**	787,992,420
Balances with Central Bank	**25,379,095,833**	20,971,705,025
In which: Deposit reserve (RMB)	**14,693,302,905**	10,393,278,630
Deposit reserve (foreign currencies)	**204,108,708**	141,239,474
General deposits	**10,475,761,220**	10,422,812,921
Fiduciary deposits	**5,923,000**	14,374,000
Total	**26,288,175,902**	21,759,697,445

The statutory deposits represent a statutory reserve of 9.5% (31 December 2005: 8%) on customer deposits denominated in RMB and 4% (31 December 2005: 3%) on customer deposits denominated in foreign currencies held by the Company.

2 Deposits with banks

ITEMS	31 December 2006	31 December 2005
Deposit with domestic banks	**2,418,473,017**	5,887,788,519
Deposit with foreign banks	**729,955,207**	768,467,991
Total	**3,148,428,224**	6,656,256,510
Impairment provision (Note R.2)	**(67,425,000)**	(76,826,553)
Due from banks, net	**3,081,003,224**	6,579,429,957

Deposits with banks included RMB 19,721,549 yuan which was being frozen as a result of disputes in the bills businesses.

3 Inter-bank placements and advances

ITEMS	31 December 2006	31 December 2005
Placement with domestic banks	**808,553,000**	1,951,586,531
Placement with overseas banks	**2,675,062,150**	1,435,380,119
Advances to non-bank domestic financial institutions	**210,545,407**	238,325,138
Total	**3,694,160,557**	3,625,291,788
Impairment provision (Note R.2)	**(324,984,591)**	(340,340,901)
Inter-bank placements and advances, net	**3,369,175,966**	3,284,950,887

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

STRUCTURED BONDS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS	31 December 2006	31 December 2005
Fair value designated at initial recognition	**445,998,596**	868,846,539
Fair value change	**(18,640,161)**	(21,254,495)
Total	**427,358,435**	847,592,044

STRUCTURED DEPOSITS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS	31 December 2006	31 December 2005
Structured deposits measured at fair value through profit or loss fair value designated at initial recognition	**492,828,248**	700,770,621
Fair value change	**(9,077,045)**	(21,711,203)
Total	**483,751,203**	679,059,418

5 Derivative financial instruments held for trading

	31 December 2006			31 December 2005		
	Nominal amount	Fair value		Nominal amount	Fair value	
ITEMS		Asset	Liability		Asset	Liability
Forward foreign exchange contract	**4,157,085,355**	**15,068,611**	**13,079,132**	169,206,603	5,730,440	16,574
Options	**224,966,000**	**7,692,194**	**7,692,194**	–	–	–
Interest rate swap	**470,868,414**	**2,552**	**7,343,719**	586,327,114	–	16,156,418
Total	**4,852,919,769**	**22,763,357**	**28,115,045**	755,533,717	5,730,440	16,172,992

6 Amounts held under resale agreements and amounts arising from sales and repurchase agreements

REVERSE REPURCHASE AGREEMENTS CLASSIFIED BY COLLATERAL	31 December 2006	31 December 2005
Securities under reverse repurchase agreements	**2,595,105,202**	6,004,714,878
Loans under reverse repurchase agreements	**7,772,500,000**	1,005,000,000
Bills under reverse repurchase agreements	**931,713,057**	1,683,169,336
Total	**11,299,318,259**	8,692,884,214
Impairment provision (Note R.2)	**(27,549,923)**	(27,549,923)
Net value	**11,271,768,336**	8,665,334,291

REPURCHASE AGREEMENTS	31 December 2006	31 December 2005
Loans under repurchase agreements	**280,480,743**	719,429,752
Bills under repurchase agreements – rediscount of bills to other banks	**460,529,731**	450,000,000
Total	**741,010,474**	1,169,429,752

7 Interest receivable

ITEMS	31 December 2006	31 December 2005
Interest receivable on loans and amounts due from banks and placements	**332,113,381**	229,337,261
Interest receivable on investment securities	**343,586,432**	232,377,738
Total	**675,699,813**	461,714,999

8 Loan and advances

i Loan portfolio and the impairment provision by type of exposure

LOANS AND ADVANCES	31 December 2006	31 December 2005
Corporate loans	**143,271,049,379**	135,048,204,934
In which: General loans	**126,797,390,637**	96,888,972,336
Discounted bills	**16,473,658,742**	38,159,232,598
Personal loans	**38,910,897,582**	20,799,778,901
In which: Mortgages	**24,275,008,858**	11,454,844,766
Credit card receivables	**544,276,630**	316,820,805
Others	**14,091,612,094**	9,028,113,330
Gross loan and advances balance	**182,181,946,961**	155,847,983,835
Impairment provision (Note R.2)	**(6,937,140,661)**	(6,232,551,493)
Net loan and advances	**175,244,806,300**	149,615,432,342

Loans to customers included loans amounting to RMB 693,911,591 yuan (31 December 2005: RMB 1,601,405,140 yuan) that are pledged under repurchase agreements. Furthermore, discounted bills amounting to RMB 460,529,731 yuan (31 December 2005: RMB 450,000,000 yuan) are pledged against repurchase agreements.

ii Loans by type

ITEMS	31 December 2006	31 December 2005
Short-term loans	**93,069,355,598**	66,269,601,189
Medium and long-term loans	**55,059,044,480**	32,483,604,299
Overdue loans	**279,028,132**	496,724,787
Non-accrual loans	**14,407,674,331**	15,983,066,956
Trust receipt loans	**1,718,801,587**	1,886,572,642
Discounted bills	**16,473,658,742**	38,159,232,598
Factoring	**1,174,384,091**	569,181,364
Gross loan and advances	**182,181,946,961**	155,847,983,835
Loan impairment provision	**(6,937,140,661)**	(6,232,551,493)
Net loans and advances	**175,244,806,300**	149,615,432,342

iii Segment information of loans by guarantee method was as follows

1) Short-term loans, trust receipt loans, discounted bills and factoring

ITEMS	31 December 2006	31 December 2005
Unsecured loans	**21,445,364,078**	20,644,423,887
Guaranteed loans	**42,330,886,225**	31,297,073,132
Collateralized loans	**17,891,535,652**	12,908,172,898
Pledged loans	**30,768,414,063**	42,034,917,876
Total	**112,436,200,018**	106,884,587,793

2) Medium and long-term loans

	31 December 2006			31 December 2005		
ITEMS	1 to 3 years	Over 3 years	Total	1 to 3 years	Over 3 years	Total
Unsecured loans	**2,978,745,660**	**2,458,132,688**	**5,436,878,348**	188,306,842	1,942,622,061	2,130,928,903
Guaranteed loans	**5,345,194,003**	**5,770,014,024**	**11,115,208,027**	2,306,948,612	7,094,185,515	9,401,134,127
Collateralized loans	**4,376,101,907**	**31,921,526,014**	**36,297,627,921**	3,227,829,963	15,348,592,256	18,576,422,219
Pledged loans	**648,539,137**	**1,560,791,047**	**2,209,330,184**	821,803,166	1,553,315,884	2,375,119,050
Total	**13,348,580,707**	**41,710,463,773**	**55,059,044,480**	6,544,888,583	25,938,715,716	32,483,604,299

3) Overdue Loans

ITEMS	31 December 2006	31 December 2005
Unsecured loans	**876,376**	–
Guaranteed loans	**79,263,949**	174,991,011
Collateralized loans	**152,264,213**	167,982,827
Pledged loans	**46,623,594**	153,750,949
Total	**279,028,132**	496,724,787

Notes to the Financial Statements

4) Non-accrual loans

ITEMS	31 December 2006 Within 90 days	90 days to 1 year	1 to 3 years	Over 3 years	Total
Unsecured loans	**19,616**	**–**	**20,185,922**	**72,303,290**	**92,508,828**
Guaranteed loans	**8,058,643**	**1,814,078,324**	**3,152,687,190**	**4,153,476,759**	**9,128,300,916**
Collateralized loans	**306,535,590**	**519,243,427**	**1,232,885,667**	**1,682,952,325**	**3,741,617,009**
Pledged loans	**3,700,000**	**665,522,001**	**699,781,319**	**76,244,258**	**1,445,247,578**
Total	**318,313,849**	**2,998,843,752**	**5,105,540,098**	**5,984,976,632**	**14,407,674,331**

ITEMS	31 December 2005 Within 90 days	90 days to 1 year	1 to 3 years	Over 3 years	Total
Unsecured loans	79,402	390,325	21,611,462	93,097,473	115,178,662
Guaranteed loans	1,898,758,361	3,282,008,611	1,238,419,147	3,908,877,962	10,328,064,081
Collateralized loans	373,422,731	1,382,656,921	1,020,536,918	1,776,701,364	4,553,317,934
Pledged loans	829,578	231,294,565	409,998,249	344,383,887	986,506,279
Total	2,273,090,072	4,896,350,422	2,690,565,776	6,123,060,686	15,983,066,956

iv Industry concentration information of loans was as follows

INDUSTRY CONCENTRATION	31 December 2006 Amount	%	31 December 2005 Amount	%
Agriculture, stockbreeding and fish culture	**612,100,794**	**0.34%**	1,442,024,101	0.93%
Excavation (Heavy industry)	**2,136,750,399**	**1.17%**	1,614,174,135	1.04%
Manufacturing (light industry)	**46,632,864,577**	**25.60%**	45,405,568,714	29.13%
Energy industry	**9,075,773,130**	**4.98%**	6,447,804,025	4.14%
Transportation, storage and communication	**11,652,194,080**	**6.40%**	12,147,422,110	7.79%
Commercial	**27,506,811,815**	**15.10%**	26,570,830,154	17.05%
Real estate	**12,742,637,510**	**6.99%**	10,625,596,504	6.82%
Service industry	**14,248,353,265**	**7.82%**	17,858,230,248	11.46%
Technology, culture and sanitary industries	**10,379,875,659**	**5.70%**	7,060,949,982	4.53%
Construction	**7,290,741,172**	**4.00%**	4,902,692,999	3.14%
Others	**39,903,844,560**	**21.90%**	21,772,690,863	13.97%
Gross loan and advances	**182,181,946,961**	**100.00%**	155,847,983,835	100.00%
Impairment provision	**(6,937,140,661)**		(6,232,551,493)	
Net loan and advances	**175,244,806,300**		149,615,432,342	

v Geographical concentration information of loans was as follows:

GEOGRAPHICAL CONCENTRATION	31 December 2006 Amount	%	31 December 2005 Amount	%
Southern China	**65,658,930,928**	**36.04%**	59,674,530,068	38.29%
Eastern China	**62,993,976,416**	**34.58%**	54,729,741,343	35.12%
Northern China	**41,675,895,316**	**22.88%**	34,702,634,287	22.27%
Mid-West China and others	**10,860,685,871**	**5.96%**	5,764,726,116	3.70%
Off-shore business	**992,458,430**	**0.54%**	976,352,021	0.62%
Gross loan and advances	**182,181,946,961**	**100.00%**	155,847,983,835	100.00%
Impairment provision	**(6,937,140,661)**		(6,232,551,493)	
Net loan and advances	**175,244,806,300**		149,615,432,342	

vi Loan impairment provision

ITEMS	31 December 2006	31 December 2005
Balance at beginning of the year	**6,232,551,493**	5,111,559,816
Net provision charge for the year	**1,303,298,163**	1,705,862,159
Recovery of loans previously written off	**2,398,395**	3,664,616
Write-off	**(563,956,472)**	(598,721,201)
Exchange difference	**(37,150,918)**	10,186,103
Balance at end of the year	**6,937,140,661**	6,232,551,493

9 Available-for-sale investments

i Available-for-sale investments (listed and unlisted)

	31 December 2006		
ITEMS	**Original purchase cost**	**Cumulative fair value changes**	**Fair value**
Bond investment			
Listed/quoted			
Government bonds	**4,145,816,738**	**28,681,016**	**4,174,497,754**
PBOC bills	**7,291,625,706**	**(9,173,208)**	**7,282,452,498**
Bonds of policy banks	**6,043,118,780**	**7,310,070**	**6,050,428,850**
Sub-total	**17,480,561,224**	**26,817,878**	**17,507,379,102**
Unlisted/unquoted			
Government bonds	**231,520,200**	**–**	**231,520,200**
Bonds of banks and other financial institutions	**234,139,254**	**846,694**	**234,985,948**
Sub-total	**465,659,454**	**846,694**	**466,506,148**
Equity investment, listed (note ii)	**6,982,677**	**71,473,724**	**78,456,401**
Total	**17,953,203,355**	**99,138,296**	**18,052,341,651**

	31 December 2005		
ITEMS	Original purchase cost	Cumulative fair value changes	Fair value
Bond investment			
listed/quoted			
Government bonds	6,632,529,141	(64,863,229)	6,567,665,912
PBOC bills	4,568,022,723	(6,149,341)	4,561,873,382
Bonds of policy banks	12,490,766,807	78,889,680	12,569,656,487
Bonds of banks and other financial institutions	110,000,000	916,700	110,916,700
Other corporate bonds	49,039,068	120,966	49,160,034
Sub-total	23,850,357,739	8,914,776	23,859,272,515
Unlisted/unquoted			
Government bonds	1,494,585,094	–	1,494,585,094
Bonds of banks and other financial institutions	618,499,521	(13,752,769)	604,746,752
Other corporate bonds	282,457,000	7,481,882	289,938,882
Sub-total	2,395,541,615	(6,270,887)	2,389,270,728
Equity investment, listed (note ii)	–	–	–
Total	26,245,899,354	2,643,889	26,248,543,243

ii Listed equity investment

NAME OF THE COMPANIES INVESTED	No of Shares	Type	31 December 2006 Original purchase cost	Cumulative fair value changes	Fair value
G Vanke	3,815,383	Tradable	**1,060,982**	**57,848,532**	**58,909,514**
G Zhongliangdi	1,546,875	Restrictive tradable	**2,519,500**	**11,742,687**	**14,262,187**
G Hongji	1,430,000	Restrictive tradable	**3,215,000**	**1,060,700**	**4,275,700**
ST Xingyuan	405,221	Restrictive tradable	**187,195**	**821,805**	**1,009,000**
Total			**6,982,677**	**71,473,724**	**78,456,401**

10 Held-to-maturity investments

ITEMS	31 December 2006 Amortised cost	Fair-value
Bond investment		
Listed/quoted		
Government bonds	**8,488,075,028**	**8,403,366,150**
Bonds of policy banks	**6,409,398,181**	**6,384,393,316**
Bonds of banks and other financial institutions	**60,000,000**	**62,319,563**
Other corporate bonds	**52,974,500**	**49,480,000**
Sub-total	**15,010,447,709**	**14,899,559,029**
Unlisted/unquoted		
Government bonds	**1,600,517,465**	**1,600,697,790**
Bonds of banks and other financial institutions	**675,884,551**	**675,544,035**
Other corporate bonds	**261,343,561**	**263,695,428**
Sub-total	**2,537,745,577**	**2,539,937,253**
Total	**17,548,193,286**	**17,439,496,282**

11 Long-term equity investment

ITEMS	31 December 2006	31 December 2005
Investment in subsidiary – Yuansheng	**507,347,529**	508,719,267
Other equity investment	**150,672,639**	159,049,263
Total	**658,020,168**	667,768,530
Provision impairment	**(444,025,326)**	(434,395,780)
Net Value	**213,994,842**	233,372,750

i Investment in subsidiary company – Yuansheng

ITEMS	Percentage of share held	Initial investment	Adjusted under equity held	31 December 2006
Capital investment	100%	21,010,000	(21,010,000)	**–**
Long-term capital injection				**507,347,529**
Impairment provision				**(391,117,893)**
Net investment				**116,229,636**

The detail of the financial position of Yuansheng, please refer to note Q.

ii Other equity investment:

COMPANY	Percentage of share held (31 December 2006)	Cost (31 December 2006)	Impairment provision (31 December 2006)	Net value (31 December 2006)
China Bank Union Co. Ltd.	3.03%	50,000,000	–	50,000,000
SWIFT	0.01%	229,636	–	229,636
Gintian Industry (Group) Co., Ltd.	2.03%	9,662,219	9,662,219	–
Hainan Pearl River Holdings Co., Ltd.	0.30%	9,650,000	9,650,000	–
Hainan Wuzhou Travel Co., Ltd.	3.70%	5,220,000	5,220,000	–
Meizhou Polyester (Group) Co.	0.41%	1,100,000	1,100,000	–
Shenzhen Central South China Industrial Co.	4.10%	2,500,000	–	2,500,000
Hainan Junhe Travel Co., Ltd.	9.30%	2,800,000	2,800,000	–
Hainan First Investment Co., Ltd.	0.27%	500,000	500,000	–
Hainan Baiyunshan Co., Ltd.	0.91%	1,000,000	1,000,000	–
Hainan Saige Co., Ltd.	0.56%	1,000,000	1,000,000	–
Guangdong Sanxing Enterprises (Group) Co., Ltd.	0.05%	500,000	500,000	–
Hainan Zhonghailian Real Estate Co., Ltd.	0.74%	1,000,000	1,000,000	–
Shenzhen Jiafeng Textile Industrial Co., Ltd.	13.82%	16,725,214	16,725,214	–
Shenzhen Clearance Center	–	15,770,570	–	15,770,570
Membership fees of General Settlement Center	–	12,000,000	–	12,000,000
Membership fees of the Financial Fund administered by Shenzhen PBOC, etc.	–	10,000,000	2,000,000	8,000,000
Membership fees of the Financial Fund administered by Guangdong PBOC,etc.	–	5,000,000	1,750,000	3,250,000
Membership fees of Kunming Bank Financial Electronic Settlement Center	–	6,000,000	–	6,000,000
Membership fees of Yunnan banking association	–	15,000	–	15,000
Total		**150,672,639**	**52,907,433**	**97,765,206**

12 Fixed assets

ITEMS	Buildings	Motor vehicles	Computers (medium and mainframe)	Computers (mini and micro)	Electric appliances	Fixed assets improvements	Leasehold improvement	Total
Cost								
31 December 2005	2,268,916,132	211,993,574	387,508,922	173,414,427	238,404,694	290,336,501	451,490,787	4,022,065,037
Transfer-in from construction in progress	–	–	–	98,946	3,565,746	5,487,206	17,089,828	26,241,726
Purchase	36,517,356	9,878,039	33,322,113	31,009,190	30,857,419	6,035,114	22,147,379	169,766,610
Disposals	350,064,701	3,677,031	12,631,376	11,202,908	3,792,391	93,130	6,177,272	387,638,809
31 December 2006	**1,955,368,787**	**218,194,582**	**408,199,659**	**193,319,655**	**269,035,468**	**301,765,691**	**484,550,722**	**3,830,434,564**
Accumulated depreciation								
31 December 2005	464,985,483	146,674,028	239,949,930	135,413,771	149,631,482	198,399,078	269,288,692	1,604,342,464
Charge for the year	61,318,717	28,391,848	44,261,410	15,984,391	35,576,419	26,941,026	69,031,634	281,505,445
Disposals	16,432,627	3,479,811	12,046,026	10,145,824	2,767,457	–	4,920,672	49,792,417
31 December 2006	**509,871,573**	**171,586,065**	**272,165,314**	**141,252,338**	**182,440,444**	**225,340,104**	**333,399,654**	**1,836,055,492**
Net book value								
31 December 2006	**1,445,497,214**	**46,608,517**	**136,034,345**	**52,067,317**	**86,595,024**	**76,425,587**	**151,151,068**	**1,994,379,072**
31 December 2005	1,803,930,649	65,319,546	147,558,992	38,000,656	88,773,212	91,937,423	182,202,095	2,417,722,573

As of 31 December 2006, the original value of buildings and constructions already in use but with property titles pending or still in application status amounted to RMB 218,430,000 yuan with a net book value of RMB 151,345,087 yuan (As of 31 December 2005 the original value was RMB 540,413,501 yuan, and the net book value was RMB 465,879,785 yuan).

13 Intangible assets

CATEGORIES	31 December 2005	Additions	Amortization	**31 December 2006**
Payment for software	22,911,290	18,554,576	14,898,456	**26,567,410**
Payment for purchase of branches	18,669,167	–	18,669,167	**–**
Total	41,580,457	18,554,576	33,567,623	**26,567,410**

CATEGORIES	Original cost	Accumulated amortization	**31 December 2006**
Payment for software	145,839,323	119,271,913	**26,567,410**
Payment for purchase of branches	33,400,000	33,400,000	**–**
Total	179,239,323	152,671,913	**26,567,410**

14 Deferred tax assets and liabilities

ITEMS	**31 December 2006**	31 December 2005
Deferred tax assets		
Balance at the beginning of the year	**1,000,888,827**	752,297,347
Deferred taxes incurred in the current period	**133,451,330**	406,337,164
Deferred taxes reversed in the current period	**(131,696,677)**	(157,745,684)
Balance at end of the year	**1,002,643,480**	1,000,888,827
Deferred tax liabilities		
Balance at beginning of the year	**235,048,573**	198,221,460
Deferred taxes incurred in the current period	**22,159,970**	36,827,113
Deferred taxes reversed in the current period	**(23,396,468)**	–
Balance at end of the year	**233,812,075**	235,048,573

The timing difference debited the deferred taxes that mainly represented to the provision for assets impairment, the reversal was caused by written off of loans and the deduction of the pre-operating expenses in the current year. The timing difference credited the deferred taxes that was the result of the offsetting balance of all tax-paying regions with varying tax rates of which the net deficit between the income tax liabilities of loss-making regions and profit-making regions and the resulting reversal which should be made in the subsequent years.

15 Other assets

ITEMS	Notes	31 December 2006	31 December 2005
Other receivables	i		
Prepaid legal expenses		**167,555,333**	159,564,938
Others		**200,389,537**	123,649,508
Impairment provision		**(181,090,531)**	(162,803,076)
Net value		**186,854,339**	120,411,370
Prepayments		**55,911,494**	45,818,953
Repossessed assets			
Properties and buildings		**1,058,969,761**	898,638,293
Equities		**102,229,703**	102,229,703
Others		**22,910,115**	23,193,515
Impairment provision		**(220,007,753)**	(171,827,006)
Net value		**964,101,826**	852,234,505
Deferred expenses		**24,169,334**	18,156,677
Rental receivables		**4,049,980**	4,194,739
Impairment provision		**(4,049,980)**	(4,194,739)
Net value		**–**	–
Construction-in-progress	ii	**9,521,431**	4,592,695
Long-term deferred expenses	iii	**116,833,740**	121,482,186
Total		**1,357,392,164**	1,162,696,386

i Ageing analysis of other receivables:

	31 December 2006			
AGEING	**Amount**	**%**	**Impairment provision**	**Net value**
Within 1 year	**160,091,174**	**43.51%**	**(34,991,603)**	**125,099,571**
1 to 2 years	**57,070,435**	**15.51%**	**(26,480,080)**	**30,590,355**
2 to 3 years	**28,225,390**	**7.67%**	**(12,255,845)**	**15,969,545**
Over 3 years	**122,557,871**	**33.31%**	**(107,363,003)**	**15,194,868**
Total	**367,944,870**	**100.00%**	**(181,090,531)**	**186,854,339**

	31 December 2005			
AGEING	Amount	%	Impairment provision	Net value
Within 1 year	94,794,467	33.47%	(12,876,216)	81,918,251
1 to 2 years	28,564,878	10.09%	(2,856,488)	25,708,390
2 to 3 years	15,980,912	5.64%	(3,196,183)	12,784,729
Over 3 years	143,874,189	50.80%	(143,874,189)	–
Total	283,214,446	100.00%	(162,803,076)	120,411,370

No accounts receivable was due from any shareholder that hold more than 5% of the Company's share.

