广东发展银行
GUANGDONG DEVELOPMENT BANK

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Guangdong Development Bank Co., Ltd.

ANNUAL REPORT 2008

广东发展银行
GUANGDONG DEVELOPMENT BANK

Guangdong Development Bank

Annual Report 2008

Important Notice

◎ The Board of Directors, Directors and Senior Managers of the Bank warrant that there are no fraudulent disclosures or misleading statements contained in or any material omissions from this report, and are individually and jointly responsible for the authenticity, accuracy and completeness of the information contained in this report.

◎ The Guangdong Development Bank Co., Ltd. 2008 Annual Report was reviewed and approved by the Eighth meeting of the Fifth Board of Directors of the Bank. 17 Directors were required to be present at the meeting, and 14 Directors were in attendance. Director Wan Feng authorized Director Liu Jiade in writing to exercise the right to vote on his behalf, Director Wang Fenghua authorized Director Lin Jianjun in writing to exercise the right to vote on his behalf, Director Gai Yongguang authorized Director Lin Jianjun in writing to exercise the right to vote on his behalf.

◎ KPMG Huazhen Accounting Firm has audited the Bank’s 2008 Financial Statements according to the Professional Auditing Standard for China’s Certified Public Accountants, and has issued unqualified audit opinion.

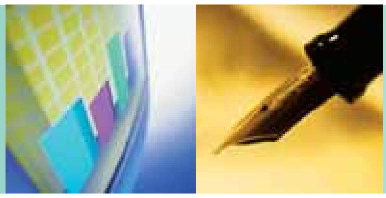
◎ This report is prepared in both Chinese and English. In the case of any discrepancies, the Chinese version shall prevail.

◎ Apart from historical and factual representations, certain sections in this report contain forward-looking statements, such as statements that include the words relating to the Bank's future financial position, strategy, planning and the management’s mapping of future operations. The Bank’s future performance and developments may vary due to various factors and uncertainties. The Bank would not undertake the obligations to update or revise any of the forward-looking statement.

The Board of Directors of Guangdong Development Bank Co., Ltd.

Chairman Li Ruohong, President Michael Zink, Deputy President and Chief Financial Officer Edward Chou and Head of Financial Institution Sun Fei ensure the authenticity and completeness of financial statements in 2008 Annual Report.

Contents



Chairman of the Board and Party Secretary of
the CPC Committee of the Bank
Li Ruohong

Chairman's Statement

It is the care, guidance and support from our shareholders, the regulators, our customers and the community that has carried GDB through another year of excellent growth momentum and remarkable results across all business lines. As of end of 2008, total assets of the Bank exceeded RMB546 billion, representing a year-on-year growth of 24.7%. Shareholders' equity grew RMB4 billion to RMB19.6 billion. Compared from the beginning of the year, non-performing loans (NPL) declined by RMB1.06 billion and NPL ratio further slid to 2.85%. Capital Adequacy Ratio (CAR) reached 11.6%, and loan provision coverage ratio surged to 150.6%, with a net income of RMB2.784 billion. Both 0.5 share dividend and Cash dividend of RMB 0.244 (tax include) for every 10 shares for the year 2008 has been recommended by the Board of Directors, a proposal of which will be submitted to the 2008 General Meeting of shareholders for approval.

Over the past year, GDB has endured a complex and constantly changing economic environment, where uncertainties multiply and external risks remain testy to its operation. In spite of these challenges, GDB focused on the goal of balanced development. With risk management as its guiding principle, GDB has struck out on multiple fronts to scale new heights. We have proactively replenished capital, and improved the allocation of resources; we have invested more in infrastructure, and stepped up on business transformation; we have made progress in corporate governance, and carried out our social responsibility as a sincere corporate citizen. All of these initiatives and efforts have equipped GDB with better operational and management capabilities. In addition, results have begun to show out of the post-restructuring investment in and improvement of infrastructure as well as the bank-wide drive to "revitalize GDB". Marked by noted and sustainable progress in corporate governance, operations, Information disclosure and other aspects, GDB has successfully enlarged its market influence and improved its corporate image. As a result, in 2008 major international rating agencies increased GDB's rating, and in a series of influential banking award ceremonies inside and outside of China, GDB was selected as "the Most Promising Chinese Bank", "Bank with Best Growth Potentials in 2008", with other similar accolades.

On the occasions of the national gala for the Beijing Olympics and the 30th Anniversary of the Open Reform, GDB was also celebrating its 20th Founding Anniversary. Twenty years of hard work and efforts have brought GDB from a local and regional bank to a joint-stock national commercial bank. Along every step of the reform, GDB managed to bring into daily operation principles and practices that are essential to the well-being of a modern commercial bank: shareholder value maximization, comprehensive risk management, capital incentives and constraints, corporate social responsibility... All of these have contributed to a healthy and sustainable development of the Bank, and fundamentally ensures that GDB is absolutely capable of achieving its goal to become a leading bank. Whether the guidance and assistance by our regulators, the trust and loyalty of our customers, shareholders, and the communities we are rooted in, or the dedication and sacrifices of all GDB people, GDB would have never made this far without any of them. On behalf of the Board of Directors, please allow to extend my heart-felt gratitude to all of you that have made the new GDB come true.

Challenged by the evolution of international financial crisis and domestic macro-economic adjustments, China's banking industry will be facing a tougher test in 2009. Nevertheless, we believe that the long-term growth trends of China's economy will not change. Macro-economic policies launched with the right timing, as well as economic stimulation plans, will create opportunities for a steady growth of the national economy, and a scientific development of the banking industry. With a view to implementing Scientific Development, on the basis of close reading of changes and trends in macro-economic and financial conditions, GDB will continue to apply strict risk management measures and operate with prudence, steadiness and frugality, while focusing on a balanced growth. To achieve unity of risk management and business growth, GDB will continue to enhance and effect a solid foundation in corporate governance, risk control, capital management, service innovation, branding and others areas.

No pain, no gain. Out of adversity the light shines and leads. We may have experienced new tests brought by economic changes, but as facts of success and progress of the past two years show, a new and transformed GDB shall overcome and prevail. With trust and confidence from our customers, shareholders, regulators, employees and the community, a new and transformed GDB will be celebrating a new year of successes with the 60th Anniversary of China.


Executive Director, President of the Bank
Michael Zink

President's Statement

Proofitability, Stability, and Sustainability

I am pleased to announce that in 2008 Guangdong Development Bank (GDB) achieved outstanding operating results with rapid business growth, and continued to improve operations and overall competitiveness. In 2008, the Bank achieved a profit before provision of RMB 9.95 billion, representing an increase of 67.1%, and recorded a net income of RMB2.784 billion, representing an increase of 3.82%. As we signiificantly enhanced our capability to cover risks by raising non-performing loan provision coverage ratio to 150.6%, there was a lower growth rate of net income than that of profit before provision.

By the end of October 2008, the Bank had successfully completed issuance of RMB5 billion in 10-year subordinated bonds. This is both the Bank's first venture into the capital market, and a milestone achievement in its history. As of December 31st, 2008, the Bank's capital adequacy ratio was 11.6%, the highest level ever achieved in the Bank's 20 years of development. Core capital adequacy ratio was 6.7%.

At the end of 2008, total assets stood at RMB546 billion, representing a growth of 24.7% over the position at the end of 2007. Total deposits grew 14.7% from 2007 to RMB404.7 billion, and total loan balance grew 25.5% to RMB311.7 billion. Total equity increased by 25.4% to RMB19.6 billion. Total liabilities increased by 24.7% over the previous year to RMB526.4 billion. Non-performing loan ratio dropped by 1.15 percentage points to 2.85% compared with the end of 2007. Cost continued to be under effective control in 2008 with cost-to-income ratio reduced to 37.0%, a decrease of 8 percentage points over the previous year.The year 2008 is the Bank's 20th Founding Anniversary. It is also a critical year where the Bank returned to stability, remained steadfast in transformation, gained steady growth and laid a firm foundation for a future where the Bank can proudly spread its wings again. Keeping in mind of the four priorities we set ourselves at the beginning of the yaer, we achieved remarkable results across-the-board in the growth of our established products and businesses.

In 2008, higher contribution was recorded from consumer banking. By the end of the year, personal deposits grew 32% on a year-on-year basis to RMB74.8 billion. Personal loans increased by 5.6% on a year-on-year basis to RMB37.3 billion. Model Branch, our signature branch transformation project, went well at full speed and substantially improved customer experience. A total of 114 Model Branches were built or renovated, and as centers of excellence, nineteen of existing outlets were built or renovated into Flagship Model Branches. As our CAR reached beyond regulatory standards for the first time in 2008, the Bank has started the application to open new branches in Tianjin and Changsha, which brings an end to the history of not opening any branch in a new city since 2003 and speeds up the pace of network expansion.

In credit cards businesses, the year 2008 saw two successful product launches of the Olympic Cards and the GDB Hope Card. By the end of 2008, the Bank's total issuance reached beyond 7.64 million credit cards. In 2008, credit cards successfully passed the on-site ISO Quality Management System Certification conducted by the British Standards Institution (BSI) with "zero blemishes". In the same year, GDB Credit Cards won the prestigious award of "2008 Best Customer Service in Asia Pacific" by the Asia Pacific Customer Service Association.

Corporate banking business continued upward growth. By the end of 2008, corporate deposit balance grew 11.4% to RMB 329.8 billion. Corporate loan balance increased 26.8% to RMB261 billion. EasyLoan, the innovative credit facility package service targeting SMEs customers, recorded resounding successes when piloted in Dongguan, Shenyang and other cities. In a bank-wide efforts to expand capital market business, in 2008 the Bank issued the first commercial papers for SMEs in China as the chief underwriter.

In 2008, we continued to press forward infrastructure building in areas such as risk management, business process re-engineering, information technology, and post and remuneration reform. All these were done with an aim to fully nurture and develop our growth potentials, and to transform our hard-earned profitability into stability and sustainability. Highlighting our success in these reform initiatives and the implementation of a robust risk management regime, in 2008, the Bank received consecutive awards of "the Most Promising Chinese Bank" and other accorlades in multiple banking performance awards in China.

While we expect that the business environment in 2009 will be fairly challenging, we believe that China's economy is likely to continue to experience strong growth. As we transform ourselves into a strong mid-sized bank that is well-reserved and well-capitalized, we are confident that the Bank is well-positioned to navigate through the economic downturn this year.

In the coming years, we will expand our branch network, and fee-based products and services will continue to develop vigorously. Wealth management, credit cards, SMEs services, international business and trade finance will remain the primary focuses of our business efforts. New product development will be strengthened to diversify our product range and satisfy customer needs. Growth momentum in cross-selling and strategic shareholder cooperation such as credit cards and bancassurance will be enhanced. A proactive approach to liability management will continue, and we will continue to devote resources to enhance operating efficiencies. Reform initiatives will see through their completion by the end of 2010. We will keep close watch of the global and domestic economic and financial trends, and strengthen risk management and internal control, which will remain robust to drive business transformation, and to ensure sound operation and sustainability.

GDB's achievements in 2008 relied on the trust and support of our customers, shareholders and the community, as well as the wisdom, confidence and hard-work of regulators, Board of Directors and all of our employees. To these people, without whom GDB would never have gone this far today, I would like to express my sincere gratitude. Let us not forget that GDB's mission is to provide better services to our customers, to create more value for our shareholders, to build broader career development opportunities for our employees, and to become a true corporate citizen and grow in balance and peace with our communities. Now, let us keep up the good work for a transformed GDB.

Corporate Profile

1. Statutory Name in Chinese: 广东发展银行股份有限公司

(Abbreviation: 广东发展银行 or 广发银行)

Statutory name in English: Guangdong Development Bank Co., Ltd.