Set out below are the major items of the other receivables:

	31 December 2006		
ITEMS	Amount	Impairment provision	Net value
Prepaid legal expenses	**167,555,333**	**(90,711,561)**	**76,843,772**
Guoxin Securities, Zhenhua Road Branch, Shenzhen	**59,571,978**	**–**	**59,571,978**
Yifeng Square	**33,815,175**	**(26,000,000)**	**7,815,175**
Amount due from Yuansheng (Note M.1)	**10,988,978**	**–**	**10,988,978**
Longhua land use fee	**9,607,758**	**(2,947,758)**	**6,660,000**

	31 December 2005		
ITEMS	Amount	Impairment provision	Net value
Prepaid legal expenses	159,564,938	(83,533,983)	76,030,955
Prepayment for office building	22,447,541	(22,447,541)	–
Suzhou Eagle Shopping Centre	8,680,000	(8,680,000)	–
Zhuhai Weishi	8,570,000	(8,570,000)	–
Amount due from Yuansheng (Note M.1)	6,985,388	–	6,985,388

ii Construction on progress

	31 December 2006	31 December 2005
Balance at beginning of year	**4,592,695**	11,792,846
Additions	**31,170,462**	15,511,657
Disposal	**–**	(9,802,632)
Transferred to fixed assets	**(26,241,726)**	(12,909,176)
Balance at end of year	**9,521,431**	4,592,695

Construction-in-progress are financed by internal resources of the Company, no interest was capitalized.

iii Long-term deferred expenses

CATEGORIES	31 December 2005	Addition for the year	Amortization for the year	31 December 2006
Pre-operating expenses	–	2,150,469	(2,150,469)	**–**
Rental expenses	111,992,189	12,659,834	(16,488,048)	**108,163,975**
Advertisement expenses	544,857	148,570	(468,563)	**224,864**
Others	8,945,140	5,440,281	(5,940,520)	**8,444,901**
Total	121,482,186	20,399,154	(25,047,600)	**116,833,740**

	31 December 2006		
CATEGORIES	Original cost	Accumulated amortization	Net value
Rental expenses	**176,920,335**	**(68,756,360)**	**108,163,975**
Advertisement expenses	**2,092,249**	**(1,867,385)**	**224,864**
Others	**34,973,012**	**(26,528,111)**	**8,444,901**
Total	**213,985,596**	**(97,151,856)**	**116,833,740**

16 Customer deposits

ITEMS	31 December 2006	31 December 2005
Short-term deposits	**113,613,457,719**	97,381,560,790
Short-term savings	**32,575,696,095**	26,242,755,048
Short-term guarantee deposits	**63,599,546,087**	56,371,383,826
Long term guarantee deposits	**66,401,130**	183,155,373
Outward remittance	**410,227,400**	435,240,779
Inward remittances	**656,187,323**	568,300,743
Long-term deposits	**12,588,359,095**	13,531,929,443
Public finance deposits	**6,453,418,652**	4,714,343,476
Long-term savings	**2,243,034,193**	2,387,131,524
Total	**232,206,327,694**	201,815,801,002

17 Tax payable

ITEMS	31 December 2006	31 December 2005
Enterprise income tax	**276,643,077**	381,599,128
Business tax	**181,442,139**	129,201,051
City maintenance and construction tax	**10,056,384**	7,093,231
Education surcharges	**6,438,071**	3,862,874
Total	**474,579,671**	521,756,284

18 Other liabilities

ITEMS	31 December 2006	31 December 2005
Trust securities payable	**12,443,911**	24,488,254
Dividends payable	**22,213,999**	23,441,268
Other payables	**1,144,105,035**	1,002,789,975
Accrued expenses	**73,393,656**	22,561,812
Long-term payables	**188,573**	754,293
Total	**1,252,345,174**	1,074,035,602

Major item of other payables were as follows:

ITEMS	31 December 2006
Payable for bond purchase	**500,000,000**
Bank drafts	**252,073,080**
Inactive deposits account balance	**84,280,974**
Balance pending for settlement of financial system	**81,756,142**
Bills receives on behalf of other banks	**55,190,515**

ITEMS	31 December 2005
Bank drafts	386,718,906
Balance pending for settlement from 24 hours system	138,899,540
Account payable for ATM and Post	103,723,209
Bills receives on behalf of other banks	78,247,559
Inactive deposits account balance	76,546,697

19 Share capital

ITEMS *(Face value of each share: RMB 1)*	31 December 2005	Addition	31 December 2006
Non-tradable shares			
Shares held by the State	1,717,146	–	**1,717,146**
Shares held by domestic enterprises	186,639,733	–	**186,639,733**
Shares held by foreign enterprises	348,103,305	–	**348,103,305**
Sub-total	536,460,184	–	**536,460,184**
Tradable shares			
Domestic listed RMB Ordinary shares	1,409,361,965	–	**1,409,361,965**
Including: Shares held by senior management	80,997	50,000	**130,997**
Total	1,945,822,149	–	**1,945,822,149**

20 Capital reserve

ITEMS	31 December 2005	Charge for the year	31 December 2006
Share premium	1,571,729,344	–	**1,571,729,344**
Unrealized gain/(loss) on available-for-sale financial assets	2,643,889	74,143,382	**76,787,171**
Total	1,574,373,233	74,143,382	**1,648,516,615**

21 Surplus reserve

ITEMS	31 December 2005	Charge for the year	31 December 2006
Statutory surplus reserve	324,200,160	130,290,653	**454,490,813**

22 Undistributable profits

Net profit of the Company amounted to RMB 1,302,906,538 yuan in current period, the beginning balance of undistributed profits after retrospective adjustments amounted to RMB 773,313,440 yuan (Note C), the actual distributable profits amounted to RMB 2,076,219,978 yuan. Pursuant to the Board of The Company proposal on 20 March 2007, the profit appropriation for the year ended 31 December 2006 as follows: Appropriate 10% of the net profit (RMB 130,290,653 yuan) to the statutory surplus reserve; Appropriate RMB 1,200,000,000 yuan to general reserve. After the profit appropriations, the undistributed profits is RMB 745,929,325 yuan.

23 Net interest income

ITEMS	2006	2005
Interest income		
Due from the Central Bank	**281,430,318**	243,396,831
Due from banks	**241,370,317**	139,522,603
Inter-bank placements & advances	**190,706,219**	83,212,688
Reverse repurchase agreements	**60,825,904**	70,939,145
Bond investments	**880,281,113**	784,025,000
Loan and advances	**9,896,603,408**	7,342,916,306
Sub-total	**11,551,217,279**	8,664,012,573
Interest expense		
Customer deposits	**3,549,049,025**	2,887,093,761
Due to banks and other financial institutes	**254,543,387**	255,072,605
Inter-bank borrowings	**17,037,071**	27,083,779
Repurchase agreements	**57,906,694**	24,871,903
Others	**1,190,236,753**	576,214,768
Sub-total	**5,068,772,930**	3,770,336,816
Net interest income	**6,482,444,349**	4,893,675,757

24 Net fee and commission income

ITEMS	2006	2005
Fee and commission income		
Settlement fee income	**131,187,085**	97,011,642
International settlement fee income	**84,908,174**	79,113,104
Agency business fee income	**18,393,551**	10,504,598
Entrusted loans fee income	**13,994,060**	13,849,447
Cards fee income	**98,819,193**	57,818,439
Others	**78,092,779**	48,789,528
Sub-total	**425,394,842**	307,086,758
Fee and commission expenses		
Syndicated loans commission charge	**32,950,426**	–
Agency business commission charge	**12,845,243**	11,664,249
Cards commission charge	**32,074,146**	21,987,183
Commission charge on amount due from banks and placements	**16,514,662**	24,878,796
Others	**24,468,969**	9,460,237
Sub-total	**118,853,446**	67,990,465
Net fee and commission income	**306,541,396**	239,096,293

25 Investment trading income

ITEMS	2006	2005
Net realized gain from disposal of debt investments	**52,063,510**	111,475,992
Net realized gain from disposal of available-for-sale equity investments	**58,501,466**	–
Total	**110,564,976**	111,475,992

26 Net (loss)/gain on financial assets and liabilities measured at fair value through profit and loss

ITEMS	2006	2005
Realized gain/loss of financial instruments measured at fair value through profit or loss	**(11,342,159)**	(1,201,897)
Fair value change of financial instruments measured at fair value through profit or loss	**(10,019,824)**	9,580,149
Net profit or loss of derivative financial instruments	**5,090,864**	(7,261,160)
Total	**(16,271,119)**	1,117,092

27 General and administrative expenses

ITEMS	2006	2005
Staff costs		
Salaries, bonus and staff welfare	**1,231,561,288**	898,177,928
Labour insurance and social welfare contributions	**98,885,166**	95,343,238
Other staff costs	**104,819,936**	92,680,320
Sub-total	**1,435,266,390**	1,086,201,486
General and administrative expenses		
Labour union and training	**36,517,628**	25,290,970
Computer system maintenance	**66,796,535**	46,229,565
Telecommunication and postage	**60,601,571**	48,493,504
Vault related transportation expenses	**19,514,845**	20,103,524
Walter and electricity expenses	**33,954,432**	27,313,779
Publication and stationery expenses	**134,322,054**	92,045,994
Travel expenses	**119,511,685**	103,344,465
Marketing and public relations expenses	**151,046,556**	96,225,663
Motor vehicle expenses	**119,958,414**	83,199,711
Legal expenses	**33,233,447**	30,799,088
Professional fees	**107,033,961**	46,596,027
Low-value consumables	**28,666,700**	17,678,173
Sundry tax expenses	**33,738,290**	27,089,655
CBRC supervisory fee	**47,399,941**	42,413,943
Others	**193,814,871**	151,509,575
Sub-total	**1,186,110,930**	858,333,636
Depreciation, amortization charges and rental expenses		
Depreciation of fixed assets	**281,505,445**	330,349,605
Amortisation of intangible assets	**33,567,623**	31,581,081
Amortisation of long term deferred expenses	**25,047,600**	18,778,847
Rental expenses	**289,282,013**	271,566,952
Sub-total	**629,402,681**	652,276,485
Total	**3,250,780,001**	2,596,811,607
Including		
Auditors' remuneration – financial audit fee	**10,250,000**	8,650,000

28 Segmental reporting

ITEMS	2006						
	South	East	North	Mid-West	Offshore	Eliminations	Total
Net interest income	2,829,672,567	2,174,105,578	1,116,062,688	317,938,795	44,664,721	–	6,482,444,349
Net fee & commission income	174,877,589	56,805,397	49,680,865	4,290,627	20,886,918	–	306,541,396
Other net operating income	242,708,011	46,870,795	57,922,390	2,790,129	(4,059,524)	–	346,231,801
Operating income	3,247,258,167	2,277,781,770	1,223,665,943	325,019,551	61,492,115	–	7,135,217,546
Operating expenses	(1,671,873,791)	(885,144,758)	(551,351,355)	(142,410,097)	–	–	(3,250,780,001)
Business tax & surcharges	(188,197,783)	(212,311,006)	(123,510,066)	(29,453,804)	–	–	(553,472,659)
Loan and other assets impairment provisions	(1,249,396,617)	(114,213,972)	(8,572,610)	(53,612,835)	–	–	(1,425,796,034)
Operating profit	137,789,976	1,066,112,034	540,231,912	99,542,815	61,492,115	–	1,905,168,852
Total assets	160,143,039,635	90,585,082,009	60,197,106,296	13,095,648,233	2,796,431,773	(66,241,044,708)	260,576,263,238
Total liabilities	155,776,355,007	89,367,239,113	59,483,417,059	12,982,189,728	2,733,643,792	(66,241,044,708)	254,101,799,991
Shareholders' equity	4,366,684,628	1,217,842,896	713,689,237	113,458,505	62,787,981	–	6,474,463,247

29 Non-operating income and expense

	2006	2005
Non-operating income		
Gain from disposal of fixed assets	**61,419,592**	21,072,508
Gain on disposal of repossessed assets	**21,438,645**	1,414,500
Penalty income	**46,359**	2,788,634
Others	**26,497,754**	5,822,014
Total	**109,402,350**	31,097,656
Non-operating expense		
Provision for litigation liabilities	–	48,328,799
Loss on disposal of fixed assets	**1,492,051**	3,368,718
Loss on disposal of repossessed assets	**4,363,240**	2,356,598
Others	**14,193,946**	13,181,506
Total	**20,049,237**	67,235,621
Net non-operating income/(expenses)	**89,353,113**	(36,137,965)

30 Enterprise income tax

ITEMS	2006	2005
Enterprise income tax	**692,719,668**	499,132,006
Adjustment of EIT from prior year	**15,437,605**	(478,538)
Charged or (reversed) deferred tax assets	**(1,754,653)**	(248,591,480)
Charged or (reversed) deferred tax liabilities	**(14,787,193)**	36,827,113
Total	**691,615,427**	286,889,101

H Supplementary Information for Income Statement

1 Supplementary information

SUPPLEMENTARY INFORMATION	2006	2005
Reconciliation of net profit to net cash flow from operating activities		
Net profit	**1,302,906,538**	311,007,640
Adjusting items provision charge for asset impairment	**1,425,796,034**	1,802,782,794
Depreciation of fixed assets	**281,505,445**	330,349,605
Amortization of intangible assets	**33,567,623**	31,581,081
Amortization of long-term deferred expenses	**25,047,600**	18,778,847
Gain on disposal of fixed assets, intangible assets and other long-term assets	**(59,927,541)**	(17,703,790)
Unrealized net loss on financial assets and liabilities designated at fair value	**4,928,960**	(2,318,989)
Gain on investments	**(990,846,089)**	(895,500,992)
Decrease in deferred tax assets	**(1,754,653)**	(248,591,480)
Increase in deferred tax liabilities	**(14,787,193)**	36,827,113
Decrease in deferred expenses	**(6,012,657)**	(9,111,496)
Increase in accrued expenses	**50,831,844**	7,354,681
Decrease in receivables	**(31,521,076,841)**	(30,746,324,879)
Increase in payables	**36,877,306,290**	25,091,620,763
Receipt of amounts previously written-off	**2,900,107**	3,664,616
Net cash flow from operating activities	**7,410,385,467**	(4,285,584,486)
Net increase in cash and cash equivalents		
Cash, at the end of the year	**13,562,690,187**	12,216,444,922
Less: Cash, at beginning of year	**(12,216,444,922)**	(9,526,450,136)
Add: Cash equivalents, at end of year	**4,444,824,991**	7,231,455,189
Less: Cash equivalents, at beginning of year	**(7,231,455,189)**	(6,102,659,287)
Net increase in cash and cash equivalents	**(1,440,384,933)**	3,818,790,688

2 Cash and cash equivalents

ITEMS	31 December 2006	31 December 2005
Cash	**13,562,690,187**	12,216,444,922
Including: Cash on hand	**909,080,069**	787,992,420
Deposits with central bank available for payment	**10,475,761,220**	10,437,186,921
Deposits with other banks	**2,177,848,898**	991,265,581
Cash equivalents	**4,444,824,991**	7,231,455,189
Including: Deposits with other banks maturing within three months	**515,864,417**	3,501,364,589
Placements with other banks maturing within three months	**2,807,748,850**	1,577,936,050
Short-term investments maturing within three months	**1,121,211,724**	2,152,154,550
Cash and cash equivalents as at year end	**18,007,515,178**	19,447,900,111

3 Cash received from other operating activities

ITEMS	2006	2005
Net of exchange gain and loss	**145,986,370**	132,256,615
Other net operating income	**105,951,574**	71,988,659
Other	**757,825,154**	1,491,910,016
Total	**1,009,763,098**	1,696,155,290

4 Cash paid for other operating activities

ITEMS	2006	2005
Cash paid for operating expenses	**1,442,181,863**	1,690,224,800
Cash paid for accrued liabilities	**3,269,860**	–
Other	**345,530,275**	77,101,961
Total	**1,790,981,998**	1,767,326,761

I Liquidity Risk

A maturity analysis of assets and liabilities of the Company as at 31 December 2006 was as follows:

ITEMS	Overdue	Current	Within 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Non maturity day	Total
ASSETS								
Cash and balances with central bank	–	1,138,485	–	–	–	–	1,490,333	2,628,818
Deposits with banks	750	217,785	66,586	22,979	–	–	–	308,100
Inter-bank placements and advance	8,451	–	320,117	3,850	4,500	–	–	336,918
Amounts held under resale agreements	2,417	–	920,160	164,600	40,000	–	–	1,127,177
Financial assets measured at fair value through profit or loss and positive value of derivative financial instruments held for trading	–	–	209	1,782	39,265	3,756	–	45,012
Loans and advances	789,452	42,931	3,436,821	8,085,877	2,064,983	3,104,416	–	17,524,480
Investments	–	–	168,271	1,200,605	1,167,957	1,015,375	29,245	3,581,453
Other	106,822	–	47,032	30,064	2,423	109,590	209,737	505,668
Total assets	**907,892**	**1,399,201**	**4,959,196**	**9,509,757**	**3,319,128**	**4,233,137**	**1,729,315**	**26,057,626**
LIABILITIES								
Deposits from banks and other financial institutions	–	1,398,820	175,176	132,928	–	–	–	1,706,924
Customer deposits	–	–	27,793	46,308	–	–	–	74,101
Amounts arising from sale and repurchase agreements	–	15,323,506	3,573,155	2,867,834	1,452,689	3,449	–	23,220,633
Financial liabilities measured at fair value through profit or loss and negative value of derivative financial instruments held for trading	–	–	2,805	38,870	5,755	3,757	–	51,187
Tax payable	–	–	–	47,458	–	–	–	47,458
Other	–	65,201	122,706	80,575	17,987	23,408	–	309,877
Total	**–**	**16,787,527**	**3,901,635**	**3,213,973**	**1,476,431**	**30,614**	**–**	**25,410,180**
Net assets	**907,892**	**(15,388,326)**	**1,057,561**	**6,295,784**	**1,842,697**	**4,202,523**	**1,729,315**	**647,446**

J Foreign Currency Risk

A foreign currencies analysis of assets and liabilities of the company as at 31 December was as follows:

CURRENCY *In RMB ten thousand*	RMB	USD (RMB equivalent)	Other foreign currency (RMB equivalent)	Total
ASSETS				
Cash and balances with central bank	2,579,178	32,231	17,409	2,628,818
Deposits with banks	164,811	118,411	24,878	308,100
Inter-bank placements and advance	52,514	187,754	96,650	336,918
Amounts held under resale agreements	1,127,177	–	–	1,127,177
Financial assets measured at fair value through profit or loss and positive value of derivative financial instruments held for trading	2,152	42,446	414	45,012
Loans and advances	17,157,862	280,396	86,222	17,524,480
Investments	3,448,969	102,534	29,950	3,581,453
Other	486,492	16,020	3,156	505,668
Total assets	**25,019,155**	**779,792**	**258,679**	**26,057,626**
LIABILITIES				
Deposits from banks and other financial institutions	1,573,863	125,669	7,392	1,706,924
Customer deposits	22,366,741	618,454	235,438	23,220,633
Amounts arising from sale and repurchase agreements	74,101	–	–	74,101
Financial liabilities measured at fair value through profit or loss and negative value of derivative financial instruments held for trading	780	50,068	339	51,187
Tax payable	47,458	–	–	47,458
Other	300,829	6,492	2,556	309,877
Total liabilities	**24,363,772**	**800,683**	**245,725**	**25,410,180**
Net assets	**655,383**	**(20,891)**	**12,954**	**647,446**

K Financial Instruments Risk Position – Interest Rate Risk

The table below summarises the contractual repricing or maturity date, whichever is earlier, of the Company's financial assets and liabilities at 31 December 2006:

In RMB ten thousand	Up to 1 month	1 to 3 months	3 to 12 months	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Over 5 years	Overdue/ Non-interest bearing	Total
ASSETS										
Cash and balances with central bank	2,516,907	–	–	–	–	–	–	–	111,911	2,628,818
Deposits with banks	282,621	–	21,102	–	–	–	–	–	4,377	308,100
Inter-bank placements and advance	266,647	53,470	8,350	–	–	–	–	–	8,451	336,918
Amounts held under resale agreements	488,610	431,550	164,600	40,000	–	–	–	–	2,417	1,127,177
Financial assets measured at fair value through profit or loss and positivevalue of derivative financial instruments held for trading	8,922	4,746	29,068	–	–	–	–	–	2,276	45,012
Loans and advances	3,435,877	2,944,513	9,137,929	599,794	130,701	135,589	82,888	228,656	828,533	17,524,480
Investments	160,213	282,116	1,482,760	296,668	149,182	31,813	377,861	771,595	29,245	3,581,453
Other	–	–	–	–	–	–	–	–	505,668	505,668
Total assets	**7,159,797**	**3,716,395**	**10,843,809**	**936,462**	**279,883**	**167,402**	**460,749**	**1,000,251**	**1,492,878**	**26,057,626**
LIABILITIES										
Deposits from banks and other financial institutions	1,428,966	151,431	126,527	–	–	–	–	–	–	1,706,924
Customer deposits	17,085,932	1,703,927	2,930,894	632,066	311,101	5,774	443,002	2	1,293	23,113,991
Amounts arising from sale and repurchase agreements	15,387	12,406	46,308	–	–	–	–	–	–	74,101
Financial liabilities measured at fair value through profit or loss and negative value of derivative financial instruments held for trading	16,263	2,596	29,516	–	–	–	–	–	2,812	51,187
Tax payable	–	–	–	–	–	–	–	–	463,977	463,977
Total liabilities	**18,546,548**	**1,870,360**	**3,133,245**	**632,066**	**311,101**	**5,774**	**443,002**	**2**	**468,082**	**25,410,180**
Net assets	**(11,386,751)**	**1,846,035**	**7,710,564**	**304,396**	**(31,218)**	**161,628**	**17,747**	**1,000,249**	**1,024,796**	**647,446**

L Items Off Balance Sheet

ITEMS	31 December 2006	31 December 2005
Interest receivable off balance sheet	**3,958,230,729**	3,237,140,390
Entrusted loans	**5,898,988,127**	6,642,519,490
Entrusted deposits	**5,898,988,127**	6,642,519,490

For the details of letters of credit, guarantee and bank acceptance issued, please refer to note O.2.

M Related Party Transaction

1 Shareholder and subsidiary company

Newbridge Asia AIV III, L.P. (Newbridge Asia) owns 17.89% of the total share capital of the Company, and it is the effecting controlling shareholder of the Company. Newbridge Asia is located in Delaware, the United States. It is an investment fund registered as a limited partnership with a paid-in capital of US$724 million whose main business is strategic investment. Newbridge Asia was established on 22 June 2000 with maturity term of ten years. The ultimate controlling parties of the company are Mr David Bonderman, Mr James G. Coulter, Mr William S. Price III and Mr Richard C. Mr Blum.

At 31 December 2005, the balance of accounts receivable from Newbridge Asia AIV III, L.P. was RMB 40,000 yuan, the fund has been received in March 2006.

Shenzhen Yuansheng Industrial Co., Ltd. is a wholly owned subsidiary of the Company (note A). As at 31 December 2006, the balance of accounts receivable from Yuansheng was RMB 10,988,978 yuan (31 December 2005: RMB 6,985,388 yuan), Long-term Disburse due from Yuansheng was RMB 507,347,529 yuan (listed in "Long-term Equity Investments", the provision for the receivable is RMB 391,117,893 yuan).