(Abbreviation: GDB)

2. Profile

As approved by the State Council and PBoC to be a national joint-stock commercial bank, Guangdong Development Bank (GDB) was officially established on 8th September 1988 and headquartered in Guangzhou. By the end of 2008, it has total assets amounting to RMB 546 billion. The Bank has established 27 branches directly under Head Office and a total of 511 outlets among economically-advanced regions such as the Pearl River Delta, Yangtze River Delta, Bohai Sea Rim Region and the Macao SAR, along with representative offices in Beijing and Hong Kong.

Business Philosophy

Develop various commercial banking businesses in line with the principles of equality, free will, fairness and honesty; promote and support the development of national economy and the overall prosperity of society; and seek the benefit for the interests of shareholders at the maximum extent.

The Bank shall regard safety, mobility and profitability as its principles of operation, and shall operate independently at its own risk, assume sole responsibility for its profits and losses and be self-disciplined.

Business Scope

Taking public deposits; granting short-term, mid-term and long-term loans; handling settlements in and out of China; honoring bills and offering discounting services; issuing financial bonds; issuing, paying for and underwriting government bonds as an agent; sales and purchases of negotiable securities such as government bonds and financial bonds; inter-bank borrowings; providing letters of credit and security; engaging in banking card business; acting as payment and receipt agent and insurance agent; providing safe deposit box services; taking deposits and granting loans in foreign currency; foreign currency remittance; foreign currency exchange; international settlements; foreign exchange settlements and sales; inter-bank foreign currency borrowings; honoring bills of exchange and offering discounting services in foreign currency; granting foreign currency loans; granting foreign currency guarantees; sales and purchases of negotiable securities other than shares in a foreign currency for itself and as an agent; issuing negotiable securities other than shares in a foreign currency for itself and as an agent; sales and purchases of foreign exchange on its own account and on behalf of its customers; issuing and making payments for foreign credit cards as an agent; offshore financial operations; assets and credit verification, consultation and notarization businesses; other businesses approved by the China Banking Regulatory Commission (hereinafter as CBRC) and other relevant authorities.

3. Legal Representative: Li Ruohong

4. Secretary to the Board of Directors: Zheng Xiaolong

5. Registered Office Address: 83, Nonglinxia Road, Guangzhou, Guangdong Province, P.R. China

   Postcode: 510080

   Tel: (020)-38322111

   Fax: (020)-87310779

   Website: www.gdb.com.cn

6. Place for Obtaining Annual Report: Office of Board of Directors of GDB

7. Other Relevant Information

   Authority of registration: Guangdong Provincial Administration for Industry and Commerce of PRC

   Corporate business license serial number: 440000000046541

   Financial institution license serial number: B0012H144010001

   Tax registration certificate number: Yue State Tax 440101190336428

   Yue Local Tax 440102190336428

   Organization code: 19033642-8

8. Engaged Domestic Accounting Firm: KPMG Huazhen Certified Public Accountants

   Office Address: 8th Floor, Tower E2, Oriental Plaza, 1 East Chang An Avenue, Beijing, China

9. This report is prepared in accordance with the Measures on Information Disclosure of Commercial Banks by CBRC, as well as the Notice on Regulating the Contents of Annual Reports of Join-stock Commercial Banks promulgated by CBRC.

Financial Highlights

1. Major Indicators of Profit

Unit: 1,000 RMB

Item	2008
Profit after allowance for assets impairment	3,083,631
Net profit	2,784,008
Operating profit	2,977,156
Investment income	268,399
Net non-operating income and expenses	106,475

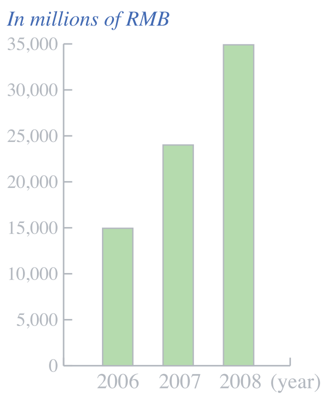
2. Three-year Financial Summary

Unit: 1,000 RMB

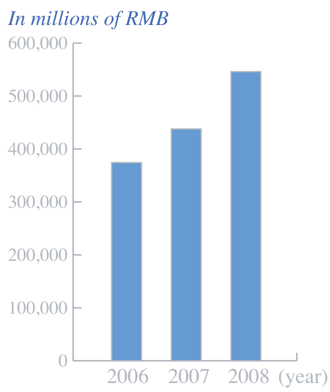
Item	2008	2007	2006
Total operating income	34,904,606	24,009,334	14,947,212
Profit after allowance for assets impairment	3,083,631	4,988,008	(410,668)
Net profit	2,784,008	2,681,665	(219,100)
Total assets	546,015,349	437,726,745	374,269,206
Total liabilities	526,413,634	422,096,137	361,151,607
Balance of deposits	404,654,710	352,735,392	319,200,504
Balance of loans	311,698,506	248,386,345	209,564,334
Shareholders' equity	19,601,715	15,630,608	13,117,599
Cost earning ratio (%)	37	45	68
Earnings per share (RMB yuan)	0.24	0.24	(0.02)
Net assets per share(RMB yuan)	1.72	1.37	1.15
Net cash flows from operating activities	4,453,873	(5,770,636)	(42,129,577)
Net cash flows from operating activities per share (RMB yuan)	0.39	(0.51)	(10.84)
Rate of return on net assets (%)	15.80	18.66	(2.63)

Notes: *The Bank began to apply the China Accounting Standard of Business Enterprises (2006)("the CAS") in year 2008. According to the CAS the Bank had perform retroactive adjustments to items related to financial instruments and income tax, and had reclassified items of the financial statement. Details please refer to 4 (a) of the Financial Reports.*