2 Significant Influence related parties

i Key management, directors and supervisors related party transactions for the period under review are as follows:

ITEMS	Loans	Deposits
31 December 2005	2,712,667	9,491,848
Additions	–	50,261,563
Reductions	(2,712,667)	(48,967,527)
31 December 2006	–	10,785,884
Interest income (expense)	**23,543**	**(137,237)**

The opening balances of loans and deposits above are different from the balances reported in the report previously issued due to the change in key management.

ii Loans to the entities and individuals related to the Company's directors, supervisors and key management

At 31 December 2006, the Company approved an aggregate credit facilities limit of RMB 2,415 million yuan to the entities and individuals related to the Company's directors, supervisors and key management. The actual outstanding loan balances amounted to RMB 1,187 million yuan, other credit facilities of RMB 140 million yuan.

iii Other related parties with significant influence

Richard C. Blum is one of the ultimate controlling parties of the Company's controlling shareholder and has significant influence over both the Company and CB Richard Ellis Limited ("CBRE"). According to a contract signed between the Company and CBRE, CBRE provided real estate agency services to the Company during the year. The CBRE service fee amounted to HK$3,320,598 (in 2005, the Company has paid HK$2,675,153, the remainder has not yet been paid). The Company has not signed any service contract with the Company during the year ended 31 December 2006.

3 Others related party transactions

On 28 September 2005, the Company entered into the "Equity Purchases Agreement" with GE Capital International Financing Corporation ("GECIFC"). Pursuant to the terms set forth in this agreement, after the approval of the related governing department and the shareholders at annual general meeting, the Company will issue new shares to GECIFC at a price of RMB 5.247 yuan per share. The total purchase price of the shares amounted to US$0.1 billion.

On 28 September 2005, the Company entered into the "Strategic Cooperation Agreement" with GE Capital Finance (China) Co. Ltd. ("GECFCO"). Pursuant to this agreement, GECFCO will provide consultancy services to the Company's retail business in connection with risk management, operation, sales and marketing, system, strategy and financing. As for consumers financing, professional knowledge, such as product developments, system and marketing, funding techniques, risk management, operations and employee training will be provided. The agreement period is of five years.

Pursuant to the "Strategic Cooperation Agreement", the consultancy fees shall be calculated on a cost recovery basis, and shall be equal to 140% of the aggregate remuneration in line with the prevailing cost rates charged by international firms of similar services. Pursuant to this agreement, after five years from the date of the agreement, to the extent permitted by applicable laws (and subject to any required regulatory and shareholders' approvals), the Company's obligation to pay to GECFCO's entitlement of 85% of the accumulated professional consultant fees and 100% of the accumulated travel and accommodation costs shall be satisfied by the issuance of the Company's shares, otherwise be satisfied by cash with the entitlement of 100% of the accumulated professional consultant fees and 100% of the accumulated travel and accommodation costs. The annual budget for the consulting fees should be between US$2 million to US$4 million.

On 26 October 2006, the Company's Board of Directors approved a resolution "Regarding changes of Strategic Cooperative Agreement", whereby the rights and obligations of GECFCO under the Strategic Cooperation Agreement will be transferred to GE Management Technology Consulting (Shanghai) Co., Ltd. ("GEMTC").

In January 2007, the Company entered into an agreement with GEMTC whereby the effective date of the Purchases Agreement entered between the Company and GECIFC dated 28 September 2005, and that of the Strategic Cooperative Agreement entered between the Company and GEMTC dated 28 September 2005 was extended to 30 June 2007.

In October 2006, following the approval of the PBOC, the Company entered into contract with Wal-Mart China Investment Co Ltd. and GE Consumer Finance to launch a credit card program. As approved by the Board of directors, the IT system support of this credit card program is outsourced to GEMTC. Pursuant to the IT & consulting service, software contract and statement of works, the relevant terms of the contract are as follows:

i GEMTC provides IT and consulting services regarding the related credit card project, and the Company was proposed to pay the related service fees. According to the contract, the related service fees include:

1) The initial investment costs are set to be RMB 48,834,594 yuan and will be recouped by 5 years;

2) The monthly running costs, are calculated based on the actual costs which incurs each month, plus a 10% mark-up;

3) Data Management Fees, are calculated based on the total volume of issued credit cards and that of transactions processed, plus a 10% mark-up;

4) Additional Services Fees, constituting consulting fees and other service fees. Consulting fees shall be such fees for the consulting services on a cost recovery basis and shall be equal to 140% of the aggregate remuneration of the GEMTC Service Representatives (the "Professional Consulting Fees"), which in each case shall be in line with the prevailing cost rates charged by international firms providing the similar services. The Company has an option to settle the consulting fees in cash (the "Cash-Settlement Option") or by the issue of its shares to GEMTC. If the Company elects the Cash-Settlement Option, the Professional Consulting Fees will be reduced by 21.4%. If the Company elects the Shares-Settlement Option, all such consulting fees shall be accumulated and not become due and payable until 5 years from the date of the agreement. And to the extent permitted by applicable laws (and subject to any required regulatory and the shareholders' approval), the Company shall pay its shares to GEMTC which shall be equal to the sum of 85% of the accumulated "Professional Consulting Fees" and 100% of the accumulated travel and accommodation costs of the GEMTC Service Representatives, divided by the average share price of the Company's listed shares during the 1 month trading period immediately preceding the date on which the bank issues such shares to GEMTC. If at any time after the election of the Shares-Settlement Option, the Company is unable to do so, the Company shall immediately pay GEMTC an amount in cash equal to the sum of 100% of the accumulated Professional Consulting Fees and 100% of the accumulated travel and accommodation costs of the GEMTC Service Representatives;

5) Transition Costs, if any.

ii GEMTC provides the software access service to the Company free in charge.

iii GEMTC provides service support for the Company regarding the related credit card project making use of its global partnerships.

In 2006, the Company has provided for RMB 41.1 million yuan consulting fees for the above "Strategic Cooperation Agreement" and the agreements related to Wal-mart project. As at 31 December 2006, the payable balance was RMB 35.81 million yuan (31 December 2005: RMB 10.1 million yuan).

GECIFC is a financial holding company registered in New York, USA. Both GECFCO and GEMTC are wholly-owned foreign enterprises established in the PRC. GECIFC, GECFCO and GEMTC are all ultimately controlled by General Electrics Co., Ltd.

Apart from the above transactions, the Company has no other material related party transactions.

N Litigation, Disputes and Guarantees

As at 31 December 2006, the pending litigation against the Company involved claims has 25 transactions, amounted to RMB 187.64 million yuan. A provision of RMB 55.45 million yuan.

Except for the issued bank guarantees in the normal course of the banking business (Note O.2) the Company had no significant guarantee provided to third parties which should be approved by the board of directors.

On 11 April 2006, the liquidator of Deheng Securities Company Ltd. issued to the Company a demand letter which requested the Company to return the deposits of RMB 264 million yuan. On 6 December 2006, the liquidator of Southern Securities Company Ltd. issued to the Company a notice of debt repayment, which requested the Company to repay a debt of RMB 158 million yuan. In prior years, the Company received notices from the Institutional Supervision Department and the Listing Company Supervision Department of China Securities Regulatory Commission to demand for the repayments of the above sums. The Company has objected to the above mentioned claims for repayment of funds and debt settlement. Based on the legal opinion from an independent third party lawyer, the Company does not have a present obligation to make the payment of the above amounts. As at the date of issue of these financial statements, the Company has not paid the claims to any parties. The Company's management considers that it is not necessary to recognise a provision as liability for these matters as at the balance sheet date.

O Commitments

1 As of 31 December 2006, an analysis of operating lease commitments which had been contracted for was as follows:

ITEMS	31 December 2006	31 December 2005
Expiring in the coming year	**257,844,253**	252,521,980
Expiring in the second to fifth year	**603,810,329**	630,161,691
Expiring after the fifth year	**314,658,919**	388,206,093
Total	**1,176,313,501**	1,270,889,764

2 The Company's loan commitment was as follows:

ITEMS	31 December 2006	31 December 2005
Letters of credit issued	**1,720,642,196**	2,082,434,994
Guarantees issued	**2,531,815,404**	2,678,281,381
Bank acceptance	**101,280,502,321**	83,953,929,355
Credit card limits not use	**3,034,545,957**	2,231,843,238

P Post Balance Sheet Events

In accordance with the "MOF's Notice in connection with the Publication of the 38 Generally Accepted Accounting Principles beginning with Accounting Standard for Business Enterprises 1 – Inventory", (Cai Kuai [2006] No. 3) issued by the MOF, listed commercial banks are required to comply with the 38 new Accounting Standards for Business Enterprises (see note 15) from 1 January 2007. The Board of Directors has approved on 20 March 2007, the effects of first-time application of these new accounting standards on the 2007 opening balances of the shareholders' equity are as follows:

ITEMS	Amount
Shareholders' equity as at 31 December 2006 (under current accounting standards)	6,474,463,247
Adoption of fair value model to measure investment properties	171,142,262
Deferred tax liabilities	(25,740,766)
Shareholders' equity as at 1 January 2007 (under new accounting standards)	6,619,864,743

During the period between the balance sheet date and the date of approval of these financial statements, the Company did not have other significant post balance sheet events.

Q Supplementary Information for Shenzhen Yuansheng Industrial Co., Ltd.

According to the Commercial Banking Laws of the PRC and other relevant regulations, the Company intends to dispose its investment. As most of the real estate investments of the Company are held by Yuansheng and its subsidiaries, the main disposal work was conducted by Yuansheng and its subsidiaries. Yuansheng had sold or transferred or signed transfer contracts for those investments. Provision for impairment had been provided by Yuansheng based on recoverable amount for those can not be sold at this moment and outstanding balance of account receivables.

The brief of balance sheet of Yuansheng as of 31 December 2006 was as follows:

ASSETS	31 December 2006	31 December 2005
Cash and bank	**18,650,170**	27,430,408
Accounts receivable	**134,151,270**	179,284,492
Less: Bad debts provision	**(73,554,113)**	(118,013,787)
Accounts receivable, net	**60,597,157**	61,270,705
Inventories, net	**44,858**	660,121
Long-term investments	**5,221,681**	12,134,828
Less: Provision for impairment in value of long-term investments	**(5,221,681)**	(5,221,681)
Long-term investments, net	**–**	6,913,147
Fixed assets, net	**52,269,928**	53,208,354
Total assets	**131,562,113**	149,482,735
Payable to the Company	**518,336,507**	515,704,656
Other current liabilities	**4,343,499**	15,004,173
Total liabilities	**522,680,006**	530,708,829
Paid-in capital	**21,010,000**	21,010,000
Undistributed profits	**(412,127,893)**	(402,236,094)
Total shareholders' equity	**(391,117,893)**	(381,226,094)
Total liabilities and shareholders' equity	**131,562,113**	149,482,735

R Supplementary Information

1 According to the No. 9 Regulation For Disclosure Requirements For Companies with Publicly Issued Shares – Calculation of Ratio of Return On Equity and Earning Per Share, the ratio of return of equity and earning per share of the Company were as follows:

	Return on equity			
	Diluted		Weighted-average	
NET PROFIT	2006	2005	2006	2005
Profit from main business	**29.43%**	12.54%	**33.39%**	14.24%
Operating profit	**29.43%**	12.54%	**33.39%**	14.24%
Net profit	**20.12%**	6.15%	**22.83%**	6.99%
Profit deducted by non-routine losses	**18.95%**	5.82%	**21.50%**	6.60%

	Earning per share (RMB)			
	Diluted		Weighted-average	
NET PROFIT	2006	2005	2006	2005
Profit from main business	**0.98**	0.33	**0.98**	0.33
Operating profit	**0.98**	0.33	**0.98**	0.33
Net profit	**0.67**	0.16	**0.67**	0.16
Profit deducted by non-routine losses	**0.63**	0.15	**0.63**	0.15

NON-RECURRING INCOME STATEMENT ITEMS	2006
Disposal gain from fixed assets	**59,927,541**
Other non-operating income items (net)	**29,425,572**
Impact to income tax for the above listed items	**(13,402,967)**
Total	**75,950,146**

There was no difference between basic earnings and diluted earnings per share as there were no potentially dilutive shares outstanding during the years ended 31 December 2006 and 2005.

Notes to the Financial Statements

2 Assets impairment allowances

ITEMS	31 December 2005	Charge for the year/(reverse) for the year	Changes to capital reserve	Written off	Changes in exchange rate	Recovery of items written off previously	31 Decemeber 2006
Provisions							
Other receivables	162,803,076	42,432,629	–	23,671,458	(819,681)	345,965	181,090,531
Deposit with other banks	76,826,553	6,113,447	–	15,515,000	–	–	67,425,000
Placement with other banks	181,441,800	8,915,900		–	(2,385,900)	–	187,971,800
Placement with other financial institutions	158,899,101	4,685,412	–	25,221,882	(1,505,587)	155,747	137,012,791
Amounts held under resale agreements	27,549,923	–	–	–	–	–	27,549,923
Finance lease receivable	4,194,739	–	–	–	(144,759)	–	4,049,980
Sub-total	**611,715,192**	**62,147,388**	**–**	**64,408,340**	**(4,855,927)**	**501,712**	**605,100,025**
Provisions of loan and advances	**6,232,551,493**	**1,303,298,163**	**–**	**563,956,472**	**(37,150,918)**	**2,398,395**	**6,937,140,661**
Provisions of equity investments	**434,395,780**	**11,153,214**	**955,600**	**–**	**(568,068)**	**–**	**444,025,326**
Provisions of repossessed assets	**171,827,006**	**49,197,269**	**–**	**1,016,522**	**–**	**–**	**220,007,753**
Total	**7,450,489,471**	**1,425,796,034**	**955,600**	**629,381,334**	**(42,574,913)**	**2,900,107**	**8,206,273,765**

3 Explanation to items of which the variation exceeded 30%

ITEMS	Variation percentage	Reasons
Deposits with banks	-53.17%	Adjustment of assets structure
Financial assets measured at fair value through profit or loss	-49.58%	Adjustment of assets structure
Positive value of derivative financial instruments held for trading	297.24%	Fair value change
Amounts held under resale agreements	30.08%	Adjustment of assets structure
Interest receivable	46.35%	Expand the volume of interest-bearing assets
Available-for-sale investments	-31.23%	Financial assets classified under new accounting standards
Held-to-maturity investments	100%	Financial assets classified under new accounting standards
Intangible assets	-36.11%	Amortization for the current year
Deposits from banks and other financial	63.04%	Adjustment of assets structure
Derivative instruments	73.84%	Fair value change
Repurchase agreements	-36.63%	Adjustment of assets structure
Staff cost payable	49.94%	Improvement in the Company's operating results and increase the numbers of staff
Net interest income	32.47%	Increase in business, volume and expansion of the spread
Fee and commission income	38.53%	Increase in business
Fee and commission expenses	74.81%	Increase in fee from intermediaries
Net (loss)/gain on financial assets and liabilities measured at fair value through profit or loss	-1556.56%	Fair value change
Other business income	45.28%	Increase in business
Business tax and surcharges	32.75%	Increase in business income
Non-operating income	251.80%	Increase in gain from disposal of fixed assets, and repossessed assets
Non-operating expense	-70.18%	Decrease in provision for contingent liabilities
Profit before tax	233.59%	Improve the quality of assets , decrease the assets impairment provision
Enterprise income tax	141.07%	Change from loss to profit position of 15% tax zone, and increase in revenue of 33% tax zone.
Net profit	318.93%	Combined effect of increase in net interest income and fee and commission, and improvement in asset quality reduced asset losses

S Approval of the Report

This report was approved by the Company's Board of Directors on 20 March 2007.

Review Report on Shareholders' Equity Adjustment Sheet for Old-new Accounting Standards

Review Report

SDB Board of Directors,

We have reviewed the attached old-new accounting standard shareholders' equity adjustment sheet compiled by SDB on 1 January 2007 (hereafter "equity adjustment sheet"). According to <Corporate Accounting standard No. 38 – Adopting Corp. Accounting Standards for the 1st time> and "Notification about Enforcing New Accounting Standards Related Financial Information Disclosure Work" (issued by CSRC 2006 no. 136). The duty of compilation of the equity adjustment sheet resides with SDB; we are responsible for its review based on the review work conducted on this equity adjustment sheet.

We have carried out our review work based on <China CPA Review Guideline No. 2101 – Financial Report Review>. The guideline requires us to plan and implement review work, to obtain limited assurance for whether the equity adjustment sheet has material errors. The review work mainly focused on enquiring related personnel in the company and implementing analysis procedures for financial data. The degree of assurance by a review is lower than that of an audit. We have not conducted an audit and therefore do not provide audit opinion.

Based on our review, we have not noticed any matter that makes us believe that SDB equity adjustment sheet does not follow <Corporate Accounting standard no. 38 – Adopting Corporate Accounting Standards for the 1st time> and "Notification about Enforcing New Accounting Standards Related Financial Information Disclosure Work" (issued by CSRC 2006 no. 136) and cannot truly reflect all material matters on SDB's enforcements of new accounting standards on shareholder's equity adjustment.

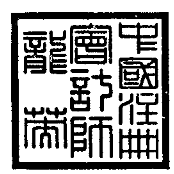
Also, we advise the users of the equity adjustment sheet that as noted in important notice of the footnotes of the equity adjustment sheet, 1 January 2007 shareholders' equity (new accounting standard) listed in the equity adjustment sheet can be differed from related data listed in 2007 financial reports.

Attached: SDB old-new accounting standard equity adjustment sheet

SHENZHEN PENGCHENG
CERTIFIED PUBLIC ACCOUNTANTS CO., LTD.

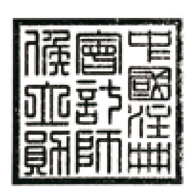
Shenzhen, PRC
20 March 2007

Certified Public Accountant



Long Ying

Certified Public Accountant



Hou Lixun

Shareholders' Equity Discrepancy Adjustment Sheet under New and Old Accounting Standards

1 January 2007

	Shareholders' Equity on 31 December 2006 (current accounting standards)		6,474,463,247
1	Long-term equity investment differential		–
	Of which: Long-term equity investment differential due to corporate merger from singular control		–
	Long-term equity investment differential as a result of other equity accounting		–
2	Investment real estate accounted using fair value methodology	1	171,142,262
3	Retroactive depreciation expenses due to disposal of assets		–
4	Layoff expenses qualified under the contingent liabilities definition		–
5	Share payment		–
6	Restructuring expenses qualified under the contingent liabilities definition		–
7	Corporate merger		–
	Of which: Book value of goodwill due to corporate merger from singular control		–
	Goodwill amortization provision based on new accounting standard		–
8	Fair Value Profit & Loss – financial asset		–
9	Fair Value Profit & Loss – financial liability		–
10	Increase in equity due to financial instrument split		–
11	Derivatives		–
12	Income tax	1	-25,740,766
13	Others		–
	Shareholders' Equity on 31 December 2007 (current accounting standards)		6,619,864,743

Chairman & CEO
Frank N. Newman

Chief Financial Officer
Wang Bomin

Financial Controller
Wang Lan

Equity Adjustment Sheet Footnote

1 January 2007

Important notice:

The Bank had on 1 January 2007 enforced MOF 2006 issued <Corporate Accounting Standard> (hereafter "new accounting standard"), currently we are assessing the effect of enforcing new accounting standards on our financial status, operation results and cashflow (see footnote 3, main effect is on our investment real estate accounted using fair value), after prudent consideration and according to further explanation given by MOF, we might be adjusting related accounting policies and important recognitions applied when producing the old-new accounting standard equity adjustment sheet (hereafter "equity adjustment sheet") when producing our 2007 financial reports and therefore leads to differences between 1 January 2007 shareholders' equity listed in equity adjustment sheet and our related financial data in our 2007 financial reports.

1 Purpose of Compilation

The Bank has enforced new accounting standard on 1 January 2007. To analyze and disclose the effect of new accounting standards on financial status of listed companies, CSRC has distributed "notification about enforcing new accounting standards related financial information disclosure work", notifying companies to follow < Corporate Accounting Standard no. 38 – adopting corp. accounting standards for the 1st time > and guidelines setout in the notification, to disclose adjustment process in the form of equity adjustment sheet under "supplementary information" of the 2006 financial reports.

2 Equity adjustment sheet formulation basis

According to MOF 2006 no. 3 "MOF to distribute <Corporate Accounting Standard no. 1 – stock> and others total of 38 accounting standards", from 1 January 2007, listed companies are to comply with the 38 new accounting standards distributed along with the notification.

As approved by the Broad of Directors of SDB (hereafter "The Bank"), The Bank is to comply with new accounting standards from 1 January 2007 onwards.

The Bank 's 1 January 2007 old-new accounting standard equity adjustment sheet is formulated in accordance with <Corporate Accounting Standard no. 38 – Adopting Corporate Accounting Standards for the 1st time> and "notification about enforcing new accounting standards related financial information disclosure work" (issued by CSRC 2006 no. 136).

3 Change of accounting policy

1 Investment real estates accounted using fair value

The Bank's investment real estates are those properties that can be quantified and sold separately, to earn rent or capital gain or both. The Bank's investment real estates are accounted using fair value. Fair value is based on quotation of similar surrounding properties or traded price of similar surrounding properties. The Bank engaged professional and independent 3rd party to evaluate our investment real estate using fair value to determine its fair value.

Those investment real estates are not owner-occupied properties; they are either rented or planned to be sold, its fair value has been determined by Shenzhen Guozi Land/property Assessment Co. Ltd.

We follow 1st effective date accounting for investment real estate book value and fair value and calculate deferred tax liability using the appropriate tax rate of which the property is located, adjusts 1st effective date accounting report accordingly, of which: adjust investment real estate fair value 460,655,697 yuan, deduct net fixed-asset 289,513,435 yuan, adjust deferred tax liability 25,740,766 yuan, increase capital – investment real estate unrealized G/L 145,410,496 yuan.

2 Other items of change

According to MOF 14 "Financial Instrument –Recognition and Quantification" (abbreviated as MOF 14), listed commercial banks are to trail MOF 14 guideline on 1 January 2006. To conduct MOF 14 trail, we have followed <Corporate Accounting Standard no. 22 – Financial Instrument Recognition and Quantification> and related accounting policies in 2006 and therefore, financial instrument related items in the new accounting standard will not affect 2007 equity adjustment when enforcing the new accounting standard.

Also, we have adopted <Accounting Policies for Financial Institutions> and adopted balance sheet liability methodology to compute income tax liability in 2005.

In 2007, other than <Corporate Accounting Standard #3> investment real estate accounting policy change leads to retroactive adjustments and new accounting methodologies already adopted and therefore does not require retroactive adjustments, there are no other items that requires major retroactive adjustment with accordance to article 5 to 19 of <Corporate Accounting Standard no. 38 – Adopting Corporate Accounting Standards for the 1st time>

3 Approval of report

The equity adjustment sheet and footnotes were approved by The Bank's Board of Directors on the 20 March 2007 Board of Director meeting.

Report of the International Auditors

To the shareholders of Shenzhen Development Bank Co., Ltd.

We have audited the accompanying balance sheet of Shenzhen Development Bank Co., Ltd. (the “Company”) as at 31 December 2006 and the related statements of income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management’s responsibility for the financial statements

The Company’s management is responsible for the preparation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes 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; 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 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 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, we consider internal control relevant to the 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 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 give a true and fair view of the financial position of the Company as at 31 December 2006 and of the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Ernst & Young

Certified Public Accountants
Hong Kong
20 March 2007

Income Statement

for the year ended 31 December 2006

In RMB	Note	**31 December 2006**	31 December 2005 (Restated)
Interest income	4	**12,111,238,291**	9,092,580,635
Interest expense	4	**(5,068,772,930)**	(3,770,336,816)
Net interest income	4	**7,042,465,361**	5,322,243,819
Net fee and commission income	5	**303,135,044**	235,225,145
Foreign exchange gains, net		**188,989,071**	89,253,464
Net gain on disposal of investment securities		**110,564,976**	111,475,992
Net (loss)/gain on financial assets/liabilities at fair value through profit or loss		**(16,271,119)**	1,117,092
Fair value changes of investment properties		**113,570,010**	(12,403,424)
Other net income	6	**178,232,265**	17,909,776
Total operating income		**7,920,685,608**	5,764,821,864
Staff expenses	7	**(1,435,266,389)**	(1,086,201,486)
General and administrative expenses	7	**(1,501,079,410)**	(1,149,592,638)
Depreciation	7	**(275,405,649)**	(312,986,562)
Business tax and surcharges		**(553,472,659)**	(416,921,653)
Profit before impairment provisions on loans and other assets		**4,155,461,501**	2,799,119,525
Impairment provisions on loans and other assets	8	**(1,986,217,046)**	(2,231,867,362)
Profit before tax		**2,169,244,455**	567,252,163
Income tax expense	9	**(705,858,064)**	(283,414,959)
Net profit		**1,463,386,391**	283,837,204
Earnings per share			
Basic earnings per share	10	**0.75**	0.15

The accounting policies and explanatory notes on pages 112 through 150 form an integral part of the financial statements.

Balance Sheet

31 December 2006

In RMB	Note	**31 December 2006**	31 December 2005 (Restated)
ASSETS			
Cash on hand		**909,080,069**	787,992,420
Due from the Central Bank	11	**25,379,095,833**	20,971,705,025
Due from banks	12	**3,081,003,224**	6,579,429,956
Interbank placements	13	**3,295,643,350**	3,205,524,850
Advances to non-bank financial institutions	14	**73,532,616**	79,426,036
Reverse repurchase agreements	15	**11,271,768,334**	8,665,334,290
Financial assets at fair value through profit or loss	16	**450,121,793**	853,322,484
Loans	17	**175,244,806,300**	149,615,432,343
Investments	18		
Held-to-maturity investments		**17,430,603,925**	–
Available-for-sale investments		**18,217,969,475**	26,348,799,380
Construction in progress	19	**9,521,431**	4,592,695
Property and equipment	20	**1,720,507,247**	1,789,164,998
Investment properties	21	**460,655,697**	692,637,283
Long term prepayments		**127,759,542**	128,147,275
Deferred tax assets	22	**753,261,655**	764,198,091
Other assets	23	**2,072,693,189**	1,636,476,448
Total assets		**260,498,023,680**	222,122,183,574
LIABILITIES			
Due to banks	24	**17,069,243,640**	10,469,234,116
Customer deposits	25	**231,139,912,971**	200,812,259,481
Repurchase agreements	15	**741,010,474**	1,169,553,502
Financial liabilities at fair value through profit or loss	16	**511,866,248**	695,232,410
Inward and outward remittances		**1,066,414,723**	1,003,541,523
Tax payable		**276,643,076**	381,599,128
Dividends payable	26	**22,213,999**	23,441,268
Other liabilities	27	**3,073,678,822**	2,508,670,793
Total liabilites		**253,900,983,953**	217,063,532,221
SHAREHOLDERS' EQUITY			
Share capital	28	**1,945,822,149**	1,945,822,149
Share premium		**1,571,729,344**	1,571,729,344
Reserves	29	**2,134,195,158**	803,904,505
Cumulative changes in fair value – available-for-sale investments		**76,787,270**	2,247,304
Revaluation surplus on properties and buildings transferred to investment properties		**760,006**	297,989
Retained earnings	30	**867,745,800**	734,650,062
Total shareholders' equity		**6,597,039,727**	5,058,651,353
Total shareholders' equity and liabilities		**260,498,023,680**	222,122,183,574

The accounting policies and explanatory notes on pages 112 through 150 form an integral part of the financial statements.

Statement of Changes in Equity

for the year ended 31 December 2006

In RMB	Share capital	Share premium	Reserves (note 29a)	Cumulative changes in fair value – available-for-sale investments	Revaluation surplus on properties and buildings transferred to investment properties	Retained earnings (note 30)	Total
Balance as at 1 January 2005 (before adjustment)	1,945,822,149	1,571,729,344	549,833,753	(413,730,650)	–	721,739,777	4,375,394,373
Retrospective adjustment in respect of the changes in accounting policy of the statutory financial statements	–	–	7,416,690	–	–	(7,416,690)	–
Effect of adopting the revised IAS 39 – Financial Guarantee Contracts	–	–	–	–	–	(16,859,083)	(16,859,083)
Restated balance as at 1 January 2005	1,945,822,149	1,571,729,344	557,250,443	(413,730,650)	–	697,464,004	4,358,535,290
CHANGES IN EQUITY FOR 2005							
Available-for-sale investments							
Valuation gain taken into equity	–	–	–	555,738,500	–	–	555,738,500
Transferred to the income statement upon disposal	–	–	–	(66,352,671)	–	–	(66,352,671)
Investment properties							
Fair value adjustments taken into equity	–	–	–	–	350,575	–	350,575
Exchange differences of equity	–	–	2,916	–	–	–	2,916
Tax on items taken directly into or transferred from equity	–	–	–	(73,407,875)	(52,586)	–	(73,460,461)
Net income recognised directly in equity	–	–	2,916	415,977,954	297,989	–	416,278,859
Net profit for the year (restated)	–	–	–	–	–	283,837,204	283,837,204
Total recognised income and expenses for the year (restated)	–	–	2,916	415,977,954	297,989	283,837,204	700,116,063
Profit appropriation	–	–	252,759,119	–	–	(252,759,119)	–
Retrospective adjustment in respect of the changes in accounting policy of the statutory financial statements	–	–	(6,107,973)	–	–	6,107,973	–
Profit appropriation (restated)	–	–	246,651,146	–	–	(246,651,146)	–
Balance as at 31 December 2005 (restated)	1,945,822,149	1,571,729,344	803,904,505	2,247,304	297,989	734,650,062	5,058,651,353

The accounting policies and explanatory notes on pages 112 through 150 form an integral part of the financial statements.

Statement of Changes in Equity *(Continued)*

for the year ended 31 December 2006

In RMB	Share capital	Share premium	Reserves (note 29a)	Cumulative changes in fair value – available-for-sale investments	Revaluation surplus on properties and buildings transferred to investment properties	Retained earnings (note 30)	Total
Balance as at 1 January 2006	1,945,822,149	1,571,729,344	803,904,505	2,247,304	297,989	734,650,062	5,058,651,353
CHANGES IN EQUITY FOR 2005							
Available-for-sale investments							
Valuation gain taken into equity	–	–	–	136,392,115	–	–	136,392,115
Amortisation of unrealised gain of the held-to-maturity investments transferred from available-for-sale investments	–	–	–	(22,751,852)	–	–	(22,751,852)
Transferred to the income statement upon disposal	–	–	–	(25,946,185)	–	–	(25,946,185)
Investment properties							
Fair value adjustments taken into equity	–	–	–	–	543,549	–	543,549
Tax on items taken directly into or transferred from equity	–	–	–	(13,154,112)	(81,532)	–	(13,235,644)
Net income recognised directly in equity	–	–	–	74,539,966	462,017	–	75,001,983
Net profit for the year	–	–	–	–	–	1,463,386,391	1,463,386,391
Total recognised income and expenses for the year	–	–	–	74,539,966	462,017	1,463,386,391	1,538,388,374
Profit appropriation	–	–	1,330,290,653	–	–	(1,330,290,653)	–
Balance as at 31 December 2006	1,945,822,149	1,571,729,344	2,134,195,158	76,787,270	760,006	867,745,800	6,597,039,727

The accounting policies and explanatory notes on pages 112 through 150 form an integral part of the financial statements.

Statement of Cash Flows

for the year ended 31 December 2006

In RMB	Note	**2006**	2005
Cash flows from operating activities	31	**8,189,812,641**	(4,181,877,402)
Income tax paid		**(809,982,853)**	(421,758,409)
Net cash flows generated from/(used in) operating activities		**7,379,829,788**	(4,603,635,811)
Cash flows from investing activities			
Payments made for new additions of construction in progress		**(31,170,462)**	(15,511,657)
Purchases of properties and equipment		**(187,561,875)**	(149,443,923)
Purchases of investment properties		**(695,325)**	(704,218,246)
Proceeds from disposal of items of property and equipment		**30,499,332**	414,735
Proceeds from disposal of investment properties		**333,459,425**	673,694,745
Interest received from investment securities		**734,795,265**	796,679,902
Dividend received from investment securities		**400,000**	766,503
Payments made in bond investments		**(59,721,617,665)**	(62,084,077,969)
Proceeds from disposal of bond investments		**50,021,761,751**	69,899,139,772
Payments made in equity investments		**(229,636)**	–
Proceeds from disposal of equity investments		**1,371,738**	5,110,309
Net cash flows (used in)/generated from investing activities		**(8,818,987,452)**	8,422,554,171
Cash flows from financing activities			
Dividends paid		**(1,227,269)**	(130,588)
Net cash flow used in financing activities		**(1,227,269)**	(130,588)
Effect of exchange rates changes on cash and cash equivalents		**–**	2,916
Net (decrease)/increase in cash and cash equivalents		**(1,440,384,933)**	3,818,790,688
Cash and cash equivalents at beginning of the year		**19,447,900,111**	15,629,109,423
Cash and cash equivalents at end of the year		**18,007,515,178**	19,447,900,111
Analysis of balances of cash and cash equivalents			
Cash on hand		**909,080,069**	787,992,420
General deposits at the Central Bank		**10,475,761,220**	10,437,186,921
Due from banks maturing in less than three months		**2,693,713,315**	4,492,630,170
Interbank placements maturing in less than three months		**2,807,748,850**	1,577,936,050
Short term investments maturing in less than three months		**1,121,211,724**	2,152,154,550
		18,007,515,178	19,447,900,111
Supplement information			
Interest received		**11,302,676,044**	8,679,224,731
Interest paid		**4,945,905,216**	3,661,436,149

The accounting policies and explanatory notes on pages 112 through 150 form an integral part of the financial statements.

Notes to the Financial Statements

31 December 2006

1 General Information

Shenzhen Development Bank Co., Ltd. (the "Company") was established in the People's Republic of China (the "PRC") as a result of the restructuring of six agricultural credit co-operatives into a joint stock commercial bank with limited liability. The Company was established on 22 December 1987 after the initial public offering of its RMB ordinary shares on 10 May 1987. The Company was the first entity listed on securities companies of the Shenzhen Special Economic Zone on 7 April 1988.

The institution number of the Company on the 00000008 approval document issued by the China Banking Regulatory Commission is B11415840H0001. The business licence number of the Company issued by the Shenzhen Municipal Administration of Industry and Commerce is N46884.

The Company is principally engaged in commercial and retail banking activities in the PRC.

The registered office of the Company is located at No. 5047, Shennan Road East, Luohu District, Shenzhen, Guangdong Province, PRC. Headquartered in Shenzhen, the Company operates its business in the PRC. As at 31 December 2006, the Company has established branches in Beijing, Shanghai, Tianjin, Guangzhou, Shenzhen, Chongqing, Dalian, Hangzhou, Nanjing, Haikou, Jinan, Qingdao, Zhuhai, Foshan, Ningbo, Wenzhou, Chengdu and Kunming.

2 Summary of Significant Accounting Policies

Basis of presentation

These financial statements have been prepared following the accounting measurement policies set out below which are in accordance with International Financial Reporting Standards ("IFRSs"). IFRSs comprise standards and interpretations approved by the International Accounting Standards Board (the "IASB"), and International Accounting Standards and Standing Interpretations Committee interpretations approved by the International Accounting Standards Committee that remain in effect.

The financial statements have been prepared on a historical cost basis except for measurement at fair value of financial assets or liabilities through profit or loss, available-for-sale investment securities, investment properties, financial guarantee contracts and share-based payment.

The Company maintains its books and prepares its statutory financial statements in accordance with the related accounting standards and regulations stipulated by the Ministry of Finance of the PRC. As the accounting policies adopted in the preparation of the statutory financial statements are different from IFRSs in certain aspects, these financial statements are different from the statutory financial statements. The material accounting measurement adjustments arising from restating the results and net assets of the Company to comply with IFRSs have been made in the preparation of these financial statements, but will not be taken up in the accounting records of the Company. Further details with respect to the net impact of these IFRS adjustments are included in supplementary financial information.

Significant accounting judgements and estimates

In the process of applying the Company's accounting policies, management has made assumptions of the effects of uncertain future events on the financial information. The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year/period are discussed below. Apart from those assumptions and estimations, judgements are also made and are set out below.

i Designation of held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and a fixed maturity are classified as held-to-maturity investments when the Company has the positive intention and ability to hold the investments to maturity. Accordingly, in evaluating whether a financial asset shall be classified as held-to-maturity investment, significant management judgement is required. If the Company fails to correctly assess its intention and ability to hold the investments to maturity and the Company sells or reclassifies more than an insignificant amount of held-to-maturity investments before maturity, the Company shall classify the whole held-to-maturity investment portfolio as available-for-sale.

ii Impairment losses of loans and advances

The Company determines periodically whether there is any objective evidence that an impairment loss on loans and advances has 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 amount and the present value of estimated future cash flows. Assessing the amount of impairment losses requires significant judgement on whether objective evidence for impairment exists and also significant estimates when determining the present value of the expected future cash flows. The carrying amount of loans and advances to customers as at the balance sheet dates are set out in note 17a to the financial statements.

iii Income tax

Determining income tax provisions requires the Company to estimate the future tax treatment of certain transactions. The Company carefully evaluates tax implications of transactions in accordance with prevailing tax regulations and makes tax provisions accordingly. In addition, deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences can be utilised. This requires significant estimation on the tax treatments of certain transactions and also significant assessment on the probability that adequate future taxable profits will be available for the deferred income tax assets to be recovered.

iv Fair value of financial instruments

If the market for a financial instrument is not active, the Company establishes fair value by using a valuation technique. 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 technique makes maximum use of market inputs. However, where market inputs are not available, management needs to make estimates on areas such as credit risk (both own and counterparty's), volatility and correlation. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

Changes in accounting policies

Amendment to IAS 39 "Financial Instruments: Recognition and Measurement" and IFRS 4 "Insurance Contracts": Financial Guarantee Contracts.

In prior years, the Company accounted for financial guarantee contracts under IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" as contingent liabilities and disclosed the contracts as off-balance sheet items: "Commitment and Contingent Liabilities". With effect from 1 January 2006 and in accordance with the above amendment, financial guarantee contracts issued are recognized as financial liabilities and reported under "Other liabilities". Details of the accounting policy on "Financial Guarantee Contracts" are set out in the relevant note below.

Owing to the change in accounting policy, the carrying value of financial guarantee contracts amounted to RMB 28,181,030 yuan as at 1 January 2006. After taking into account of the deferred tax impact, the retained earnings as at 1 January 2006 decreased by RMB 19,515,180 yuan.

In addition, the Company has adopted the revised IAS 39 "Financial Instruments: Recognition and Measurement" regarding to the amendments of restricting the use of the option to designate any financial asset or liability upon its initial recognition to be held at fair value through the profit or loss to certain situations. The application of the above amendment had no significant impact on the financial statements.

Except for the above, these financial statements have been prepared on a basis consistent with the accounting policies adopted in the financial statements for the year ended 31 December 2005.

Impact of issued but not yet effective IFRSs

The Company has not applied the following IFRSs that have been issued but are not yet effective in these financial statements.

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

Amendment to IAS 1 is effective for annual periods beginning on or after 1 January 2007. This amendment to IAS 1 requires the disclosures of the Company's objectives, procedures and policies used to manage capital; quantitative information about what the Company manages as capital; and whether the Company complied with externally imposed capital requirements and the consequences of any non-compliance.

IFRS 7 is effective for annual periods beginning on or after 1 January 2007. IFRS 7 requires the Company to disclose information that enables users of financial statements to evaluate the significance of the financial instruments and the nature and extent of risks arising from them.

IFRS 8 is effective for annual periods beginning on or after 1 January 2009. This new standard replaces IAS 14 and adopts a management approach to segment reporting. Generally, the information reported would be that which management uses internally for evaluating the performance of operating segments and allocating resources to those segments. This information may be different from that reported in the balance sheet and income statement. Accordingly, IFRS 8 requires explanations of the measurement basis and reconciliations between reportable segment items with the amounts disclosed in the balance sheet and income statement.

IFRIC 7, IFRIC 8, IFRIC 9, IFRIC 10, IFRIC 11 and IFRIC 12 is effective for annual periods beginning on or after 1 March 2006, 1 May 2006, 1 June 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 IFRSs upon initial application. So far, it has been concluded that while the adoption of the Amendment to IAS 1, IFRS 7 and IFRS 8 may result in new and amended disclosures, other new and revised IFRSs are unlikely to have a significant impact on the Company's results of operations and financial position.

Consolidation

Subsidiaries or special purpose vehicles that are directly or indirectly controlled by the Company are consolidated. Material inter-company transactions between the Company and its subsidiaries and the related balances are eliminated in the preparation of the consolidated financial statements. Subsidiaries that are acquired during the year are included in the consolidation from the date which the title and ownership has been transferred. Subsidiaries that are expected to be disposed of are included in consolidation until the disposal has been completed.

Associate companies that the Company has significant influence on are accounted for in the consolidated financial statements by the equity method. Significant influence means the Company owns more than 20% of the voting rights of the associate companies.

Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and when the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

i Interest income is recognised as it accrues (using the effective interest method by applying the rate that exactly discounts estimated future cash receipts 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 recognised using the interest rate used to discount the future cash flows for the purpose of measuring the impairment loss.

ii Fee and commission income is recognised when the services have been rendered and the proceeds can be reasonably estimated.

iii Dividend income is recognised when the shareholders' right to receive payment has been established.

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. Management determines the classification of a financial asset at its initial recognition and evaluates this designation at each reporting date. When a financial asset is recognised initially, the Company shall measure it at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset.

i Financial assets at fair value through profit or loss

There are two sub-categories of financial assets at fair value through profit or loss:

1) Financial assets held for trading

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

- acquired principally for the purpose of sale in the near term;
- part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit-taking; or
- a derivative (except for a derivative that is designated as a effective hedging instrument).

2) Financial assets designated at fair value through profit or loss by management upon initial recognition

A financial asset, other than one held for trading, may be designated as financial asset at fair value through profit or loss upon initial recognition, if it meets the criteria set out below, and is so designated by management:

- eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring financial assets or financial liabilities or recognising the gains and losses on them on different bases;
- 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
- relates to financial instruments containing one or more embedded derivatives that significantly modify the cash flows resulting from those financial instruments; or it is clear with little or no analysis when a similar hybrid instrument is first considered that the embedded derivatives should be separated.

After the initial recognition, these financial assets are measured at their fair values, without any deduction for transaction costs that the Company may incur on sale or other disposal. All related realised and unrealised gains or losses are included in the income statement for the year.

ii Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and a fixed maturity that the Company's management 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. The Company shall reclassify any remaining held-to-maturity investments as available-for-sale and shall not classify any financial assets as held-to-maturity if it has, during the current financial year or during the two preceding financial years, sold or reclassified more than an insignificant amount of held-to-maturity investments before maturity other than sales or reclassifications that:

1) are so 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;

2) occur after the Company has collected substantially all of the financial asset's original principal through scheduled payments or prepayments; or

3) are attributable to an isolated event that is beyond the Company's control and is non-recurring and could not have been reasonably anticipated by the Company.

iii Loan 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. Loans and receivables are carried at amortised cost using the effective interest method, less provision for impairment in value.

iv Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified as loans and receivables, held-to-maturity investments or financial assets at fair value through profit or loss. After the initial recognition, financial assets which are classified as available-for-sale are stated at fair value. Premiums and discounts on available-for-sale financial assets are amortised using the effective interest rate method and taken to the interest income.

Changes in fair value 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. On derecognition or impairment, the cumulative gain or loss previously reported as "cumulative changes in fair value – available-for-sale investments" within equity is included in the income statement for the year.

A financial asset 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.

Fair value measurement

For investments and derivatives quoted in an active market, fair value is determined by reference to quoted market prices. Bid prices are used for assets and offer prices are used for liabilities.

The estimated fair value of deposits with no stated maturity, which includes non-interest-bearing deposits, is the amount payable on demand.

The fair value of forward exchange contracts is calculated by reference to forward exchange rates with similar maturities.

For unquoted financial instruments, fair value is normally based on the expected cash flows discounted at current rates applicable for items with similar terms and risk characteristics.

The fair value of unquoted derivatives is determined either by discounted cash flows or internal pricing models.

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 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.

i Financial assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity investments carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an impairment provision account and the amount of the loss is recognised in the income statement.

The Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is 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 included in a collective assessment of 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 for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the impact of current conditions that did not affect the period on which the historical loss experience is based and to eliminate the impact of historical conditions that do not exist currently. The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Company.

If, in a subsequent period, the amount of an impairment loss decreases and the decrease can be attributed objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. 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 and receivable is uncollectible, it is written off against the related allowance for impairment losses. Such loans and receivables are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of the amounts previously written off decrease the amount of the provision for impairment losses in the income statement.

ii Financial assets carried at cost

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

iii Available-for-sale financial assets

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal repayment and amortisation) and its current fair value, less any impairment loss previously recognised in the income statement, is transferred from equity to the income statement.

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 the income statement, if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognised in the income statement.

Financial liabilities

The Company classifies its financial liabilities into two categories: financial liabilities at fair value through profit or loss and financial liabilities carried at amortised cost. Management determines the classification of a financial liability at its initial recognition. When a financial liability is recognised initially, the Company shall measure it at its fair value plus, in the case of a financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the issue of the financial liability.

i 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, based on the criteria in note of "Financial assets" i 2) above, designated by the Company as fair value through profit or loss upon initial recognition. Gains and losses from changes in fair value are recognised in the income statement.

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

- incurred principally for the purpose of repurchasing it in the near term
- part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit-taking
- a derivative (except for a derivative that is a designated and effective hedging instrument)

After initial recognition, these financial liabilities are measured at their fair values, without any deduction for transaction costs it may incur on sale or other disposal. All related realised and unrealised gains or losses are included in the income statement for the year.

ii Financial liabilities carried at amortised cost

After initial recognition, these financial liabilities are measured at amortised cost using the effective interest method.

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.

Derivatives and hedge accounting

The Company uses derivative financial instruments such as forward currency contracts and interest rate swaps to hedge its risks associated with foreign currency and interest rate fluctuations. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Certain derivatives embedded in other financial instruments are treated as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract and the hybrid instrument is not carried at fair value through profit or loss. These embedded derivatives are measured at fair value with the changes in fair value recognised in the income statement.

Any gains or losses arising from changes in fair value on derivatives that do not qualify for hedge accounting are taken directly to the income statement.

The fair value of forward currency contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles. The fair value of interest rate swap contracts is determined by reference to market values for similar instruments.

For the purpose of hedge accounting, hedges are classified as fair value hedges when hedging the exposure to changes in the fair value of a recognised asset or liability.

At the inception of a hedge relationship, the Company formally designates and documents the hedge relationship to which the Company wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the Company will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

Certain derivative transactions, while providing effective economic hedges under the Company's risk management positions, do not qualify for hedge accounting under the IAS 39 and are therefore treated as derivatives held for trading with fair value gains or losses recognised in the income statement. Hedges which meet the strict criteria for hedge accounting are accounted for in accordance with the Company's accounting policy as set out below.

Fair value hedges are hedges of the Company's exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment, or an identified portion of such an asset, liability or firm commitment, that is attributable to a particular risk and could affect profit or loss. For fair value hedges, the carrying amount of the hedged item is adjusted for gains and losses attributable to the risk being hedged, the derivative is remeasured at fair value and gains and losses from both are taken to the income statement.