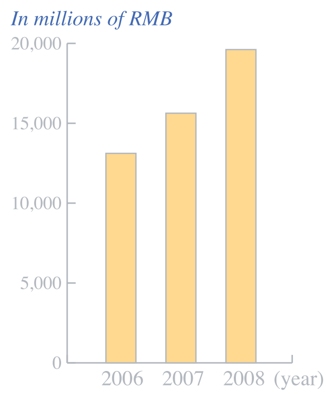
Total operating income



Total assets



Shareloldersʼ equity



3. Capital Composition and Alterations

Unit: Million RMB

Item	2008 EoP	2007 EoP	2006 EoP
Net capital	32,074	15,410	12,751
Including: Core capital	18,392	15,427	12,769
Supplementary Capital	13,690	0	83
Deductions	(8)	(17)	(101)
Net Balance of risk-weighted assets	275,812	215,841	190,315
Capital adequacy ratio (%)	11.63	7.14	6.70
Core capital adequacy ratio (%)	6.67	7.15	6.68

4. Changes in Shareholders' Equity

Unit: 1,000 RMB

Item	2008 EoP	Increase of the period	Decrease of the period	2007 EoP
Share capital	11,408,423	0	0	11,408,423
Capital Reserve	(32,219)	0	(15,167)	(17,052)
Statutory general reserve	4,233,000	708,340	0	3,524,660
Surplus reserve	546,568	278,401	0	268,167
Retained earnings	2,237,439	2,784,008	(986,741)	440,172
Investment revaluation reserve	1,208,504	1,293,792	(91,526)	6,238
Total shareholders equity	**19,601,715**	**5,064,541**	**(1,093,434)**	**15,630,608**

Notes: Major reasons for changes in Shareholders' Equity are:

1. *Capital reserve refers to converted difference in Foreign Currency Statements borne by the implementation of foreign currency convention accounting policy.*
2. *The Bank appropriated 10% of its net profit of current year to statutory surplus reserve.*
3. *The Bank had appropriated 1% of aggregate amount of risk-bearing assets, before allowances for impairment losses, at 31 December 2008, to statutory general reserve.*
4. *Investment revaluation reserve has been accounted for in accordance with accounting policies adopted for measurement of the fair value of available-for-sale investments.*

Shareholding's Change and Shareholders' Profile

1. Changes in Shareholding

During the reporting period, there is no change in total shares.

Unit: share

Types of shares	Before	Proportion	Add/ reduce	After	Proportion
State-owned holdings	56,785,717	0.50%	0	56,785,717	0.50%
State-owned Legal Person holdings	8,096,434,764	70.97%	43,071,043	8,139,505,807	71.35%
Foreign Investors holdings	2,822,443,750	24.74%	0	2,822,443,750	24.74%
Individual holdings	1,215,249	0.01%	0	1,215,249	0.01%
Other domestic holdings	431,543,117	3.78%	(43,071,043)	388,472,074	3.40%
Total	**11,408,422,597**	**100.00%**	**0**	**11,408,422,597**	**100.00%**

2. Number of Shareholders and Shareholding

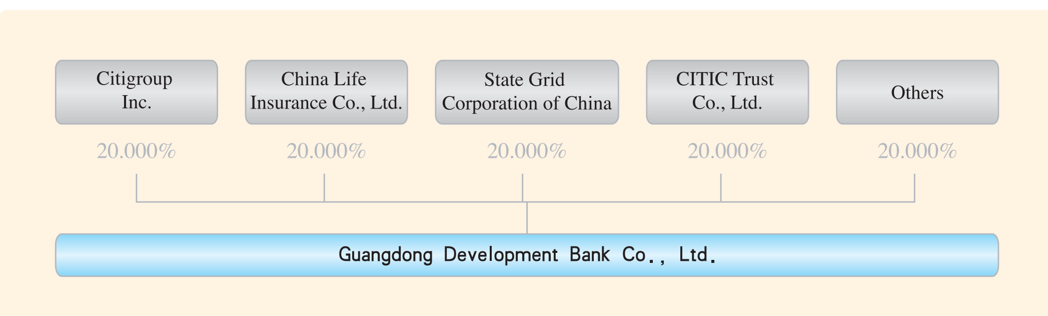
By the end of reporting period, the Bank has a total of 636 shareholders, holding 11,408,422,597 shares of the Bank.

3. Profile of Top Ten Shareholders

Unit: share

Name of shareholder	Proportion	Number of Shares
Citigroup Inc.	20.000%	2,281,684,519
China Life Insurance Co., Ltd.	20.000%	2,281,684,519
State Grid Corporation of China	20.000%	2,281,684,519
CITIC Trust Co., Ltd.	20.000%	2,281,684,519
IBM Credit LLC	4.740%	540,759,231
Guangdong Finance Investment (Holding) Corporation Limited	2.037%	232,348,150
Lianda Group Co., Ltd.	1.478%	168,658,143
Shanghai Shenhua Holdings Co., Ltd.	1.452%	165,616,213
Jiangsu Suzhou Iron & Steel Group Co., Ltd.	1.414%	161,270,598
Bank of China Co., Ltd.	0.852%	97,208,435
Total	**91.973%**	**10,492,598,846**

Notes: There is no hypothecated, sequestrated or frozen shares for shareholders holding over 5% of the Bank's Shares.



4. Introduction of Shareholders Holding over 5% of the Bank's Shares

1) Citigroup Inc.

Citi, the leading global financial services company, has approximately 200 million customer accounts and does business in more than 140 countries. Through its two operating units, Citicorp and Citi Holdings, Citi provides consumers, corporations, governments and institutions with a broad range of financial products and services, including consumer banking and credit, corporate and investment banking, securities brokerage, and wealth management. Additional information may be found at www.citigroup.com or www.citi.com.

2) China Life Insurance Co., Ltd.