For fair value hedges relating to items carried at amortised cost, the adjustment to carrying value is amortised through the income statement over the remaining term to maturity. Any adjustment to the carrying amount of a hedged financial instrument for which the effective interest method is used is amortised and charged to the income statement.

Amortisation may begin as soon as an adjustment exists and shall begin no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged.

When an unrecognised firm commitment is designated as a hedged item, the subsequent cumulative change in the fair value of the firm commitment attributable to the hedged risk is recognised as an asset or liability with a corresponding gain or loss recognised in the income statement. The changes in the fair value of the hedging instrument are also recognised in the income statement.

The Company discontinues fair value hedge accounting if the hedging instrument expires or is sold, terminated or exercised, the hedge no longer meets the criteria for hedge accounting or the Company revokes the designation. Any adjustment to the carrying amount of a hedged financial instrument for which the effective interest method is used is amortised and charged to the income statement. Amortisation may begin as soon as an adjustment exists and shall begin no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged.

Trading date accounting

Except for loans and receivables, all regular way purchases and sales of financial assets are recognised on trade date, i.e., the date on which the Company commits to purchase or sell the asset. A regular way purchase and sale is the purchase or sale of financial assets that requires delivery of assets within the time frame generally established by regulation or convention in the marketplace.

Offsetting

Financial assets and liabilities are offset and the net amount is reported in the balance sheet only when the Company currently has a legally enforceable right to offset the recognised amounts; and the Company intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Reverse repurchase agreements and repurchase agreements

Reverse repurchase agreements relate to securities/loans/bills purchased under agreements to resell at a specific future date. Conversely, repurchase agreements relate to securities/loans/bills sold under agreements to repurchase at a specific future date. The consideration paid for the securities/loans/bills purchased subject to commitments to resell at a future date is treated as a loan collateralised by the securities/loans/bills and is included in reverse repurchase agreements. Securities/loans/bills which have been sold subject to repurchase agreements continue to be recognised in the balance sheet and securities/loans/bills are measured in accordance with the relevant accounting policy as appropriate. The proceeds from sale of these securities/bills/loans are treated as liabilities and included in repurchase agreements.

Interests earned on reverse repurchase agreements and interests incurred on repurchase agreements are recognised as interest income and interest expenses, respectively, over the tenor of related agreements.

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 period of the lease.

Construction in progress

Construction in progress represents costs incurred in the construction of office premises including furniture and fixtures. Costs comprise direct costs incurred during the period of construction. Interest charged on related borrowings for the construction is capitalised and such capitalisation of interest ceases when the assets under construction are completed and are ready for their intended use. No capitalisation of interest is made if the cost incurred during the construction is from the Company's own fund.

The costs are transferred to property and equipment when the asset is ready for its intended use, and are depreciated in accordance with the related depreciation policy. Construction in progress is not depreciated.

Property and equipment

All property and equipment are stated at cost less any accumulated depreciation and any impairment losses. 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 items of property and equipment have 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 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 an item of property and equipment, the expenditure is capitalised as an additional cost of that asset.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Properties and buildings	3.30%
Transportation vehicles	16.20%
Computers	19.80% or 33.00%
Computer software & equipment	20.00%
Electronic appliances	9.90% or 19.80%
Owner-occupied property improvement	10.00% or 20.00%
Leasehold improvement	Over the lease terms

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement in the year/period the asset is derecognised.

Impairment of non-financial assets

The Company assesses at each balance sheet date whether there is an indication 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 on an individual basis, 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 of an asset, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses of continuing operations are recognised in the income statement under those expense categories consistent with the function of the impaired assets.

An assessment is made at each balance sheet date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of any depreciation/amortisation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the income statement. After such a reversal, the depreciation/amortisation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

Investment properties

Investment properties are interests in land or buildings held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes, or for sale in the ordinary course of business. The Company adopts the "Fair Value Model" for the measurement of investment properties which are not depreciated or amortised. At each period end, the carrying value of the investment properties is adjusted based on the fair value, and any difference between the carrying amount and the fair value is accounted for in the income statement.

Repossessed assets

Repossessed assets are initially recognised at cost and reviewed at each balance sheet date by management to assess whether they are recorded in excess of their recoverable amount, and if their carrying value exceeds the recoverable amount, the assets are written down. Impairment losses are charged to the income statement.

Foreign currency translation

The financial statements are presented in RMB, being the functional and presentation currency of the Company's operations.

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 arising on the settlement of monetary items or on translating monetary items at year/period end rates are recognised in the income statement.

Non-monetary items that are measured at historical cost in a foreign currency are translated using the exchange rates ruling at the dates of the initial transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates ruling at the date when the fair value was determined.

Fiduciary activities

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

The Company grants entrusted loans on behalf of third-party lenders, which are recorded off-balance sheet. The Company, as an agent, grants such entrusted loans to borrowers under the direction of those third-party lenders who fund these loans. The Company has been contracted by those third-party lenders to manage the administration and collection of these loans on their behalf. Those third-party lenders determine both the underwriting criteria for and the terms of all entrusted loans including their purposes, amounts, interest rates, and repayment schedules. The Company charges a commission related to its activities in connection with entrusted loans which are recognised ratably over the period in which the service is provided. The risk of loss is borne by those third-party lenders.

Financial guarantee contracts

The Company gives financial guarantees consisting of letters of credit, letters of guarantees, and acceptances. These financial guarantee contracts provided for specified payments to be made to reimburse the holder for a loss it incurs when a guaranteed party defaults under the original or modified terms of a debt instrument, loan or other obligation.

Financial guarantee contracts are initially recognised at fair value, in "Other liabilities", being the premium received. The guarantee fee is amortised over the period of the contract and is recognised as fee and commission income. Subsequent to initial recognition, the Company's liability under such contracts are each measured at the higher of the initial fair value less cumulative amortisation, and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee. Any increase in the liability relating to financial guarantees is taken to the income statement in "Other net income".

Related parties

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

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

ii the party is an associate of the Company;

iii the party is joint venture in which the Company is a venture;

iv the party is a member of the key management personnel of the Company or its parent;

v the party is a close member of the family of any individual referred to in (i) or (iv);

vi the party is an entity that is controlled, jointly controlled or significantly influenced by, or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (iv) or (v); or

vii the party is a post-employment benefit plan for the benefit of the employees of the Company, or of any entity that is a related party of the Company.

Share-based payment transactions

The Company acquires or receives goods or services from employees and other parties by transferring equity instruments or incurring liabilities for amounts with reference to the value of equity instruments.

The share-based payment transactions with employees are cash-settled by the Company. Where the share-based payment transactions in which the terms of the arrangement provide the Company with the choice of settlement in cash or by issuing equity instruments, the Company accounts for that transaction as a cash-settled share-based payment transaction as the Company has incurred a liability to settle in cash.

The cost of cash-settled transaction is measured initially at fair value at the grant date using an appropriate pricing model taking into account the terms and conditions upon which the instruments were granted. The fair value is expensed over the period until vesting with recognition of a corresponding liability. The liability is remeasured at each balance sheet date up to and including the settlement date, with changes in fair value recognized in the income statement.

Income tax

i Current tax

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. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the balance sheet date.

ii Deferred income tax

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 income tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred income 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
- 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 recognised for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised except:

- 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
- in respect of deductible temporary differences associated with investments in subsidiaries and associates, deferred income tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

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

Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

Employee benefits

i Short term employee benefits

Salaries and bonuses, social security contributions and other short term employee benefits are accrued in the period in which services are rendered by the employees of the Company.

ii Defined contribution plans

According to the statutory requirements in Mainland China, the Company is required to make contributions to the pension and insurance schemes that are separately administered by the local government authorities. Contributions to these plans are recognised in the income statement as incurred.

iii Supplementary retirement benefits

Certain employees of the Company in Mainland China can enjoy supplementary retirement benefits after retirement. These benefits are unfunded. The cost of providing benefits is determined using the projected unit credit actuarial valuation method. The present value of such benefits is recorded under “Other liabilities” in the balance sheet. Actuarial gains and losses are recognised in the income statement in the period in which they occur.

Cash and cash equivalents

Cash and cash equivalents represent cash on hand, general deposits with the Central Bank, amounts due from banks and interbank placements with original maturity of three months or less, and short term highly liquid investments (maturity within three months from the date of acquisition) which are readily convertible into known amounts of cash and are subject to an insignificant risk of changes in value.

Provisions

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 obligation and a reliable estimate can be made of the amount of the obligation.

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.

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 but is not recognised because it is not probable that an outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

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

3 Segmental Reporting

The Company's principal business activities are commercial lending and accepting public deposits. The Company's main source of funding for financing its consumer and corporate lending business is from customer deposits. Considering that the Company's major business activities fall into a single business segment, no business segment report is therefore presented. The Company has branches and sub-branches in various locations in the PRC. In order to facilitate a more meaningful analysis, a geographical segment report prepared on a management reporting basis is presented.

	2006									
In RMB	Shenzhen	Guangzhou	Shanghai	Beijing	Hangzhou	Nanjing	Offshore	Others	Eliminations	Total
External net interest income	2,287,510,136	621,076,540	769,701,291	458,725,302	591,648,807	361,851,781	54,102,850	1,897,848,654	–	**7,042,465,361**
Internal net interest income/(expense)	(417,636,675)	57,044,474	50,430,366	118,266,096	40,610,527	30,594,087	1,295,737	119,395,388	–	**–**
Net interest income	1,869,873,461	678,121,014	820,131,657	576,991,398	632,259,334	392,445,868	55,398,587	2,017,244,042	–	**7,042,465,361**
Net fee and commission income	133,860,308	24,174,953	17,145,191	18,202,078	16,149,293	8,970,858	20,939,738	63,692,625	–	**303,135,044**
Other operating income	418,820,728	36,733,453	26,952,049	30,759,104	7,334,543	5,774,297	(4,059,395)	52,770,424	–	**575,085,203**
Total operating income	2,422,554,497	739,029,420	864,228,897	625,952,580	655,743,170	407,191,023	72,278,930	2,133,707,091	–	**7,920,685,608**
Staff expenses and other general and administrative expenses	(1,108,230,145)	(263,325,448)	(313,477,555)	(239,749,598)	(223,559,800)	(134,340,350)	–	(653,662,903)	–	**(2,936,345,799)**
Depreciation	(102,855,579)	(17,133,900)	(23,732,738)	(15,639,161)	(13,103,814)	(10,934,695)	–	(92,005,762)	–	**(275,405,649)**
Business tax and surcharges	(92,565,669)	(60,471,796)	(69,999,309)	(51,866,486)	(58,486,739)	(37,213,066)	–	(182,869,594)	–	**(553,472,659)**
Impairment provisions on loans and other assets	(1,515,596,029)	(117,474,983)	(143,555,937)	(7,022,049)	3,373,099	(16,080,734)	(9,438,129)	(180,422,284)	–	**(1,986,217,046)**
Profit before tax	(396,692,925)	280,623,293	313,463,358	311,675,286	363,965,916	208,622,178	62,840,801	1,024,746,548	–	**2,169,244,455**
Capital expenditure	104,304,428	14,413,378	18,110,704	20,422,879	7,613,343	5,849,069	–	48,018,536	–	**218,732,337**

	31 December 2006									
In RMB	Shenzhen	Guangzhou	Shanghai	Beijing	Hangzhou	Nanjing	Offshore	Others	Eliminations	Total
Segment assets	117,062,060,332	25,576,111,373	36,432,624,500	32,548,560,197	22,818,676,628	15,233,646,432	2,796,431,773	73,536,200,211	(66,259,549,421)	**259,744,762,025**
Deferred tax assets	753,261,655	–	–	–	–	–	–	–	–	**753,261,655**
Total assets	117,815,321,987	25,576,111,373	36,432,624,500	32,548,560,197	22,818,676,628	15,233,646,432	2,796,431,773	73,536,200,211	(66,259,549,421)	**260,498,023,680**
Segment liabilities	113,466,442,126	25,301,898,878	36,120,923,608	32,233,696,385	22,467,563,914	15,026,663,041	2,734,040,573	72,532,661,773	(66,259,549,421)	**253,624,340,877**
Tax payable	276,643,076	–	–	–	–	–	–	–	–	**276,643,076**
Total liabilities	113,743,085,202	25,301,898,878	36,120,923,608	32,233,696,385	22,467,563,914	15,026,663,041	2,734,040,573	72,532,661,773	(66,259,549,421)	**253,900,983,953**
Off balance sheet items	9,068,956,415	11,601,524,741	8,607,740,411	7,847,335,249	11,127,759,055	5,684,181,565	147,625,880	57,123,688,072	–	**111,208,811,388**

2005 (Restated)

In RMB	Shenzhen	Guangzhou	Shanghai	Beijing	Hangzhou	Nanjing	Offshore	Others	Eliminations	Total
External net interest income	1,819,213,011	483,914,639	553,858,938	249,053,525	468,277,223	290,630,968	64,421,704	1,392,873,811	–	5,322,243,819
Internal net interest income/(expense)	(498,827,716)	90,563,190	80,046,129	217,694,079	37,094,337	26,792,622	389,468	46,247,891	–	–
Net interest income	1,320,385,295	574,477,829	633,905,067	466,747,604	505,371,560	317,423,590	64,811,172	1,439,121,702	–	5,322,243,819
Net fee and commission income	85,606,335	24,568,813	21,902,731	11,281,787	10,920,690	10,709,104	14,148,549	56,087,136	–	235,225,145
Other operating income	95,172,983	23,550,697	7,555,713	26,810,497	5,972,675	4,130,961	5,065,295	39,094,079	–	207,352,900
Total operating income	1,501,164,613	622,597,339	663,363,511	504,839,888	522,264,925	332,263,655	84,025,016	1,534,302,917	–	5,764,821,864
Staff expenses and other general and administrative expenses	(823,977,229)	(205,943,282)	(258,465,812)	(178,851,478)	(175,038,946)	(104,966,293)	(2,360,137)	(486,190,947)	–	(2,235,794,124)
Depreciation	(129,803,653)	(18,583,974)	(22,100,527)	(20,794,110)	(14,976,950)	(9,759,792)	–	(96,967,556)	–	(312,986,562)
Business tax and surcharges	(73,966,862)	(47,701,449)	(57,628,317)	(38,099,808)	(44,747,869)	(29,671,355)	–	(125,105,993)	–	(416,921,653)
Impairment provisions on loans and other assets	(521,442,951)	(999,908,260)	(198,281,286)	(27,953,296)	(81,957,909)	(35,948,127)	(61,343,219)	(305,032,314)	–	(2,231,867,362)
Profit before tax	(48,026,082)	(649,539,626)	126,887,569	239,141,196	205,543,251	151,918,088	20,321,660	521,006,107	–	567,252,163
Capital expenditure	75,542,269	7,309,295	14,465,142	11,538,013	2,551,403	10,709,198	–	42,840,262	–	164,955,582

31 December 2005 (Restated)

In RMB	Shenzhen	Guangzhou	Shanghai	Beijing	Hangzhou	Nanjing	Offshore	Others	Eliminations	Total
Segment assets	113,496,862,875	21,405,324,440	27,172,348,395	28,250,137,688	21,155,047,450	14,704,498,696	1,803,761,919	57,324,696,175	(63,954,692,155)	221,357,985,483
Deferred tax assets	764,198,091	–	–	–	–	–	–	–	–	764,198,091
Total assets	114,261,060,966	21,405,324,440	27,172,348,395	28,250,137,688	21,155,047,450	14,704,498,696	1,803,761,919	57,324,696,175	(63,954,692,155)	222,122,183,574
Segment liabilities	109,565,460,910	22,016,952,305	27,033,101,437	27,983,342,363	20,937,303,378	14,541,697,291	1,793,589,332	56,765,178,232	(63,954,692,155)	216,681,933,093
Tax payable	381,599,128	–	–	–	–	–	–	–	–	381,599,128
Total liabilities	109,947,060,038	22,016,952,305	27,033,101,437	27,983,342,363	20,937,303,378	14,541,697,291	1,793,589,332	56,765,178,232	(63,954,692,155)	217,063,532,221
Off balance sheet items	7,902,248,248	8,866,232,920	5,090,628,655	6,899,190,128	10,025,422,360	6,663,013,993	231,046,924	45,268,705,740	–	90,946,488,968

4 Net Interest Income

In RMB	2006	2005
Interest income		
Interest income on loans (note)	**9,880,033,641**	7,486,014,167
Interest income on amounts due from banks and placements	**1,351,625,922**	823,307,974
Interest income on investment securities	**879,578,728**	783,258,494
	12,111,238,291	9,092,580,635
Interest expense		
Interest expense on customer deposits	**3,549,049,025**	2,887,093,761
Interest expense on amounts due to banks and borrowings	**1,519,723,905**	883,243,055
	5,068,772,930	3,770,336,816
	7,042,465,361	5,322,243,819

Note: Included within interest income is RMB 560 million yuan (2005: RMB 429 million yuan) with respect of interest income accrued on impaired loans (see note 17b).

5 Net Fee and Commission Income

In RMB	2006	2005 (Restated)
Service fee and commission income	**421,988,490**	303,215,610
Service fee and commission expense	**(118,853,446)**	(67,990,465)
	303,135,044	235,225,145

6 Other Net Income

In RMB	2006	2005
Income from leasing safety box	**1,871,766**	1,617,288
Gain/(loss) on disposal of property and equipment, net	**2,596,705**	(2,259,682)
Gain on disposal of investment properties	**41,267,067**	–
Net rental income	**46,225,778**	32,558,787
Gain/(loss) on disposal of repossessed assets, net	**9,974,652**	(942,098)
Provision against litigation claims	**–**	(48,328,799)
Dividend income from investment securities	**400,000**	766,503
Others	**75,896,297**	34,497,777
	178,232,265	17,909,776

7 Operating Expenses

In RMB	**2006**	2005
Staff expenses		
Salaries and bonuses	**1,162,046,897**	857,282,901
Labour insurance and social welfare contributions	**249,244,351**	205,504,056
Other staff expenses	**23,975,141**	23,414,529
	1,435,266,389	1,086,201,486
General and administrative expenses		
Rental expenses	**289,282,012**	271,566,952
Training and union expenses	**36,517,629**	25,290,970
Computer system maintenance	**66,796,535**	46,229,565
Telecommunication and postage	**60,601,571**	48,493,504
Vault related transportation expenses	**19,514,845**	20,103,524
Water and electricity charges	**33,954,432**	27,313,779
Publication and stationery expenses	**134,322,054**	92,045,994
Travel expenses	**119,511,685**	103,344,465
Marketing and public relations expenses	**151,046,556**	96,225,663
Motor vehicle expenses	**119,958,415**	83,199,711
Legal expenses	**33,233,447**	30,799,088
Professional fees	**107,033,962**	46,596,027
Low-value consumables	**28,666,700**	17,678,173
Sundry taxes expenses	**33,738,290**	27,089,655
Pre-operating expenses	**2,150,469**	838,355
Amortisation of long term prepayment expenses	**23,535,999**	17,272,446
CBRC administration fee	**47,399,941**	42,413,943
Other expenses	**193,814,868**	153,090,824
	1,501,079,410	1,149,592,638
Depreciation		
Depreciation of property and equipment	**275,405,649**	312,986,562
Total operating expenses	**3,211,751,448**	2,548,780,686
Including		
Auditors' remuneration – audit services fees	**10,250,000**	8,650,000

8 Impairment Provisions on Loans and Other Assets

In RMB	**2006**	2005
Additions of impairment provisions on loans (note 17b)	**1,863,719,175**	2,135,196,728
Other impairment provisions on		
Other receivables	**43,182,631**	41,664,226
Due from banks	**6,113,446**	(1,816,243)
Interbank placements	**8,915,900**	18,508,200
Advances to non-bank financial institutions	**4,685,411**	(9,828,145)
Reverse repurchase agreements	**–**	(1,472,214)
	62,897,388	47,055,824
Impairment provisions on investments	**10,403,214**	19,394,962
Impairment provisions on repossessed assets	**49,197,269**	30,219,848
	1,986,217,046	2,231,867,362

9 Income Tax Expense

In RMB	**2006**	2005 (Restated)
Charge for the year	**692,719,670**	467,200,130
Additional charge for prior years	**15,437,602**	31,453,338
Deferred tax	**(2,299,208)**	(215,238,509)
	705,858,064	283,414,959

Deferred tax impact on the items recorded in shareholders' equity during the year

In RMB	**2006**	2005
Changes in fair value	**13,235,644**	73,460,461

The differences between income tax expenses reflected in the financial statements and the amounts calculated at the statutory rates of 33% are as follows:

In RMB	**2006**	2005 (Restated)
Profit before tax	**2,169,244,455**	567,252,163
Income tax at the statutory rate of 33%	**715,850,670**	187,193,214
Additional charge for prior years	**15,437,602**	31,453,338
Non-deductible expenses	**79,488,049**	158,176,285
Non-taxable income	**(104,918,257)**	(93,407,878)
	705,858,064	283,414,959

10 Earnings per Share

Basic earnings per share amounts are 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.

In RMB	**2006**	2005 (Restated)
Earnings per share calculation		
Net profit for the year (RMB)	**1,463,386,391**	283,837,204
Weighted average number of ordinary shares in issue (No. of shares)	**1,945,822,149**	1,945,822,149
Basic earnings per share (RMB)	**0.75**	0.15

The diluted earnings per share amounts are not presented as there were no dilutive potential ordinary shares.

11 Due from the Central Bank

In RMB	**31 December 2006**	31 December 2005
General deposits	**10,475,761,220**	10,422,812,921
Statutory deposits	**14,897,411,613**	10,534,518,104
Fiscal deposits	**5,923,000**	14,374,000
	25,379,095,833	20,971,705,025

The statutory deposits represent a statutory reserve with the Central Bank of 9.5% (31 December 2005: 8%) on customer deposits denominated in RMB and 4% (31 December 2005: 3%) on customer deposits denominated in foreign currencies held by the Company.

Fiscal deposits represent the amounts received from government-related bodies that are required to be deposited with the Central Bank according to the relevant regulations.

12 Due from Banks

In RMB	**31 December 2006**	31 December 2005
Domestic banks	**2,418,473,017**	5,887,788,519
Overseas banks	**729,955,207**	768,467,991
	3,148,428,224	6,656,256,510
Impairment provision	**(67,425,000)**	(76,826,554)
	3,081,003,224	6,579,429,956

Included in amounts due from banks are amounts of RMB 19,721,549 yuan that are frozen as a result of bills in dispute (31 December 2005: RMB 20,242,340 yuan), and amounts of RMB 211,016,000 yuan pledged for certain loans (31 December 2005: Nil).

13 Interbank Placements

In RMB	**31 December 2006**	31 December 2005
Domestic banks	**808,553,000**	1,951,586,531
Overseas banks	**2,675,062,150**	1,435,380,119
	3,483,615,150	3,386,966,650
Impairment provision	**(187,971,800)**	(181,441,800)
	3,295,643,350	3,205,524,850

14 Advances to Non-bank Financial Institutions

In RMB	**31 December 2006**	31 December 2005
Domestic		
Finance companies	**49,000,000**	62,973,242
Trust and investment companies	**161,545,407**	175,351,896
	210,545,407	238,325,138
Impairment provision	**(137,012,791)**	(158,899,102)
	73,532,616	79,426,036

15 Reverse Repurchase Agreements and Repurchase Agreements

In RMB	**31 December 2006**	31 December 2005
Reverse repurchase agreements analysed by collateral		
Securities under reverse repurchase agreements	**2,595,105,202**	6,004,714,878
Loans under reverse repurchase agreements	**7,772,500,000**	1,005,000,000
Bills under reverse repurchase agreements	**931,713,056**	1,683,169,336
Impairment provision	**(27,549,924)**	(27,549,924)
	11,271,768,334	8,665,334,290
Repurchase agreements analysed by collateral		
Loans under repurchase agreements	**280,480,743**	719,553,502
Bills under repurchase agreements – rediscount of bills to other banks	**460,529,731**	450,000,000
	741,010,474	1,169,553,502

The counterparties of the reverse repurchase agreements and repurchase agreements are the Central Bank, commercial banks and non-bank financial institutions in the PRC.

16 Financial Assets or Liabilities at Fair Value through Profit or Loss

In RMB	**31 December 2006**	31 December 2005
Financial assets at fair value through profit or loss		
Financial assets held for trading		
Foreign currency structured debt instruments	**37,565,946**	37,308,534
Receivables from derivative instruments (note 32)	**22,763,358**	5,730,440
	60,329,304	43,038,974
Financial assets at fair value through profit or loss designated at initial recognition		
Foreign currency structured debt instruments	**389,792,489**	810,283,510
	450,121,793	853,322,484
Financial liabilities at fair value through profit or loss		
Financial liabilities held for trading		
Foreign currency structured deposits	**37,565,946**	37,308,535
Payables to derivative instruments (note 32)	**28,115,045**	16,172,992
	65,680,991	53,481,527
Financial liabilities at fair value through profit or loss designated at initial recognition		
Foreign currency structured deposits	**446,185,257**	641,750,883
	511,866,248	695,232,410

Structured deposits and structured debt instruments contain embedded derivatives, whose value changes in response to the change in a specified interest rate, security price or similar variable.

Financial asset or liability at fair value through profit or loss is stated at fair value in the financial statements. Unrealised gains and losses arising from changes in the fair value of these financial assets or liabilities are recognised in the income statement.

As at 31 December 2006, the Company designated financial liabilities of RMB 446,185,257 yuan (31 December 2005: RMB 641,750,883 yuan) as at fair value through profit or loss upon their initial recognition. The amount of change in their fair values that is not attributable to changes in a benchmark interest rate is not significant. The difference between the carrying amount and the amount that the Company would be contractually required to pay at maturity to the holder of these financial liabilities is RMB 7,617,492 yuan (31 December 2005: RMB 18,668,738 yuan).

17a) Loans

The composition of the loan portfolio and the impairment provision by type of exposure at the end of the year is as follows:

In RMB	**31 December 2006**	31 December 2005
Loans		
Corporate	**143,271,049,379**	135,048,204,934
Personal	**38,910,897,582**	20,799,778,902
	182,181,946,961	155,847,983,836
Impairment provision (note 17b)	**(6,937,140,661)**	(6,232,551,493)
	175,244,806,300	149,615,432,343

The composition of loans by type of collateral at the end of the year is as follows:

In RMB	**31 December 2006**	31 December 2005
Loans and advances to customers		
Guaranteed	**57,982,512,820**	51,202,670,850
Secured by mortgages or other collateral	**80,395,101,213**	41,139,794,929
Unsecured	**24,437,488,508**	22,890,531,453
Trade finance		
Import and export advances and negotiation	**1,718,801,587**	1,886,572,642
Factoring	**1,174,384,091**	569,181,364
Discounted bills	**16,473,658,742**	38,159,232,598
	182,181,946,961	155,847,983,836

Loans to customers included loans amounting to RMB 693,911,591 yuan (31 December 2005: RMB 1,601,405,140 yuan) that are pledged under repurchase agreements. Furthermore, discounted bills amounting to RMB 460,529,731 yuan (31 December 2005: RMB 450,000,000 yuan) are pledged against repurchase agreements.

17b) Loan Impairment Provision

In RMB	**31 December 2006**	31 December 2005
Balance at beginning of the year	**6,232,551,493**	5,111,559,815
Charge for the year (note 8)	**1,863,719,175**	2,135,196,728
Accreted interest on impaired loans (note 4)	**(560,421,012)**	(429,334,567)
Net charge for the year	**1,303,298,163**	1,705,862,161
Recovery of loans previously written off	**2,398,395**	3,664,616
Write-offs	**(563,956,472)**	(598,721,200)
Exchange rate difference	**(37,150,918)**	10,186,101
Balance at end of the year (note 17a)	**6,937,140,661**	6,232,551,493

18a) Investments

In RMB	**31 December 2006**	31 December 2005
Held-to-maturity investments		
Bond investments		
listed/quoted		
Government bonds	**8,488,075,028**	–
Bonds issued by policy banks	**6,409,398,181**	–
Bonds issued by banks and other financial institutions	**60,000,000**	–
Other corporate bonds	**52,974,500**	–
	15,010,447,709	–
unlisted/unquoted		
Government bonds	**1,482,928,104**	–
Bonds issued by banks and other financial institutions	**675,884,551**	–
Other corporate bonds	**261,343,561**	–
	2,420,156,216	–
Total held-to-maturity investments	**17,430,603,925**	–
Fair value	**17,321,906,921**	–
Available-for-sale investments		
Bond investments		
listed/quoted		
Government bonds	**4,174,210,760**	6,565,983,200
PBOC bills	**7,282,452,497**	4,551,360,300
Bonds issued by policy banks	**6,047,384,396**	12,569,276,117
Bonds issued by banks and other financial institutions	**–**	110,916,700
Other corporate bonds	**–**	48,930,500
	17,504,047,653	23,846,466,817
unlisted/unquoted		
Government bonds	**231,520,200**	1,420,044,750
Bonds issued by banks and other financial institutions	**234,985,948**	604,746,752
Other corporate bonds	**–**	289,938,882
	466,506,148	2,314,730,384
Equity investments (note 18b)		
Tradable shares	**78,456,401**	–
Non-publicly tradable shares (note)	**609,234,598**	618,997,961
Impairment provision	**(440,275,325)**	(431,395,782)
	247,415,674	187,602,179
Total available-for-sale investments	**18,217,969,475**	26,348,799,380
Total investments	**35,648,573,400**	26,348,799,380

As at 31 December 2005, the balance of held-to-maturity investments was nil as the Company sold more than an insignificant amount of held-to-maturity investments before maturity during the two preceding financial years and all the remaining held-to-maturity investments were reclassified as available-for-sale. On 1 January 2006, as the two preceding financial years have passed since last reclassification, the Company has reclassified certain bond investments from available-for-sale to held-to-maturity in accordance with the prevailing circumstances. The fair value carrying amount of the related bond investments on that date becomes their new amortised costs.

As at 31 December 2006, included in the bond investments are amounts of RMB 2.88 billion yuan pledged for certain loans. As at 31 December 2005, no bond investments of the Company were pledged for loans.

Note: Certain available-for-sale unlisted equity investments which do not have any quoted market prices and whose fair values cannot be reliably measured are stated at cost.

18b) Equity investments

Company

In RMB	Percentage of share held	**31 December 2006**	31 December 2005
Shenzhen Yuan Sheng Industrial Co., Ltd.	100.00%	**507,347,529**	508,719,267
China UnionPay Co., Ltd.	3.03%	**50,000,000**	50,000,000
Gintian Industry (Group) Co., Ltd.	2.03%	**9,662,219**	9,662,219
China Vanke Co., Ltd.	0.09%	**58,909,514**	2,131,494
Hainan Pearl River Holdings Co., Ltd.	0.30%	**9,650,000**	9,650,000
Shenzhen Hongkai (Group) Co., Ltd.	0.30%	**4,275,700**	3,215,000
Shenzhen Baoheng (Group) Co., Ltd.	0.22%	**14,262,187**	2,519,500
Shenzhen Fountain Corporation	0.06%	**1,009,000**	187,195
Hainan Wuzhou Travel Co., Ltd.	3.70%	**5,220,000**	5,220,000
Meizhou Polyester (Group) Co.	0.41%	**1,100,000**	1,100,000
Shenzhen Central South China Industrial Co.	4.10%	**2,500,000**	2,500,000
Hainan Junhe Travel Co., Ltd.	9.30%	**2,800,000**	2,800,000
Guangdong Sanxing Enterprises (Group) Co., Ltd.	0.05%	**500,000**	500,000
Hainan Baiyunshan Co., Ltd.	0.91%	**1,000,000**	1,000,000
Hainan Saige Co., Ltd.	0.56%	**1,000,000**	1,000,000
Hainan First Investment Co., Ltd.	0.27%	**500,000**	500,000
Hainan Zhonghailian Real Estate Co., Ltd.	0.74%	**1,000,000**	1,000,000
Shenzhen Jiafeng Textile Industrial Co., Ltd.	13.82%	**16,725,214**	17,293,286
SWIFT	0.01%	**229,636**	–
		687,690,999	618,997,961
Less: Impairment provision		**(440,275,325)**	(431,395,782)
		247,415,674	187,602,179

According to the PRC Commercial Banking Law as well as the request from relevant government departments, the Company is required to dispose of its wholly-owned subsidiary, Shenzhen Yuan Sheng Industrial Co., Ltd. In the opinion of management, Shenzhen Yuan Sheng Industrial Co., Ltd. is in the process of disposing of its assets and its financial impact to the Company's overall financial position is not material. Accordingly, the financial statements of Shenzhen Yuan Sheng Industrial Co., Ltd. have not been consolidated into the financial statements of the Company. The Company's interest in Shenzhen Yuan Sheng Industrial Co., Ltd. has been classified as available-for-sale investment, and an impairment provision has been made according to the recoverability of the assets of Shenzhen Yuan Sheng Industrial Co., Ltd.

19 Construction in Progress

In RMB	**31 December 2006**	31 December 2005
Balance at beginning of the year	**4,592,695**	11,792,846
Additions	**31,170,462**	15,511,657
Disposal	**–**	(9,802,632)
Transferred to property and equipment (note 20)	**(26,241,726)**	(12,909,176)
Balance at end of the year	**9,521,431**	4,592,695

20 Property and Equipment

In RMB	At beginning of the year	Additions/Transfer from investment properties	Transfer from CIP (note 19)	Disposals/Transfer to investment properties	At end of the year
At cost					
Properties and buildings	1,470,265,455	91,538,175	–	(59,104,178)	1,502,699,452
Transportation vehicles	211,993,574	9,878,039	–	(3,677,031)	218,194,582
Computers	560,923,350	64,331,302	98,946	(23,834,283)	601,519,315
Computer software & equipment	131,355,045	18,554,576	–	(4,070,298)	145,839,323
Electronic appliances	238,404,694	30,857,419	3,565,746	(3,792,391)	269,035,468
Owner-occupied property improvement	290,336,500	6,035,114	5,487,206	(93,130)	301,765,690
Leasehold improvement	451,490,787	22,147,379	17,089,828	(6,177,272)	484,550,722
	3,354,769,405	243,342,004	26,241,726	(100,748,583)	3,523,604,552
Accumulated depreciation					
Properties and buildings	317,803,671	40,320,465	–	(482,662)	357,641,474
Transportation vehicles	146,674,028	28,391,847	–	(3,479,810)	171,586,065
Computers	375,363,701	60,245,802	–	(22,191,851)	413,417,652
Computer software & equipment	108,443,755	14,898,456	–	(4,070,298)	119,271,913
Electronic appliances	149,631,482	35,576,419	–	(2,767,457)	182,440,444
Owner-occupied property improvement	198,399,078	26,941,026	–	–	225,340,104
Leasehold improvement	269,288,692	69,031,634	–	(4,920,673)	333,399,653
	1,565,604,407	275,405,649	–	(37,912,751)	1,803,097,305
Impairment provisions	–				–
Net book value	1,789,164,998				1,720,507,247

Properties and buildings at original cost of RMB 181,058,293 yuan (31 December 2005: RMB 172,812,823 yuan) and net book value of RMB 128,869,498 yuan (31 December 2005: RMB 123,609,403 yuan) are in use but the related legal ownership registration was still being applied for as at 31 December 2006.

21 Investment Properties

In RMB	**31 December 2006**	31 December 2005
Balance at beginning of the year	**692,637,283**	1,380,820,467
Additions	**695,325**	5,900,822
Disposals	**(292,192,358)**	(673,694,745)
Fair value changes recognised in the income statement	**113,570,010**	(12,403,424)
Transfer from/(to) properties and buildings	**(54,054,563)**	(7,985,837)
Balance at end of the year	**460,655,697**	692,637,283

The Company's investment properties are stated at fair value as valued by independent professional valuer on at least an annual basis. The valuation as at 31 December 2006 was performed by Shenzhen Guozi Land and Real Estate Valuation Co., Ltd. The valuation was carried out by qualified persons who are members of the Shenzhen Institute of Real Estate Appraisers. Since it is not practical to measure the fair value of the investment properties portion separately from the related properties as a whole, the management estimates the fair value of investment properties by using the proportion of respective areas.

In addition, the gross rental income earned from the investment properties amounted to RMB 39,125,026 yuan (2005: RMB 43,822,520 yuan). The direct operating expenses (including repairs and maintenance) arising from those investment properties (with or without generating income) were RMB 18,989,171 yuan (2005: RMB 17,389,983 yuan).

22 Deferred Tax Asset

In RMB	31 December 2006	31 December 2005 (Restated)
Deferred tax assets arising from		
Loan impairment provision	**866,168,203**	848,904,350
Financial assets or liabilities at fair value through profit or loss	**1,638,111**	846,445
Changes in fair value of available-for-sale investments	**(15,006,354)**	(396,583)
Others	**(99,538,305)**	(85,156,121)
	753,261,655	764,198,091

23 Other Assets

In RMB	31 December 2006	31 December 2005
Other assets		
Interest receivable on investment securities	**464,507,242**	319,723,779
Interest receivable on loans and amounts due from banks and placements	**332,113,381**	229,337,261
Rental receivables	**4,049,980**	4,194,739
Repossessed assets	**1,184,109,579**	1,024,061,511
Properties and buildings	**1,058,969,761**	898,638,293
Equities	**102,229,703**	102,229,703
Others	**22,910,115**	23,193,515
Prepaid legal expenses	**167,555,333**	159,564,938
Deferred expenses	**24,169,334**	18,156,677
Prepayments	**55,911,494**	45,818,953
Other receivables	**249,175,108**	177,443,409
	2,481,591,451	1,978,301,267
Provisions for impairment losses on other assets		
Repossessed assets	**(220,007,753)**	(171,827,006)
Other receivables – prepaid legal expenses	**(95,904,125)**	(83,533,983)
Other receivables – others	**(92,986,384)**	(86,463,830)
	(408,898,262)	(341,824,819)
	2,072,693,189	1,636,476,448

24 Due to Banks

In RMB	31 December 2006	31 December 2005
Domestic banks	**17,069,243,640**	10,469,234,116

25 Customer Deposits

In RMB	**31 December 2006**	31 December 2005
Short term deposits	**146,189,153,814**	123,624,315,838
Long term deposits	**14,831,393,288**	15,814,148,368
Guaranteed deposits	**63,665,947,217**	56,659,451,799
Deposits from government-related bodies	**6,453,418,652**	4,714,343,476
	231,139,912,971	200,812,259,481

26 Dividends Payable

In RMB	**31 December 2006**	31 December 2005
Dividends declared out of net profits of previous years	**22,213,999**	23,441,268

27 Other Liabilities

In RMB	**31 December 2006**	31 December 2005 (Restated)
Interest payable	**942,538,161**	821,091,625
Salary payable	**453,633,539**	283,280,429
Welfare payable	**160,994,803**	126,647,848
Bank drafts	**252,073,080**	386,718,906
Financial guarantee contracts	**32,996,037**	28,181,030
Tax payable – business tax and other surcharges	**197,936,594**	140,157,156
Amounts pending for settlement and clearing	**77,292,127**	193,775,005
Amounts payable to intermediaries for securities dealings	**12,443,911**	24,488,254
Provision for litigation	**55,448,513**	58,718,373
Inactive deposit accounts balances	**84,280,974**	76,546,697
Amounts payable for acquisition of bonds	**500,000,000**	–
Others	**304,041,083**	369,065,470
	3,073,678,822	2,508,670,793

28 Share Capital

In RMB	**31 December 2006**	31 December 2005
Authorised		
Ordinary shares of RMB 1 yuan each	**1,945,822,149**	1,945,822,149

In RMB	**31 December 2006**	31 December 2005
Issued and fully paid		
Non-publicly tradable shares	**536,460,184**	536,460,184
Publicly tradable shares	**1,409,361,965**	1,409,361,965
	1,945,822,149	1,945,822,149

29a) Reserves

In RMB	Statutory surplus reserve	Discretionary surplus reserve	General reserve	Total
Balance as at 1 January 2006	324,200,160	–	479,704,345	803,904,505
Appropriations from net profit for the year	130,290,653	–	1,200,000,000	1,330,290,653
Balance as at 31 December 2006	454,490,813	–	1,679,704,345	2,134,195,158

In accordance with the PRC Company Law and the Company's articles of association, the Company is required to allocate 10% of its profit after tax, as determined in accordance with the Accounting Standards for Business Enterprises and related regulations applicable to the Company, to the statutory surplus reserve until such reserve reaches 50% of the registered capital of the Company. Subject to certain restrictions set out in the PRC Company Law and the Company's articles of association, statutory surplus reserve may be distributed to shareholders in the form of bonus issues, but the minimum retained statutory surplus reserve must not fall below 25% of the registered share capital.

Pursuant to "Accounting System for Financial Enterprises" issued on 27 November 2001, effective from 1 January 2002, a general reserve made by financial enterprises engaging in deposit and loan activities shall form a part of the owner's equity.

In accordance with Cai Jin [2005] No. 49 "Regulations on impairment provision for financial enterprises", general provisions should be made by financial institutions based on a certain proportion of risky asset balances at each year end. A general provision rate is determined based on the overall consideration of risk factors undertaken by financial institutions. In principle, general provision balances shall not be lower than 1% of total risky asset balances at year end. In accordance with the relevant requirements, financial institutions provide a general provision as a treatment of profit appropriations. General provision is a component of equity. According to Cai Jin [2005] No. 90 "Notices from Ministry of Finance relating to impairment provisions", adequate general provision should be made by financial institutions within three years, and not exceeding five years. In this regard, the Company decides to provide for an adequate general provision on a yearly basis.

The Company transferred the balance of the statutory public welfare fund as at 31 December 2005 to the statutory surplus reserve in accordance with the notice of Cai Qi [2006] No. 67 "MOF Circular on enterprises accounting treatment after implementation of Company Law".

29b) Profit Appropriations for the Year

Pursuant to a board resolution on 20 March 2007, appropriations based on 10% of the net profit as reported in the Company's statutory financial statements of the year were proposed and made to the statutory surplus reserve. These proposed appropriations are pending approval from shareholders at the forthcoming annual general meeting.

Pursuant to a board resolution on 30 March 2006, appropriations based on 10% and 5% of the net profit as reported in the Company's statutory financial statements for the financial year 2005 were proposed and made to the statutory surplus reserve and statutory public welfare fund respectively. The appropriations were approved at the Company's annual general meeting held on 26 June 2006.

Pursuant to a board resolution on 20 March 2007, appropriation to the general reserve for 2006 was RMB 1,200,000,000 yuan.

Pursuant to a board resolution on 30 March 2006, appropriation to the general reserve for 2005 was RMB 200,000,000 yuan. The appropriations were approved at the Company's annual general meeting held on 26 June 2006.

30 Retained Earnings

These financial statements are prepared in accordance with the accounting policies set out in Note 2 of the financial statements. These financial statements are not the statutory financial statements of the Company and are prepared for readers' reference only. In accordance with "Accounting System for Financial Enterprises" and Cai Jin [2005] No. 49 "Regulations on impairment provision for financial enterprises", the Company should make appropriations to the statutory surplus reserve, statutory public welfare fund and general reserve prior to dividend payments and making appropriations to the discretionary surplus reserve.

Effective from 2001, in accordance with the regulations of the "Questions and Answers on Standard Disclosures by Companies with Publicly Issued Shares, No. 4" issued by the China Securities Regulatory Commission, listed financial enterprises should make appropriations to the statutory surplus reserve and statutory public welfare fund based on the net profit for the year as stated in the Company's statutory financial statements. However, appropriation to the discretionary surplus reserve and dividend payments should be made based on the lower of net profit for the year as stated in the Company's statutory financial statements and these financial statements.

In accordance with the PRC Company Law effective from 1 January 2006, the Company is no longer required to make appropriation to the statutory public welfare fund.

As at 1 January 2006, the Company has adopted the accounting policy of “Tentative regulation on the recognition and measurement of financial instruments” in its preparation of the statutory financial statements in accordance with the MOF Cai Kuai [2005] No. 14 document. In connection with this, the Company has retrospectively adjusted the appropriation of profits for prior years, leading to an increase in the statutory surplus reserve by RMB 7,416,690 yuan as at 1 January 2005, and a decrease in making appropriation to the statutory surplus reserve by RMB 6,107,973 yuan for the year ended 31 December 2005.

31 Note to the Statement of Cash Flows

In RMB	**2006**	2005 (Restated)
Profit before tax	**2,169,244,455**	567,252,163
Adjustments to reconcile profit before tax to cash flow arising from operating activities		
Non-cash items included in profit before tax and other adjustments		
Depreciation of property and equipment	**275,405,649**	312,986,562
Impairment provision on loans	**1,863,719,175**	2,135,196,728
Interest income on impaired loans	**(560,421,012)**	(429,334,567)
Impairment provisions on other assets	**122,497,871**	96,670,634
Provision against litigation claims	**–**	48,328,799
Amortisation of long term prepayments	**25,686,468**	18,110,801
Unrealised net trading loss/(gain) of financial assets/liabilities at fair value through profit or loss	**4,928,960**	(2,318,989)
(Gain)/loss on disposal of property and equipment	**(2,596,705)**	2,259,682
Interest income on debt investments	**(879,578,728)**	(783,258,494)
Dividend income from investment securities	**(400,000)**	(766,503)
Gain on disposal of investment securities	**(110,564,976)**	(111,475,992)
Gain on disposal of investment properties	**(41,267,067)**	–
Changes in fair value of investment properties	**(113,570,010)**	12,403,424
Net decrease/(increase) in operating assets		
Deposits reserves with the Central Bank	**(4,368,816,510)**	(964,912,520)
Due from banks	**1,693,396,430**	(1,330,243,044)
Interbank placements	**1,130,778,400**	(566,365,600)
Advances to non-bank financial institutions	**1,208,009**	32,696,486
Reverse repurchase agreements	**(2,606,986,343)**	2,967,610,884
Financial assets at fair value through profit or loss	**407,739,014**	106,981,617
Loans	**(27,160,691,678)**	(30,234,286,695)
Long term prepayments	**(20,463,142)**	(6,908,849)
Other assets	**(70,436,516)**	(305,388,793)
Net increase/(decrease) in operating liabilities		
Due to banks	**6,600,009,524**	2,143,750,838
Interbank borrowings	**–**	(322,764,999)
Repurchase agreements	**(428,543,028)**	(12,728,526,489)
Financial liabilities at fair value through profit or loss	**(196,000,319)**	(311,565,108)
Customer deposits	**30,327,653,490**	35,109,247,495
Inward and outward remittances	**62,873,200**	(190,589,212)
Other liabilities	**65,008,030**	553,332,339
Cash flows from operating activities	**8,189,812,641**	(4,181,877,402)

32 Derivative Financial Instruments

A derivative is a financial instrument, the value of which is derived from the value of another “underlying” financial instrument, an index or some other variables. Typically, an “underlying” financial instrument is a share, commodity or bond price, an index value or an exchange or interest rate. The Company uses derivative financial instruments such as forwards, swaps and options.