China Life Insurance Co., Ltd. is a life insurance company established in Beijing, China on 30 June, 2003 according to the Company Law of the People's Republic of China. The Company was successfully listed on the New York Stock Exchange, the Hong Kong Stock Exchange and the Shanghai Stock Exchange on 17 and 18 December 2003, and 9 January 2007, respectively. The Company's registered capital is RMB28,264,705,000. The Company is the largest life insurance company in China's ("China" refers to the People's Republic of China, excluding the Hong Kong Special Administrative Region, Macau Special Administrative Region, and Taiwan region) insurance market. Its distribution network, comprising exclusive agents (Note: include a small number of exclusive agents who have not yet obtained the valid agency qualification), direct sales representatives, and dedicated and non-dedicated agencies, is the most extensive one in China. The Company is one of the largest institutional investors in China, and through its controlling shareholding in China Life Insurance Asset Management Co., Ltd., the Company is the largest insurance asset management company in China. The Company also has controlling shareholding in China Life Pension Company Limited. Products and services of the Company include individual life insurance, group life insurance, accident and health insurance. The Company is China's leading life insurance company, a leading provider of annuity products and life insurance for both individuals and groups, and a leading provider of accident and health insurance in China. As at December 31, 2008, China Life had nearly 102 million individual and group life policies and annuities, and long-term health insurance policies in force. The Company also provides both individual and group accident and short-term health insurance policies and services.

3) State Grid Corporation of China

State Grid Corporation of China (SGCC) was founded on Dec. 29th, 2002 as a pilot state-owned corporation by the State Council to carry out state-authorized investment. As a backbone state-owned enterprise that may affect national energy safety and economic lifelines, SGCC's core business is to build and operate power grids and provides secure and reliable power supply for the development of the society. With a registered capital of RMB 200 billion, SGCC's service areas cover 26 provinces, autonomous regions and municipalities. SGCC carries out the president responsibility system with the president as the legal corporate representative of SGCC.

4) CITIC Trust Co., Ltd.

CITIC Trust Co., Ltd. (abbreviated as the Company hereunder) is a national financial institution under direct regulation of the China Banking Regulatory Commission. Its predecessor CITIC Development Co., Ltd. was a wholly-owned subsidiary of the CITIC Group and set up on March 5, 1988. In 2002, the Company completed its restructuring and changed its name to CITIC Trust and Investment Co.,Ltd. before adopting its current name in 2007. The Company's registered capital was expanded in 2006 to reach 1.2 billion yuan RMB (including the value converted from 23 million US dollars). The two shareholders are China CITIC Group and CITIC East China (Group) Co., Ltd. respectively.

5. Connected Transactions

In accordance with the regulations of Administrative Measures for Connected Transactions between Commercial Banks and their Insiders or Shareholders promulgated by CBRC and The Administrative Measures for the Connected Transactions of Guangdong Development Bank Co., Ltd., the Bank's connected parties include: Any shareholder and controlling shareholder who holds 5% or more than 5% of the shares of the Bank; Any legal person, natural-person or other organization that is directly, indirectly or jointly controlled by or may be significant influenced by the shareholder who holds 5% or more than 5% of the shares of the Bank; The Bank's Directors, Supervisors, Senior Managers, and the persons who have power to decide or participate in the Bank's credit extensions and transfers of assets and their close relatives; The legal persons or other organizations that are directly, indirectly or jointly controlled by, or may be significantly influenced by the Bank's Directors, Supervisors, Senior Managers, and the persons who have power to decide or participate in the Bank's credit extensions and transfers of assets and their close relatives. The Bank has no controlling shareholder. Shareholders who hold 5% and more than 5% include: Citigroup Inc., China Life Insurance Co., Ltd., State Grid Corporation of China and CITIC Trust Co., Ltd., each of whom holds 20% of the Bank's shares.

The Bank's Connected Transactions follow the principles as follows: (1) comply with related laws, statutes, regulations, national unified accounting system, and related provisions of CBRC. (2) in accordance with principle of good faith and fairness. (3) follow the business procedures, and conduct connected transaction not more favorable than those offered to non-connected parties with respect to similar transactions. In 2008, in order to improve the Bank's management procedures of connected transactions and enhance the performability of the system, the Bank continuously reinforced risk management and control of connected transactions, standardized the behavior of connected transactions and started to revise The Administrative Measures for the Connected Transactions of Guangdong Development Bank Co., Ltd.

Up to the end of the reported period, main connected transactions of the Bank include: The mid-term and long-term loan of RMB 179 million being performed by the connected party of State Grid Corporation of China is in sound condition, being able to fulfill the payment of principal and interests on schedule, and the Bank did not make provision for possible loss; The deposit balance of China Life Insurance Co., Ltd. in the Bank was RMB 7.0 billion; the deposit balance of connected parties of State Grid Corporation of China in the Bank was RMB279 million; The balance of FI accounts of the Bank opened in its connected party Citibank converted into Renminbi was RMB 272 million; According to Technical Cooperation and Assistance Agreement signed between the Bank and Citigroup INC., the Bank pre-withdrew technology assistance fee RMB 15 million within the reporting period; The Bank kept holding USD 20 million capital notes named CENTAURI, managed by connected party Citigroup (its subsidiary: Citibank International PLC.)

Directors, Supervisors, Senior Managers and Employees

1. Directors, Supervisors and Senior Managers

1) Basic Information (Chinese names listed according to strokes of family name; English according to alphabetical order)

Name	Title	Gender	Birth	Appointment Date
Wang Fenghua	Director	Male	1953.06	2006/12/18
Wang Xin	Executive Director, Deputy President Chief Auditor	Male	1951.10	2006/12/18
Liu Lefei	Director	Male	1973.05	2006/12/18
Liu Jiade	Director	Male	1963.02	2006/12/18
Li Zimin	Director	Male	1971.05	2007/06/26
Li Ruohong	Chairman of the Board, Party Secretary of the CPC Committee of the Bank	Male	1955.07	2006/12/18
Chan Tai Loi	Independent Director	Male	1959.03	2006/12/18
Lin Yixiang	Independent Director	Male	1964.01	2006/12/18
Lin Jianjun	Director	Male	1972.08	2008/04/22
Gai Yongguang	Director	Male	1960.01	2006/12/18
Zhang Shengman	Director	Male	1957.10	2007/09/20
Pu Jian	Director	Male	1960.12	2006/12/18
Martin Wong	Director	Male	1963.02	2008/09/05
Michael Zink	Executive Director, President	Male	1958.11	2006/12/18
Phee Boon Kang	Independent Director	Male	1951.04	2007/09/20
R. Daniel Massey	Executive Director, Deputy President Chief Risk Officer	Male	1942.11	2006/12/18
Raymond Lim	Executive Director, Deputy President	Male	1949.10	2006/12/18
Ma Xiangdong	Staff and Workers Representative Supervisor	Male	1959.05	2009/02/18
Deng Jianhua	Shareholders Representative Supervisor	Male	1961.07	2007/06/26
Wang Jianmin	Shareholders Representative Supervisor	Male	1969.02	2007/06/26
Li Jinsheng	Chairman of the Board of Supervisors Staff and Workers Representative Supervisor	Male	1956.02	2009/02/18