The notional amount of a derivative represents the amount of underlying asset upon which the value of the derivative is based. It indicates the volume of business transacted by the Company but does not reflect the risk.

The 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 following table presents the notional amounts and the fair values of the Company’s derivative instruments:

	31 December 2006		
	Notional amount	**Fair value**	
In RMB		**Assets (Note 16)**	**Liabilities (Note 16)**
Derivatives held for trading			
Currency forwards	**4,157,085,355**	**15,068,611**	**13,079,132**
Interest rate swap contracts	**470,868,414**	**2,553**	**7,343,719**
Option contracts	**224,966,000**	**7,692,194**	**7,692,194**
Total	**4,852,919,769**	**22,763,358**	**28,115,045**

	31 December 2005		
	Notional amount	Fair value	
In RMB		Assets (Note 16)	Liabilities (Note 16)
Derivatives held for trading			
Currency forwards	169,206,603	5,730,440	16,574
Interest rate swap contracts	586,327,114	–	16,156,418
Total	755,533,717	5,730,440	16,172,992

33 Commitments and Contingent Liabilities

In RMB	**31 December 2006**	31 December 2005
Bank acceptance	**101,280,502,321**	83,953,929,355
Guarantees issued	**2,531,815,404**	2,678,281,381
Letters of credit issued	**1,720,642,196**	2,082,434,994
Loan commitments	**3,034,545,957**	2,231,843,238
Loan guarantee contracts	**2,641,305,510**	–

Loan commitments represent the credit card facilities granted by the Company but not yet utilised. Except for the above business, the Company did not enter into any material guarantee events that were authorized by the board of directors.

On 11 April 2006, the Administrator of DeHeng Securities Co. Ltd. has submitted a notice to the Company, requesting the repayment of a total sum of RMB 264 million yuan. Furthermore, on 6 December 2006, the Liquidator of China Southern Securities Co. Ltd. sent the Company a repayment notice of RMB 158 million yuan. In prior years, the Company had also been requested by the Institutional Supervision Department and the Listed Company Supervision Department of the China Securities Regulation Commission for an immediate repayment of the above monies. In connection with this, the Company remained opposed to all such repayment requests. Based on the legal opinion from an independent third-party lawyer, the Company has no immediate obligation to repay the monies. Until the date of issue of the financial statements, the Company has not returned the above amount to relevant parties. Management considered that no liability should be recognized at the year end of 2006.

Redemption commitments of government bonds

As an underwriting agent of the Government, the Company underwrites certain PRC government bonds and sells the bonds to the general public. The Company is obliged to redeem the bonds at the discretion of the holders at any time prior to maturity. The redemption price for the bonds is based on the nominal value of the bonds plus any interest accrued up to the redemption date. As at 31 December 2006, the Company had underwritten and sold bonds with an accumulated amount of RMB 5.25 billion yuan (31 December 2005: RMB 4.275 billion yuan) to the general public, and that have not yet matured nor been redeemed. Management expect that the amount of redemption of these government bonds through the Company prior to maturity will not be material.

The MOF will not provide funding for the early redemption of these government bonds on a back-to-back basis but is obliged to repay the principal and the respective interest upon maturity.

34 Fiduciary Transactions

In RMB	**31 December 2006**	31 December 2005
Entrusted deposits	**5,898,988,127**	6,642,519,490
Entrusted loans	**5,898,988,127**	6,642,519,490

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

35 Operating Lease Commitments

As at 31 December 2006 and 31 December 2005, the Company had minimum lease payments in respect of irrevocable operating leases to be paid as follows:

In RMB	**31 December 2006**	31 December 2005
Within one year	**257,844,253**	252,521,980
Between the second and fifth year, inclusive	**603,810,329**	630,161,691
Over five years	**314,658,919**	388,206,093
	1,176,313,501	1,270,889,764

36 Financial Instruments Risk Position

The Company engaged in a wide variety of financial instruments including derivatives. The Company accepts short term funding from customer deposits at both fixed and floating rates for various durations. The Company seeks to earn above average interest margins by investing in loans to borrowers which carry longer terms with a range of credit standings whilst maintaining sufficient liquidity to meet all claims that might fall due.

Credit risk

Credit risk is the risk of loss from default by an obligor or counterparty when a payment falls due. In general, commercial banks will face this risk in their business operations, including loans and advances to customers, issuance of letters of credit, bank acceptances and guarantees. Other business operations such as inward and outward remittances, bills discounting and money market trading also have such credit risk.

During the credit process, borrowers may be unable to repay the loan principal and interest on time, which may result in overdue loans. Consequently, part of the overdue loans may become uncollectible and impairment provision may be required. This will affect the operating results of the Company.

Credit risk is often greater when counterparties are concentrated in a single industry or geographic location or have comparable economic characteristics.

The majority of the loans of the Company are for use within Mainland China, and major off balance sheet items such as bank acceptances are also related to the local customers. However, different areas in the PRC have their own unique characteristics in terms of economic development. Therefore, each area in the PRC could present different credit risk. For the geographical concentration of the above business, please refer to note 3 for details. Loan customers of the Company are from different industries. Please refer to the note below for an analysis of concentration of loans by industries.

The Company controls the credit risk level of each borrower by setting a maximum risk limit. This type of risk is regularly reviewed and monitored. Furthermore, the Company will, if necessary, adjust the facility limit to control the credit exposure according to the regular analysis of the borrower's interest and principal repayment ability. The Company also obtains personal or corporate guarantees or collateral to reduce the credit risk exposure.

The Company's derivative-related credit risks depend on whether the counterparty is able to settle all the amounts due according to the contractual terms of transactions. The fair value is the amount for which an asset could be exchanged, or a liability settled between knowledgeable parties. The Company subjects its derivatives-related credit risks to the same credit approval and monitoring standards that it uses for managing other transactions that create credit exposure.

As at 31 December 2006, outstanding loan balances made to corporations and consumers by industry are as follows:

INDUSTRY

In RMB	RMB	Foreign currency	Total	%
Agriculture, husbandry and fisheries	580,334,037	31,766,757	612,100,794	–
Manufacturing	47,640,607,261	1,129,007,715	48,769,614,976	27
Construction	16,321,010,569	45,503,733	16,366,514,302	9
Commercial	25,743,171,419	1,763,640,396	27,506,811,815	15
Real estate	12,526,045,985	216,591,525	12,742,637,510	7
Transportation and communications	11,381,279,059	270,915,021	11,652,194,080	6
Public utilities	10,348,655,259	31,220,400	10,379,875,659	6
Social services	13,836,634,239	411,719,025	14,248,353,264	8
Others, primarily conglomerates and government related entities	38,904,347,868	999,496,693	39,903,844,561	22
	177,282,085,696	4,899,861,265	182,181,946,961	100

As at 31 December 2005, outstanding loan balances made to corporations and consumers by industry are as follows:

INDUSTRY

In RMB	RMB	Foreign currency	Total	%
Agriculture, husbandry and fisheries	1,408,452,069	33,572,032	1,442,024,101	1
Manufacturing	45,834,714,681	1,185,028,168	47,019,742,849	30
Construction	11,097,496,255	253,000,770	11,350,497,025	7
Commercial	24,817,337,098	1,753,493,056	26,570,830,154	17
Real estate	10,365,655,362	259,941,142	10,625,596,504	7
Transportation and communications	12,055,502,532	91,919,578	12,147,422,110	8
Public utilities	7,019,953,366	40,996,616	7,060,949,982	5
Social services	17,353,762,046	504,468,202	17,858,230,248	11
Others, primarily conglomerates and government related entities	20,812,190,000	960,500,863	21,772,690,863	14
	150,765,063,409	5,082,920,427	155,847,983,836	100

As at 31 December 2006, the total loan balances of the ten largest loan customers amounted to RMB 4.59 billion yuan or 2.5% of the total loan balances of the Company. The ten largest customers are: Jiangsu Expressway Toll-network Management Centre, Shenzhen CITIC City Plaza Investment Co., Ltd., Nanjing Metro Co., Ltd., Zhejiang Shunfeng Traffic Group Corporation, Shenzhen Yijing Central Walk Co., Ltd., Changchun Land Use Right Reserve Centre, Beijing Construction Engineering Group, Zhongshang Trade and Cooperation Co., China State-owned Enterprise Investment Co., and Shouchuang Network Co. Tianjin Branch.

Among the above customers, China State-owned Enterprise Investment Co., Zhongshang Trade and Cooperation Co., and Shouchuang Network Co. (Tianjin Subsidiary) are of the same series of borrowings. The total exposure of this series of borrowings is RMB 1.5 billion yuan as at 31 December 2006.

Currency risk

The Company conducts its business mainly in the PRC, with Renminbi ("RMB") as the functional and presentation currency. The major foreign currency in which the Company transacts is US dollar ("USD").

The exchange rate of RMB to USD was set by the PBOC and had fluctuated within a narrow band prior to July 2005. Since then, a managed-floating exchange rate system has been used and USD exchange rate has gradually declined against the RMB.

Below is a breakdown of the relevant assets and liabilities by currency:

	31 December 2006			
In RMB	**RMB**	**USD**	**Others**	**Total**
ASSETS				
Cash on hand	770,371,878	58,602,067	80,106,124	909,080,069
Due from the Central Bank	25,021,402,356	263,712,757	93,980,720	25,379,095,833
Due from banks	1,648,112,604	1,184,112,218	248,778,402	3,081,003,224
Interbank placements	458,235,120	1,871,662,980	965,745,250	3,295,643,350
Advances to non-bank financial institutions	66,913,955	5,866,111	752,550	73,532,616
Reverse repurchase agreements	11,271,768,334	–	–	11,271,768,334
Financial assets at fair value through profit or loss	21,514,816	424,462,570	4,144,407	450,121,793
Loans	171,578,620,532	2,803,963,263	862,222,505	175,244,806,300
Investments	34,323,735,204	1,025,341,913	299,496,283	35,648,573,400
Other assets	4,952,640,617	160,194,727	31,563,417	5,144,398,761
Total assets	**250,113,315,416**	**7,797,918,606**	**2,586,789,658**	**260,498,023,680**
LIABILITIES				
Due to banks	15,738,636,256	1,256,692,590	73,914,794	17,069,243,640
Customer deposits	222,910,674,882	5,976,670,856	2,252,567,233	231,139,912,971
Repurchase agreements	741,010,474	–	–	741,010,474
Financial liabilities at fair value through profit or loss	7,807,360	500,676,383	3,382,505	511,866,248
Inward and outward remittances	756,745,026	207,864,824	101,804,873	1,066,414,723
Tax payable	276,643,076	–	–	276,643,076
Dividends payable	22,213,999	–	–	22,213,999
Other liabilities	2,983,181,873	64,929,511	25,567,438	3,073,678,822
Total liabilities	**243,436,912,946**	**8,006,834,164**	**2,457,236,843**	**253,900,983,953**
Net position	**6,676,402,470**	**(208,915,558)**	**129,552,815**	**6,597,039,727**

In RMB	31 December 2005 (Restated) RMB	USD	Others	Total
ASSETS				
Cash on hand	632,690,955	66,275,634	89,025,831	787,992,420
Due from the Central Bank	20,680,980,595	186,487,701	104,236,729	20,971,705,025
Due from banks	4,232,936,055	1,858,872,850	487,621,051	6,579,429,956
Interbank placements	1,814,090,000	395,439,800	995,995,050	3,205,524,850
Advances to non-bank financial institutions	71,300,000	6,458,282	1,667,754	79,426,036
Reverse repurchase agreements	8,665,334,290	–	–	8,665,334,290
Financial assets at fair value through profit or loss	–	816,788,838	36,533,646	853,322,484
Loans	145,777,656,492	2,917,822,977	919,952,874	149,615,432,343
Investments	25,327,947,528	862,058,360	158,793,492	26,348,799,380
Other assets	4,794,938,595	191,272,172	29,006,023	5,015,216,790
Total assets	211,997,874,510	7,301,476,614	2,822,832,450	222,122,183,574
LIABILITIES				
Due to banks	9,047,711,492	1,296,813,808	124,708,816	10,469,234,116
Customer deposits	193,656,547,955	4,804,211,901	2,351,499,625	200,812,259,481
Repurchase agreements	782,183,902	387,369,600	–	1,169,553,502
Financial liabilities at fair value through profit or loss	–	627,414,800	67,817,610	695,232,410
Inward and outward remittances	781,576,056	123,562,306	98,403,161	1,003,541,523
Tax payable	381,599,128	–	–	381,599,128
Dividends payable	23,441,268	–	–	23,441,268
Other liabilities	2,447,115,682	48,277,570	13,277,541	2,508,670,793
Total liabilities	207,120,175,483	7,287,649,985	2,655,706,753	217,063,532,221
Net position	4,877,699,027	13,826,629	167,125,697	5,058,651,353

Interest rate risk

The table below summarises the contractual repricing or maturity date, whichever is earlier, of the Company's financial assets and liabilities at 31 December 2006:

In RMB	Up to 1 month	1 to 3 months	3 to 12 months	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Over 5 years	Overdue/ Non-interest bearing	Total
ASSETS										
Cash on hand	–	–	–	–	–	–	–	–	909,080,069	**909,080,069**
Due from the Central Bank and other banks	27,995,283,741	–	211,016,000	–	–	–	–	–	253,799,316	**28,460,099,057**
Interbank placements	2,666,467,750	534,696,400	83,500,000	–	–	–	–	–	10,979,200	**3,295,643,350**
Advances to non-bank financial institutions	–	–	–	–	–	–	–	–	73,532,616	**73,532,616**
Reverse repurchase agreements	4,886,096,121	4,315,500,000	1,646,000,000	400,000,000	–	–	–	–	24,172,213	**11,271,768,334**
Financial assets at fair value through profit or loss	89,214,401	47,462,598	290,681,437	–	–	–	–	–	22,763,357	**450,121,793**
Loans	34,358,770,960	29,445,133,577	91,379,288,301	5,997,937,075	1,307,010,977	1,355,893,381	828,877,200	2,286,557,552	8,285,337,277	**175,244,806,300**
Investments	1,601,750,191	2,817,294,354	14,758,156,543	2,945,951,169	1,469,763,876	314,946,589	3,777,342,109	7,715,952,895	247,415,674	**35,648,573,400**
Other assets	–	–	–	–	–	–	–	–	5,144,398,761	**5,144,398,761**
Total assets	71,597,583,164	37,160,086,929	108,368,642,281	9,343,888,244	2,776,774,853	1,670,839,970	4,606,219,309	10,002,510,447	14,971,478,483	**260,498,023,680**
LIABILITIES										
Due to banks	14,289,660,051	1,514,312,056	1,265,271,533	–	–	–	–	–	–	**17,069,243,640**
Customer deposits	170,859,313,047	17,039,275,150	29,308,933,866	6,320,661,084	3,111,009,380	57,740,878	4,430,006,353	16,779	12,956,434	**231,139,912,971**
Repurchase agreements	153,878,688	124,055,099	463,076,687	–	–	–	–	–	–	**741,010,474**
Financial liabilities at fair value through profit or loss	162,628,055	25,958,170	295,164,977	–	–	–	–	–	28,115,046	**511,866,248**
Other liabilities	–	–	–	–	–	–	–	–	4,438,950,620	**4,438,950,620**
Total liabilities	185,465,479,841	18,703,600,475	31,332,447,063	6,320,661,084	3,111,009,380	57,740,878	4,430,006,353	16,779	4,480,022,100	**253,900,983,953**
Net assets	(113,867,896,677)	18,456,486,454	77,036,195,218	3,023,227,160	(334,234,527)	1,613,099,092	176,212,956	10,002,493,668	10,491,456,383	**6,597,039,727**

The table below summarises the contractual repricing or maturity date, whichever is earlier, of the Company's financial assets and liabilities at 31 December 2005:

In RMB (Restated)	Up to 1 month	1 to 3 months	3 to 12 months	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Over 5 years	Overdue/ Non-interest bearing	Total
ASSETS										
Cash on hand	–	–	–	–	–	–	–	–	787,992,420	787,992,420
Due from the Central Bank and other banks	23,933,768,128	940,351,000	2,042,912,001	–	–	–	–	–	634,103,852	27,551,134,981
Interbank placements	1,627,936,050	–	1,557,428,600	–	–	–	–	–	20,160,200	3,205,524,850
Advances to non-bank financial institutions	–	–	–	–	–	–	–	–	79,426,036	79,426,036
Reverse repurchase agreements	5,952,992,740	2,288,169,336	400,000,000	–	–	–	–	–	24,172,214	8,665,334,290
Financial assets at fair value through profit or loss	194,174,321	233,170,129	420,247,595	–	–	–	–	–	5,730,439	853,322,484
Loans	28,994,908,567	33,238,226,017	71,917,801,737	1,795,623,082	815,179,996	30,968,295	634,385,762	1,611,845,113	10,576,493,774	149,615,432,343
Investments	1,006,807,244	3,519,638,939	10,609,425,746	2,936,593,338	3,221,419,922	1,579,234,806	576,557,100	2,711,520,106	187,602,179	26,348,799,380
Other assets	–	–	–	–	–	–	–	–	5,015,216,790	5,015,216,790
Total assets	61,710,587,050	40,219,555,421	86,947,815,679	4,732,216,420	4,036,599,918	1,610,203,101	1,210,942,862	4,323,365,219	17,330,897,904	222,122,183,574
LIABILITIES										
Due to banks	9,346,663,248	327,737,718	794,833,150	–	–	–	–	–	–	10,469,234,116
Customer deposits	151,364,008,396	15,363,516,232	30,963,890,130	2,372,128,188	576,970,988	88,973,108	69,540,394	–	13,232,045	200,812,259,481
Repurchase agreements	559,240,000	–	610,313,502	–	–	–	–	–	–	1,169,553,502
Financial liabilities at fair value through profit or loss	198,329,325	192,612,526	288,117,567	–	–	–	–	–	16,172,992	695,232,410
Other liabilities	–	–	–	–	–	–	–	–	3,917,252,712	3,917,252,712
Total liabilities	161,468,240,969	15,883,866,476	32,657,154,349	2,372,128,188	576,970,988	88,973,108	69,540,394	–	3,946,657,749	217,063,532,221
Net assets	(99,757,653,919)	24,335,688,945	54,290,661,330	2,360,088,232	3,459,628,930	1,521,229,993	1,141,402,468	4,323,365,219	13,384,240,155	5,058,651,353

The table below summarises the fixed rate and floating rate exposure of the Company's financial assets and financial liabilities:

In RMB	**31 December 2006** Fixed interest rate	Floating interest rate	Overdue/ Non-interest bearing	Total	31 December 2005 (Restated) Fixed interest rate	Floating interest rate	Overdue/ Non-interest bearing	Total
FINANCIAL ASSETS								
Due from the Central Bank	**25,169,064,126**	**–**	**210,031,707**	**25,379,095,833**	20,816,091,551	–	155,613,474	20,971,705,025
Due from banks	**2,326,881,537**	**710,354,078**	**43,767,609**	**3,081,003,224**	5,226,345,091	874,594,487	478,490,378	6,579,429,956
Interbank placements	**3,239,664,150**	**45,000,000**	**10,979,200**	**3,295,643,350**	3,185,364,650	–	20,160,200	3,205,524,850
Advances to non-bank financial institutions	**–**	**–**	**73,532,616**	**73,532,616**	–	–	79,426,036	79,426,036
Reverse repurchase agreements	**11,247,596,121**	**–**	**24,172,213**	**11,271,768,334**	8,641,162,076	–	24,172,214	8,665,334,290
Financial assets at fair value through profit or loss	**–**	**427,358,436**	**22,763,357**	**450,121,793**	–	847,592,045	5,730,439	853,322,484
Loans	**84,893,955,184**	**82,065,513,839**	**8,285,337,277**	**175,244,806,300**	103,447,879,795	35,591,058,774	10,576,493,774	149,615,432,343
Investments	**28,048,795,884**	**7,352,361,842**	**247,415,674**	**35,648,573,400**	18,455,855,394	7,705,341,807	187,602,179	26,348,799,380
FINANCIAL LIABILITIES								
Due to banks	**16,888,158,173**	**181,085,467**	**–**	**17,069,243,640**	10,469,234,116	–	–	10,469,234,116
Customer deposits	**222,780,956,537**	**8,346,000,000**	**12,956,434**	**231,139,912,971**	187,963,027,436	12,836,000,000	13,232,045	200,812,259,481
Repurchase agreements	**741,010,474**	**–**	**–**	**741,010,474**	1,169,553,502	–	–	1,169,553,502
Financial liabilities at fair value through profit or loss	**–**	**483,751,202**	**28,115,046**	**511,866,248**	–	679,059,418	16,172,992	695,232,410

The RMB interest rates are set by the Central Bank in the PRC. The Company is required to apply the interest rates set by the Central Bank for its loans and advances and deposit activities. The Company's financial assets and liabilities are mainly in RMB. The interest rates for loans and deposits in RMB for the relevant periods are as follows:

	From 19 August 2006 to 31 December 2006 Annual rate (%)	From 28 April 2006 to 18 August 2006 Annual rate (%)	From 29 October 2004 to 27 April 2006 Annual rate (%)
Short term loans and advances	5.58 to 6.12	5.40 to 5.85	5.22 to 5.58
Medium to long term loans	6.30 to 6.84	6.03 to 6.39	5.76 to 6.12
Overdue loans	From 30% to 50% above the contract rate	From 30% to 50% above the contract rate	From 30% to 50% above the contract rate
Personal and corporate savings deposits	0.72	0.72	0.72
Negotiation deposits	1.44	1.44	1.44
Fixed deposits (3 months to 5 years)	1.80 to 4.14	1.71 to 3.60	1.71 to 3.60
Corporate call deposits (1 day or 7 days)	1.08 or 1.62	1.08 or 1.62	1.08 or 1.62
Balances with the Central Bank			
Deposits	1.89	1.89	1.89
Re-discounted bills	3.24	3.24	3.24

In accordance with the regulations of the Central Bank, since 1 January 2004, the allowable ceiling and floor for loans have been set at 70% above and 10% below the applicable interest rates, respectively. Subsequently, effective from 29 October 2004, there is no ceiling for loan interest rates but the allowable floor remains unchanged. Furthermore, the deposit rate is allowed to move below the benchmark, i.e., all deposit-taking institutions have the discretion to adjust their RMB deposit rates below (but not above) the benchmark rates.

A spread above the interest rate charged by the Central Bank on re-discounted bills is allowed to be charged to the customer discounted bills.

Interest rates on interbank placements and borrowings are determined by the market.

Effective from 17 March 2005, the interest rate of non-statutory reserve deposited with Central Bank by financial institutions decreased from 1.62% to 0.99%. The interest rate of statutory reserve remains at 1.89%. Interest rates of the interbank deposits are determined by the relevant parties.

Liquidity risk

Liquidity represents the ability to realise assets under normal circumstances without deterioration in value. When the future demand for customer loans increases significantly, the demand for higher liquidity will increase. When the amount of customer deposits decreases significantly, or the maturity of loans is too long, or the Company has difficulties in collecting loans, the liquidity of the Company may be adversely affected. The liquidity of the Company will also be affected by the fluctuation in interest rates. The Company monitors its liquidity risk in accordance with the maturity of its assets and liabilities, implements liquidity risk management policies and procedures, including loans to deposits ratio management, reserve ratio management and an early-warning system on material fundings movement, etc. In addition, the Company is required to deposit 9.5% of its total deposits denominated in RMB and 4% of deposits denominated in foreign currencies with the Central Bank.

A maturity analysis of assets and liabilities of the Company as at 31 December 2006 was as follows:

In RMB	Overdue	Current	Within 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Undated	Total
ASSETS								
Cash on hand	–	909,080,069	–	–	–	–	–	**909,080,069**
Due from the Central Bank and other banks	7,495,000	12,653,610,118	665,864,417	229,794,909	–	–	14,903,334,613	**28,460,099,057**
Interbank placements	10,979,200	–	3,201,164,150	38,500,000	45,000,000	–	–	**3,295,643,350**
Advances to non-bank financial institutions	73,532,616	–	–	–	–	–	–	**73,532,616**
Reverse repurchase agreements	24,172,214	–	9,201,596,120	1,646,000,000	400,000,000	–	–	**11,271,768,334**
Financial assets at fair value through profit or loss	–	–	2,088,298	17,816,346	392,651,203	37,565,946	–	**450,121,793**
Loans	7,894,523,287	429,313,989	34,368,209,348	80,858,770,864	20,649,829,399	31,044,159,413	–	**175,244,806,300**
Investments	–	–	1,678,463,877	11,936,601,579	11,632,341,455	10,153,750,815	247,415,674	**35,648,573,400**
Other assets	1,079,470,132	–	474,571,734	370,089,737	71,456,312	891,225,998	2,257,584,848	**5,144,398,761**
Total assets	9,090,172,449	13,992,004,176	49,591,957,944	95,097,573,435	33,191,278,369	42,126,702,172	17,408,335,135	**260,498,023,680**
LIABILITIES								
Due to banks	–	13,988,202,945	1,751,760,195	1,329,280,500	–	–	–	**17,069,243,640**
Customer deposits	–	152,168,636,618	35,731,550,269	28,678,342,962	14,526,895,960	34,487,162	–	**231,139,912,971**
Repurchase agreements	–	–	277,933,788	463,076,686	–	–	–	**741,010,474**
Financial liabilities at fair value through profit or loss	–	–	28,050,001	388,703,882	57,546,419	37,565,946	–	**511,866,248**
Inward and outward remittances	–	1,066,414,723	–	–	–	–	–	**1,066,414,723**
Tax payable	–	–	–	276,643,076	–	–	–	**276,643,076**
Dividends payable	–	22,213,999	–	–	–	–	–	**22,213,999**
Other liabilities	–	629,802,818	1,877,082,355	300,983,300	206,238,966	59,571,383	–	**3,073,678,822**
Total liabilities	–	167,875,271,103	39,666,376,608	31,437,030,406	14,790,681,345	131,624,491	–	**253,900,983,953**
Net assets	9,090,172,449	(153,883,266,927)	9,925,581,336	63,660,543,029	18,400,597,024	41,995,077,681	17,408,335,135	**6,597,039,727**

A maturity analysis of assets and liabilities of the Company as at 31 December 2005 was as follows:

In RMB (Restated)	Overdue	Current	Within 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Undated	Total
ASSETS								
Cash on hand	–	787,992,420	–	–	–	–	–	787,992,420
Due from the Central Bank and other banks	13,800,000	12,124,910,706	2,820,620,171	2,042,912,000	–	–	10,548,892,104	27,551,134,981
Interbank placements	20,160,200	–	1,627,936,050	1,557,428,600	–	–	–	3,205,524,850
Advances to non-bank financial institutions	79,426,036	–	–	–	–	–	–	79,426,036
Reverse repurchase agreements	24,172,214	–	8,241,162,076	400,000,000	–	–	–	8,665,334,290
Financial assets at fair value through profit or loss	–	–	36,823,568	–	299,247,517	517,251,399	–	853,322,484
Loans	10,321,125,375	255,368,399	48,855,360,076	62,358,654,186	10,585,327,983	17,239,596,324	–	149,615,432,343
Investments	–	–	2,796,952,812	4,832,894,000	10,800,975,582	7,730,374,807	187,602,179	26,348,799,380
Other assets	944,307,043	–	323,422,449	206,348,524	90,023,277	957,735,131	2,493,380,366	5,015,216,790
Total assets	11,402,990,868	13,168,271,525	64,702,277,202	71,398,237,310	21,775,574,359	26,444,957,661	13,229,874,649	222,122,183,574
LIABILITIES								
Due to banks	–	8,886,263,848	460,399,400	1,122,570,868	–	–	–	10,469,234,116
Customer deposits	–	135,223,051,637	26,390,805,534	30,710,300,321	8,488,101,989	–	–	200,812,259,481
Repurchase agreements	–	–	559,240,000	610,313,502	–	–	–	1,169,553,502
Financial liabilities at fair value through profit or loss	–	–	60,662,513	92,333,225	495,513,508	46,723,164	–	695,232,410
Inward and outward remittances	–	1,003,541,523	–	–	–	–	–	1,003,541,523
Tax payable	–	–	–	381,599,128	–	–	–	381,599,128
Dividends payable	–	23,441,268	–	–	–	–	–	23,441,268
Other liabilities	–	1,171,537,538	942,176,105	231,947,594	163,009,556	–	–	2,508,670,793
Total liabilities	–	146,307,835,814	28,413,283,552	33,149,064,638	9,146,625,053	46,723,164	–	217,063,532,221
Net assets	11,402,990,868	(133,139,564,289)	36,288,993,650	38,249,172,672	12,628,949,306	26,398,234,497	13,229,874,649	5,058,651,353

Fair values

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties at an arm's length transaction. Subject to the existence of an active market (e.g., 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 present value or other valuation methods described below are adopted to determine the fair value of these assets and liabilities. However, the value determined by this method is subject to the impact of future cash flows, time assumption and discount rates used.

The following methods and assumptions have been used in estimating fair value:

i Financial assets at fair value through profit or loss including trading assets, derivatives and other transactions performed for trading purposes are measured 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. Fair value is the carrying amount of these items.

ii The fair value of held-to-maturity securities investments is determined with reference to the available market value. If quoted market prices are not available, then fair values are estimated on the basis of pricing models or discounted cash flows.

iii The fair value of other financial assets and financial liabilities maturing within 12 months is assumed to be approximately equal to their carrying amount.

iv The fair value of fixed rate loans is estimated by comparing the market interest rates when the loans are granted with the current market rates offered on similar loans. Changes in credit quality of loans within the portfolio are not taken into account in determining gross fair values as the impact of credit risk is recognised separately by deducting the amount of the impairment provision from both carrying amount and fair values.

v Interest rate of customer deposits might either be floating or fixed depending on the types of products. The fair values of savings accounts and deposits without maturity date are the amounts payable on demand to customers. The fair values of deposits with fixed terms are determined by the discounted cash flow method. The discount rate adopted is the current interest rate of deposit with the same maturity as the remaining maturity of those deposits.

All of these assumptions and methods provide a consistent basis for calculating the fair value of the Company's assets and liabilities. However, other institutions may use different assumptions and methods for calculation, and therefore the fair values disclosed by different financial institutions may not be entirely comparable.

Loans, investments and customer deposits are the major assets and liabilities of the Company. In the opinion of the management, the difference between the fair values and the carrying amounts of the loans and customer deposits arising from the changes in interest rate and other factors would not be material at the year end.

After considering these factors and the impairment provisions on loans and other assets, in the opinion of the management, there is no material difference between the fair value and the carrying amount of the assets and liabilities of the Company.

37 Related Party Relationships and Transactions

Details of the Company's major shareholder are as follows:

		Equity interest held	
In RMB	Place of registration	**31 December 2006**	31 December 2005
Newbridge Asia AIV III, L.P.	Delaware, USA	**17.89%**	17.89%

The ultimate controlling parties of Newbridge Asia AIV III, L.P. are Mr David Bonderman, Mr James G. Coulter, Mr William S. Price III and Mr Richard C. Blum.

Mr Richard C. Blum is one of the ultimate controlling parties of Newbridge Asia AIV III, L.P. and has the significant influence over both the Company and CB Richard Ellis Limited ("CBRE"). In accordance with the real estate agency services contract signed between the Company and CBRE, the Company should pay services fee amounting to HK$3,320,598 (HK$2,675,153 was paid to CBRE in 2005, with the remaining balance still unpaid up to the year end). The Company has not signed any new services contracts with CBRE in 2006.

Details of the Company's subsidiary are as follows:

NAME	Place of registration	Registered capital	Equity interest held by the Company	Principal activity
Shenzhen Yuan Sheng Industrial Co., Ltd.	Shenzhen, the PRC	21,010,000	100%	Real estate

As at 31 December 2006, the current balance of accounts receivable from Shenzhen Yuan Sheng Industrial Co., Ltd. was RMB 10,988,979 yuan (31 December 2005: RMB 6,985,390 yuan).

The related party transactions between the Company and the key management during the year are listed below:

LOANS

In RMB	**2006**	2005
Balances at beginning of the year	**2,712,667**	600,000
Increase during the year	–	3,130,000
Decrease during the year	**(2,712,667)**	(1,017,333)
Balances at end of the year	–	2,712,667
Loan interest income	**23,543**	121,454

The above loans are mortgage loans with an annual interest rate from 1.8% to 5.751%.

DEPOSITS

In RMB	**2006**	2005
Balances at beginning of the year	**9,491,848**	5,248,882
Increase during the year	**50,261,564**	27,980,471
Decrease during the year	**(48,967,527)**	(23,737,505)
Balances at end of the year	**10,785,885**	9,491,848
Deposits interest expenses	**137,237**	44,219

These deposit transactions are under normal business terms and conditions and were being processed under normal procedures.

As at 31 December 2006, the Company has authorized a total credit facility of RMB 2.42 billion yuan for entities relating to the key management personnel and their close family members of the Company. Of which, the outstanding loan balance amounted to RMB 1.21 billion yuan and the outstanding facility of off balance sheet items amounted to RMB 0.12 billion yuan.

Details of the compensations for key management personnel are as follows:

In RMB	**2006**	2005
Salaries and other short term employee benefits	**46,121,067**	32,354,469
Post-employment benefits	**81,979**	59,005
Other long term employee benefits	**–**	–
Termination benefits	**–**	–
Share-based payment benefits	**1,472,383**	–
	47,675,429	32,413,474

Other related party transactions:

On 28 September 2005, the Company entered into the “Equity Purchases Agreement” with GE Capital International Financing Corporation (“GECIFC”). Pursuant to the terms set forth in this agreement, after the approval of the related governing department and the shareholders lat annual general meeting, the Company will issue new shares to GECIFC at a price of RMB 5.247 yuan per share. The total purchase price of the shares amounted to US$0.1 billion.

On 28 September 2005, the Company entered into the “Strategic Cooperation Agreement” with GE Capital Finance (China) Co. Ltd. (“GECFCO”). Pursuant to this agreement, GECFCO will provide consultancy services to the Company’s retail business in connection with risk management, operations, sales and marketing, systems, strategy and financing. As for consumer financing, professional knowledge, such as product development, systems and marketing, funding techniques, risk management, operations and employee training will be provided. The agreement period is for five years.

Pursuant to the “Strategic Cooperation Agreement”, the consultancy fees shall be calculated on a cost recovery basis, and shall be equal to 140% of the aggregate remuneration in line with the prevailing cost rates charged by international firms for similar services. Pursuant to this agreement, after five years from the date of the agreement, to the extent permitted by applicable laws (and subject to any required regulatory and shareholders’ approvals), the Company’s obligation to pay to GECFCO’s entitlement of 85% of the accumulated professional consultant fees and 100% of the accumulated travel and accommodation costs shall be satisfied by the issuance of the Company’s shares, otherwise be satisfied by cash with the entitlement of 100% of the accumulated professional consultant fees and 100% of the accumulated travel and accommodation costs. The annual budget for the consulting fees should be between US$2 million to US$4 million.

On 26 June 2006, the board approved the “Proposal of Changing the Signing Party for the Strategic Cooperation Agreement”, and agreed to transfer all rights and responsibilities belonging to GECFCO for the agreement signed under the “Strategic Cooperation Agreement” to GE Management Technology Consulting (Shanghai) Co., Ltd. (“GEMTC”).

In January 2007, the Company entered into an agreement with GECIFC and GEMTC. Pursuant to the agreement, the period of validity on the above “Equity Purchases Agreement” and “Strategic Cooperation Agreement” extended to 30 June 2007.

Furthermore, after the approval from PBOC, Wal-Mart (China) Investment Co., Ltd., GE Money and the Company have jointly developed a new type of co-branded credit card – Wal-Mart Chang Xiang Card in 2006. Upon the approval of the Board, the Company has signed "IT and Consulting Service Agreement", "Software Access Agreement", "Letter of Guarantee", and "Statement of Work" with GE Management Technology Consulting (Shanghai) Co., Ltd. ("GEMTC") in respect of the system support of this Wal-Mart Card on 20 October 2006. The main content of the related contracts is as follows:

A GEMTC provides IT and consulting services to the related credit card project, and the Company shall pay the related service fees. According to the contract, the related service fees include:

i The initial investment costs are set to be RMB 48,834,594 yuan, and will be recouped over a five-year period;

ii The monthly running costs, are calculated based on the actual costs which incurs each month, plus a 10% mark-up;

iii Data Management Fees, are calculated based on the total volume of issued credit cards and that of transactions processed, plus a 10% mark-up;

iv Additional Services Fees, constituting consulting fees and other service fees. Consulting fees shall be such fees for the consulting services on a cost recovery basis and shall be equal to 140% of the aggregate remuneration of the GEMTC Service Representatives (the "Professional Consulting Fees"), which in each case shall be in line with the prevailing cost rates charged by international firms providing similar services. The Company has an option to settle the consulting fees in cash (the "Cash-Settlement Option") or by the issue of its shares to GEMTC. If the Company elects the Cash-Settlement Option, the Professional Consulting Fees will be reduced by 21.4%. If the Company elects the Shares-Settlement Option, all such consulting fees shall be accumulated and not become due and payable until 5 years from the date of the agreement. And to the extent permitted by applicable laws (and subject to any required regulatory and the shareholders' approval), the Company shall pay its shares to GEMTC which shall be equal to the sum of 85% of the accumulated "Professional Consulting Fees" and 100% of the accumulated travel and accommodation costs of the GEMTC Service Representatives, divided by the average share price of the Company's listed shares during the one month trading period immediately preceding the date on which the Company issues such shares to GEMTC. If at any time after the election of the Shares-Settlement Option, the Company is unable to do so, the Company shall immediately pay GEMTC an amount in cash equal to the sum of 100% of the accumulated Professional Consulting Fees and 100% of the accumulated travel and accommodation costs of the GEMTC Service Representatives;

v Transition Costs, if any.

B GEMTC provides the software access service to the Company free of charge.

C GEMTC provides service support for the Company to the related credit card project by making use of its global partnerships.

In 2006, the Company has provided for RMB 41.1 million yuan consulting fees for the above "Strategic Cooperation Agreement" and the agreements related to Wal-mart project. As at 31 December 2006, the payable balance was RMB 35.8 million yuan (31 December 2005: RMB 10.1 million yuan).

GECIFC is a financial holding company registered in New York, USA. Both GECFCO and GEMTC are wholly-owned foreign enterprises established in the PRC. GECIFC, GECFCO and GEMTC are all ultimately controlled by General Electric Co., Ltd.

Apart from the above transactions and the Company's interest in Shenzhen Yuan Sheng Company Limited as disclosed in Note 18 to the financial statements, the Company has no other material related party transactions.

38 Retirement Benefits

As stipulated by government regulations, the Company is required to make contributions to the state retirement plan at rates ranging from 10% to 23% (2005: 9% to 24%) of the salaries of its staff.

39 Litigation

As at 31 December 2006, the pending litigation against the Company involved claims amounted to RMB 187.64 million yuan (31 December 2005: RMB 182.47 million yuan). A provision of RMB 55.45 million yuan (31 December 2005: RMB 58.72 million yuan) has been provided as at 31 December 2006.

40 Post Balance Sheet Events

Up to the date that these financial statements are authorised for issue, there are no other significant post balance sheet events which require disclosure or adjustment to the financial statements.

41 Comparative Amounts

Except the retrospective adjustment due to the changes in accounting policy, certain amounts have been reclassified to conform to the current year's presentation.

42 Approval of the Financial Statements

The financial statements were approved and authorised for issue by the board of directors on 20 March 2007.

IMPACT OF IFRS ADJUSTMENTS ON NET PROFIT AND NET ASSETS

In RMB	**Net profit for the year ended 31 December 2006**	**Net assets as at 31 December 2006**	Net profit for the year ended 31 December 2005 (Restated)	Net assets as at 31 December 2005 (Restated)
As reported in the financial statements prepared in accordance with Chinese Accounting Standards	**1,302,906,538**	**6,474,463,247**	311,007,640	5,054,410,625
Available-for-sale investments	**–**	**–**	250,000	–
Write off of set-up costs for sub-branches	**18,669,168**	**–**	4,175,000	(18,669,168)
Revaluation of investment properties	**117,865,627**	**171,142,263**	11,804,274	52,733,087
Exchange differences	**43,002,702**	**–**	(43,002,702)	–
Fair value of financial guarantee contracts	**(4,815,007)**	**(32,996,037)**	(3,871,148)	(28,181,030)
Deferred tax impact	**(14,242,637)**	**(15,569,746)**	3,474,140	(1,642,161)
As reported in these financial statements	**1,463,386,391**	**6,597,039,727**	283,837,204	5,058,651,353

Glossary

IFRS financial statements	Financial statements prepared under International Financial Reporting Standards. These are the Bank's supplementary financial statements and are used for reference purposes.
PRC GAAP financial statements	A general term for financial statements prepared under PRC Accounting Standards for business enterprises and PRC Accounting Systems for financial institutions. PRC GAAP financial statements represent the statutory financial statements of the Bank
Total lending	Unless otherwise stated, total lending represents total loans plus discounted bills and trade finance exposures.
CSRC	The China Securities Regulatory Commission
CBRC	The China Banking Regulatory Commission
Domestic CPA	Refers to Shenzhen Pengchang CPA, the CPA firm responsible for auditing our statutory financial statements.
Overseas CPA	Refers to Ernst & Young, the CPA firm responsible for auditing our IFRS financial statements.
NPL	Non-performing loan. A non-performing loans is any loan classified as substandard grade, doubtful grade or loss grade.
Capital Adequacy Ratio	Net capital / Total risk-weighted assets
Core Capital Adequacy Ratio	Core capital / Total risk-weighted assets. Core capital is defined as total capital less supplementary capital arising from sub-ordinated debt and any provision surplus.
Repossessed assets	Repossessed assets are assets such as properties, vehicles and equipment which are recovered from borrowers whose loans are deemed to be non-performing loans, and who have failed to settle an obligation in cash upon the maturity of the loan, thereby prompting the Bank to foreclose.
MOF	The Ministry of Finance, PRC

Basic Facts of the Company

Legal name in Chinese

深圳发展银行股份有限公司
(SDB or the Bank)
Legal name in English: Shenzhen Development Bank Co., Ltd.

Legal Representative

Frank N. Newman

Secretary of the Board of Directors

Xu Jin

Representative of Securities Affairs

Lu Xuguang

Address: 5047 Shennan Road East, Shenzhen City, Guangdong Province, China
Secretariat of Shenzhen Development Bank, SDB Tower
Tel.: (0755) 82080387
Fax: (0755) 82080386
Email address: dsh@sdb.com.cn

Registered address

Shenzhen City, Guangdong Province, China
Business address: SDB Tower, 5047 Shennan Road E., Shenzhen City
Zip code: 518001
Website: http://www.sdb.com.cn
Email address: dsh@sdb.com.cn

Periodicals selected by the Bank for information disclosure

China Securities Journal and Securities Times
Annual Report Posting Website designated by China Securities Regulatory Commission:
http://www.cninfo.com.cn
Place for keeping annual reports of the Bank:
Secretariat of the Board of Directors of the Bank

Stock exchange on which the shares of the Bank are listed

Shenzhen Stock Exchange
Abbreviated name of share: SDB A
Stock code: 000001

Additional related information of the Bank

Date of initial registration: 22 December 1987
Date of change of registration: 27 October 2005

Registered address:
5047 Shennan Road E., Luohu District, Shenzhen City

Registration No. of business license of enterprise as legal person:
4403011010334

Tax registration No.:
National tax 440300192185379
local tax 440300192185379

Domestic accounting firm appointed by the Bank:
Shenzhen Pengcheng Accounting Firm

Business address: 5/F, Baofeng Tower,
2006 Dongmen Road S., Shenzhen

Overseas accounting firm appointed by the Bank:
Ernst & Young
Business address: 18/F, Two Int'l Finance Centre, 8 Finance St., Central, Hong Kong

This Report is prepared both in Chinese and English. In the event of any dispute over the two versions, the Chinese version shall prevail.

Important Notes

The Board of Directors, Board of Supervisors and directors, supervisors and senior executives undertake that this Report contains no false record, misrepresentation or material omissions, and are severally and jointly liable for the truthfulness, accuracy and completeness of the report.

The meeting of the Sixth Board of Directors of the Bank discussed the text and summary of Annual Report 2006. 13 directors attended the meeting and the board meeting of the Bank approved the Report unanimously.

Shenzhen Pengcheng Accounting Firm and Ernst & Young have audited the annual financial statements of the Bank in compliance with the national and international audit standards, and have produced standard unqualified audit reports.

Chairman and Chief Executive Officer Frank N. Newman, Chief Financial Officer Wang Bomin and Head of Accounting Wang Lan undertake that the financial statements in the annual report are true and complete.

Written Confirmation of Directors and Senior Executives on Annual Report 2006

In accordance with "Securities Law" and "No. 2 Regulation on Contents and Format of Information Disclosure on Publicly Listed Companies" (Contents and Format of Annual Report), we, as directors and senior executives of Shenzhen Development Bank Co., Ltd., provide the following opinions after studying and checking Annual Report 2006 of the Bank and its summary:

1. The Bank operates in strict accordance with Accounting Standards for Enterprises, Accounting System for Enterprises and Accounting System for Financial Enterprises, and the Bank's Annual Report 2006 and its summary give a fair view of the financial position and operating results of the Bank.

2. Shenzhen Pengcheng CPAs and Ernst & Young have audited the annual financial statement of the Bank in compliance with the national and international audit standards, and have issued standard unqualified audit reports.

3. We undertake that the information disclosed in Bank's Annual Report 2006 and its summary is true, accurate and complete and that this annual report contains no false record, misrepresentation or material omissions, and we are severally and jointly liable for the truthfulness, accuracy and completeness thereof.

Reference Documents

1. Financial statements bearing the signatures and stamps of the chairman of BOD, chief executive officer and officer-in-charge of the accounting institution.

2. Original copies of the audit reports bearing the chop of the accounting firm and signatures of CPAs.

3. Original copies of all documents and notices disclosed in the China Securities Times and Securities Times by the Bank during the report period.

Board of Directors of Shenzhen Development Bank Co., Ltd.
22 March 2007

Presentation format and contents of this annual report and the statutory annual report

This annual report is produced based on the contents of the statutory annual report plus additional information about the Bank's businesses. This annual report presentation format is re-arranged with an aim to provide greater transparency and to provide investors and users of this report more comprehensive information to understand the business and management of the Bank.

If investors wish to have a copy of the statutory annual report announced on 25 March 2007, please download from the CSRC authorized website: http://www.cninfo.com.cn, or contact the board secretariat office of the Bank.

Forward-looking statements

This annual report includes forward-looking statements. All statements, other than statements of historical fact, that address activities, events or developments that the Bank anticipates may occur in the future (including but not limited to projections, targets, estimates and business plans) are forward-looking statements. (The Bank's actual results or developments may differ materially from those indicated by these forward-looking statements as a result of various factors and uncertainties). The Bank makes the forward-looking statements referred to herein as at 15th May 2007 and undertakes no obligation to update these statements.

Editorial: SDB Financial Information & Asset Liability Management Department

深圳发展银行
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