Name	Title	Gender	Birth	Appointment Date
Hong Wenjian	Staff and Workers Representative Supervisor	Male	1970.10	2009/02/18
Liang Jianhua	Staff and Workers Representative Supervisor	Male	1952.11	2009/02/18
Tan Jinsong	External Supervisor	Male	1965.01	2007/06/26
Zhai Meiqing	Shareholders Representative Supervisor	Female	1964.04	2007/06/26
Edward Chou	Deputy President Chief Financial Officer	Male	1965.07	2006/12/18
Zheng Xiaolong	Secretary to Board of Directors	Male	1963.08	2006/12/18
Zheng Lianming	Deputy President	Male	1960.06	2007/01/30
Jin Haiteng	Deputy President	Male	1951.10	2006/12/18
Gaurang Hattangdi	Deputy President	Male	1963.01	2007/01/30

Notes: *On August 20, 2008, Mr. Robert Morse asked for resigning from his position as Director of the Board due to personal reasons. Due to the resignation of Mr. Robert Morse, the Board of Directors triggered a shortage of Directors and did not cause the quorum of the Board of Directors to fall below the statutory minimum. Pursuant to Article 110 and some other regulations of Articles of Association, the Board of Directors appoints Mr. Martin Wong to be the Director of the Fifth Board, and will submit the proposal concerning the by-election of Director to General Meeting of Shareholders for review.*

Wang Fenghua

Director

Mr. Wang is Deputy Chief Economist Engineer and Head of Financial Asset Management Department of State Grid Corporation of China; General Manager of State Grid Asset Management Co. Ltd..

Master's degree, Senior Economist Engineer. Prior to his current position, he has served as Deputy Director and Director of De Zhou Electric Power Bureau; Head of Finance Department of Shandong Electric Power Bureau; General Manger of Yingda International Trust and Investment Co. Ltd.; Chief Economist Engineer of Shandong Electric Power Group; Chairman of Weishen Securities Co. Ltd.. He has been successively appointed as Party Secretary of the CPC Committee and Deputy President of State Grid Power Development Co. Ltd.; Deputy Chairman Of The Board, General Manager and Party Secretary of the CPC Committee of China Power Finance Co., Ltd..

Wang Xin

Executive Director, Deputy President, Chief Auditor

Bachelor's degree, Senior Economist Engineer. He has served as Deputy Section Chief, Section Chief, Deputy Department Director, Department Director, Deputy President and a Member of the CPC Committee in Bank of China, Sinkiang Branch; Deputy President and a Member and Commissioner of the CPC Committee of Guangdong Development Bank.

Liu Lefei

Director

Mr. Liu is Chief Investment Officer of China Life Insurance Company Limited, General Manager of Investment Management Department of China Life Insurance Company Limited, Director of China Life Franklin Asset Management Company, Director of CITIC Securities Company Limited, Director of China Life Asset Management Company Limited.

MBA of China Europe International Business School. Mr. Liu served as General Manager of Investment Management Department of China Galaxy Securities Company Limited (and General Manager of Beijing Galaxy Investment Consulting Company) and Executive Director of Capital Securities Company. Prior to these roles, Mr. Liu held a position in General Affairs Bureau of the Ministry of Finance. Mr. Liu is a Member of the 9th and 10th All-China Youth Federation, and a Member of Xinhua FTSE Index Committee and Reuters Annuity Index Advisory Committee.

Liu Jiade

Director

Mr. Liu is Deputy President of China Life Insurance Company Limited, Director of China Life Insurance Asset Management Company Limited, and Director of China Life Franklin Asset Management Company.

Bachelor's degree. Mr. Liu had served as Deputy Director of the Finance Bureau of the Ministry of Finance from 2000 to 2003, and as the Division Chief in the Treasury Bond Finance Bureau of the Ministry of Finance from 1998 to 2000. Other positions Mr. Liu has occupied during his career include Deputy County Chief of the People's Government of Guan Tao County in Hebei Province, and as both Deputy Division Chief and Division Chief in the Commercial Finance Bureau of Ministry of Finance. During his tenure at the Ministry of Finance, Mr. Liu gained extensive experience in the administration of assets, finance and taxation of insurance companies, banks, trust companies and securities institutions.

Director

Mr. Li is General Manager of Investment Banking Department I of CITIC Trust Co., Ltd., Director of Western Mining Group Co.,Ltd., Director of MaoMing Petro-Chemical ShiHua Co.,Ltd., Director of ZhongYinXin Investment Co.,Ltd., Independent Director of Phoenix United Hospital Management (Beijing) Limited.

MBA and Senior Economist Engineer. He has served as project manager of Assets Preservation Dept. and Investment Management Dept. of CITIC Industrial Trust Investment Co., Ltd.; Deputy General Manager of Finance Department of CITIC Development - Shenyang Commercial Building (Group) Company Limited; Director and Deputy General Manager of Beijing Techgreen Company Limited; Senior Manager of Enterprise Annuity Dept., Head of Comprehensive Financial Service Group, and Company Expert of CITIC Trust and Investment Co., Ltd..

Chairman of the Board, Party Secretary of the CPC Committee of the Bank

Bachelor's degree, Senior Economist Engineer. He has served in Bank of China Harbin Branch as Deputy Section Chief, Section Chief of the Department of Trust and Investment, International Business Section, Research Section, Operation Section, and Assistant of the President of Bank of China Harbin Branch. After joining GDB, he has held positions of Assistant of the President, Deputy President, Member and Deputy Party Secretary of the CPC Committee, President, Chairman of Board of Directors and Party Secretary of the CPC Committee of GDB.

Independent Director

Bachelor of Business Administration. He has served as stockbroker of Nomura Securities; Assistant Deputy President of Citibank; General Manager of Franklin And Taylor Asset Management Limited; Sales Director of Heng Feng Securities Limited; Chairman of the Board of Directors of Premium Holdings P/L; General Manager in Corporate Finance Department of Peregrine Securities (Taiwan); Chairman of the Board of Directors of Premium Group P/L; Senior Deputy President of Asia Financial Securities; Director and Head of Corporate Finance and Equity Capital Market of CU Securities and CU Capital (Asia), COO of Shang Hua Holdings Limited.

Independent Director

Mr. Lin is Chairman of the Board of Directors and General Manager of Tian Xiang Investment Consultant Company; Deputy President of the Securities Association of China, Director of the security analysis committee of the Securities Association of China; Specialist of Fund Products and Fund Companies Appraisal Committee of CSRC; Company Standardization Assessment Committee member of China Securities Association; Securities Innovation Initiatives Assessment Committee member of China Securities Association; Fund Management Qualification Recognition Committee of Ministry of Labor and Social Security of China; Gold Investment Analyst Qualification Assessment Committee Member.

Ph.D in Economics. He has served as a Stock Investment Analyst at equity department of Caisse des Depots et Consignations in France; Consultant of Securities Law Draft Unit; Senior Specialist of CSRC; Deputy Director of Information Research Department; Program Leader of the Securities Trading Monitoring System; Deputy President of China Securities Company Limited; Consultant of Investment Fund Law Draft Unit; Securities Law revision consultant; Listed Companies M&A Management Rule amendment specialist.

Directors, Supervisors, Senior Managers and Employees

Lin Jianjun

Director

Mr. Lin is Section Chief of Operation Section of Corporate Finance Dept. of State Grid Co., Ltd..
Master of Finance. Mr. Lin served as Manager Assistant of Investment Banking Dept. of Securities HO of China Power Trust & Investment Co., Ltd.; Deputy Manager of Corporate Financing Dept., Institution Management Dept., Treasury Planning Dept., Director of General Manager Office, Commercial Banks Dept. and Credit Management Dept. of China Power Finance Co., Ltd.; member of CPC Committee and Senior Deputy General Manager of Eastern China Branch of China Power Finance Co., Ltd..

Gai Yongguang

Director

Mr. Gai is General Manager of Ying Da International Trust Co., Ltd..
Master's degree, Senior Engineer. He has served as Program Manager, Deputy Director of the Machinery Office, Assistant of Institute Head, Director of Multi-operation Office, Deputy Institute Head and CPC Committee Commissioner in Shandong Electric Power Research Institute; Deputy General Manager of Shandong Electric Power Materials Company; General Manager of Shandong Electric Power International Trade Company; Deputy President and Secretary of the CPC Committee of Shandong Electric Power Research Institute; Deputy President of Shandong Electric Power College; Deputy General Manager, Deputy Chairman of the Board of Directors and General Manager of Ying Da International Trust Co., Ltd..

Zhang Shengman

Director

Mr. Zhang is President, Asia Pacific, member of Citi Management Committee, Independent Director of Fosun International; Independent Director of Cabot Company.
MPA. He has served as Division Director and Deputy Director-General of Ministry of Finance of PRC; China Executive Director, Deputy President and Secretary General, Senior Deputy President, Duty Deputy President of World Bank; Chairman of Operation Committee, Crisis Management Committee, Sanction Committee and Corporate Fraud and Corruption Policy Committee of World Bank.

Pu Jian

Director

Mr. Pu is Managing Director and Chairman of the Executive Committee of CITIC Trust Co., Ltd.; Director of China CITIC Group; Director of Xincheng Life Insurance; Director of TaiKang Life Insurance; Director of Citic Sea Helicopter Limited.
MBA, Senior Economist Engineer. He served as Director and Head of Manufacture Department, General Manager's Assistant, and General Manager in Jiangsu Province Suntory Food Co., Ltd.; worked in Light Industry Department of Citic-Sociate Trust Investment Company; Deputy Manager of Investment Banking and Assistant Manager of Citic Securities Limited; General Manager and Secretary of Communist Party Committee (CPC) at Citic Securities, Shanghai Office; Deputy General Manager and Manager of Research Department at Citic Securities Limited; Deputy Chairman of Board of Directors and Secretary of CPC at China Sea Helicopter Controlling Company; General Manager and Secretary of CPC at Citic Sea Helicopter Limited.

Martin Wong

Director

Mr. Wong is Chief Administrative & Chief Legal Officer for Citi Asia Pacific Region based in Hong Kong. Juris Doctor. Mr. Wong held the position of Citigroup's Chief Compliance Officer. He was the General Counsel for Citigroup Global Consumer Group.

Michael Zink

Executive Director, President

MBA, Chemical Engineer. Over a 20-year career in international banking, Mr. Zink has held senior positions in corporate and investment banking, and in executive management around the world. During 18 years with Citigroup, he worked in New York, Africa, Russia, Australia, Indonesia and Korea. In Indonesia he was Citigroup's senior executive. In Korea he was Executive Director and Senior Executive Deputy President of Corporate and Investment Banking for Citigroup Korea, which is Citigroup's largest business in Asia. Since December 2006 he has been President and Executive Director of Guangdong Development Bank.

Phee Boon Kang

Independent Director

Mr. Kang is Founder & President of Boon Allard L.L.C.; Independent Director of ezTravel Co., Ltd.; Chairman of the Board, Jane Goodall Institute Global Secretariat; Trustee, Beloit College, Wisconsin.

Master of Science in Management & Editor of MIT Sloan Management Review. Mr. Kang served as Senior Deputy President & Area Manager for Taiwan and the Philippines in American Express where he held various positions including Chairman/CEO of American Express International (Taiwan) Inc., and concurrently General Manager of American Express Bank Ltd., Taiwan Branch. Prior to that he was Senior Deputy President & the start-up Retail Country Manager in Bank of America Taiwan. Until 1995, Mr. Kang had worked for Citicorp/Citibank in New York, Kuala Lumpur, Singapore, Manila, Tokyo and Taipei, starting in corporate and merchant banking operation management, followed by 15 years of retail banking roles at country business manager level in 5 Asian countries, including pioneering roles in Japan, Indonesia and Malaysia.

R. Daniel Massey

Executive Director, Deputy President, Chief Risk Officer

Bachelor of Arts in Political Science. Mr. Massey was Managing Director for Citigroup Corporate and Investment Bank in New York; Managing Director of Citigroup London; Senior Risk Officer for Citigroup Corporate and Investment Bank Asia Pacific based in Hong Kong; Executive Director of Credit Risk Management of Citibank Mexico, S.A..

Directors, Supervisors, Senior Managers and Employees

Executive Director, Deputy President

Bachelor of Business Administration. Mr. Lim was the Deputy President and Regional Business Director for Citibank China Consumer Banking. He has served as Chief Executive Officer (CEO) for the Global Consumer Bank of Citibank A.S Turkey; Director of Channel Management for Citibank Europe, Middle East and Africa region; CEO for Citibank Poland Consumer Banking; CEO for Citibank Philippines Consumer Banking; Director of Citiphone Banking in Singapore; and Director of Credit Cards for Citibank Singapore.

Staff and Workers Representative Supervisor

Mr. Ma is now working as member of the GDB Discipline Committee, member of Trade Union and temporary person-in-charge of the Audit Department.

M.A. in money and banking, Senior Engineer, Economist Engineer. Mr. Ma worked successively as Director of Department I of Guangzhou Light Industry Machinery Designing Research Institute of the Ministry of Light Industry, Party Committee member; temporary post of Deputy County Head and Party Committee member of People's Government of Gaozhou County of Guangdong Province; Deputy Director of Infrastructure Division of the Department of Light Industry of Guangdong; Deputy General Manager of Credit Department, General Manager of Domestic Business Department, General Manager of Business Department, General Manager of Audit Department, Secretary of Party Sub-Committee of Guangdong Development Bank.

Shareholders Representative Supervisor

Mr. Deng is Deputy Manager of Guangdong Finance Asset Management Co.,Ltd., General Manager of ZhuHai Providence Real Estate Development Co., Ltd..

Auditor, Master of Economics. He used to serve as Chief Accountant of Jiang Xi Chemical Examination Factory, Manager of Industry and Communication Division of Audit Bureau, Jiang Xi Province, Deputy Manager of Audit Department of Guangdong Finance Trust and Investment Co., Ltd., General Manager of Audit Department of Guangdong Finance Investment (Holding) Co., Ltd.. General Manager of Guangdong Finance Investment Company Limited., Director of Guangdong Fenghua Advanced Technology (Holding) Co., Ltd..

Shareholders Representative Supervisor

Mr. Wang is Director and President of Zhejiang Zhongda Group Co., Ltd.. PhD of Management Science & Engineer. He has served as Deputy General Manager, General Manager of Investment & Development Dept. of Zhejiang Zhongda Group Co., Ltd., Deputy General Manager, Chairman of the Board of Directors of Zhejiang Zhongda Group Investment Company Co., Ltd.. Supervisor of Zhejiang Zhongda Group Co., Ltd., Deputy Chairman of Zhejiang Zhongda Futures & Broker Co., Ltd. and so on.

Li Jinsheng

Chairman of the Board of Supervisors, Staff and Workers Representative Supervisor

Mr. Li is now working as member of the Party Committee of Guangdong Development Bank.

Ph.D in money and banking of Southwestern University of Finance and Economics, Senior Economist Engineer. Mr. Li worked successively as cadre of the Commerce Division of Finance Department of Heilongjiang Province; cadre of Finance Office, Office III of General Office and Governor's Office of Heilongjiang Province; Deputy Director of General Office of Bank of China Harbin Branch (provincial branch); Director of General Office of Guangdong Development Bank, General Manager of Audit Department, General Manager of Treasury Department; Deputy Director of Working Group of Preparation for the Incorporation of Guangzhou Branch of Guangdong Development Bank and Deputy Branch President (in charge of overall administration), Branch President and Secretary of Party Committee; Chief Auditor and member of Party Committee of Guangdong Development Bank.

Hong Wenjian

Staff and Workers Representative Supervisor

Mr. Hong is now working as Deputy Chairman of the Trade Union of Guangdong Development Bank and temporary person-in-charge of the Strategic Management Department.

B.A. in law, Economist Engineer. Mr. Hong took part in the works for the acquisition of Zhong Yin Trust & Investment Co., Ltd., custody of Enping Urban and Rural Credit Cooperatives and Reform and Restructuring of GDB, and worked as Deputy Manager of Asset Management Department, Manager and Deputy General Manager of Planning and Management Department of Guangdong Development Bank.

Liang Jianhua

Staff and Workers Representative Supervisor

Mr. Liang is now working as member of the Trade Union of Guangdong Development Bank, temporary person-in-charge of Operation Management Department.

Ph.D in Economics of Renmin University of China, associate research fellow. Mr. Liang worked successively as driver in Five-Seven Cadres School of Unit 024 of the People's Liberation Army, Squad Leader of Unit 51058 of the People's Liberation Army, Counsellor of Beijing School of Economics, associate researcher of Financial Research Institute of the People's Bank of China, manager of International Department of HO, Deputy President of Jiangmen Branch, one of the working group leaders of the acquisition of Zhong Yin Trust & Investment Co., Ltd., General Manager and Secretary of Party Sub-Committee of Treasury Department of Guangdong Development Bank.

Tan Jinsong

External Supervisor

Mr. Tan is the Party Secretary of the CPC Committee, Professor and Doctor Advisor of the School of Business of SUN YAT-SEN University; Commissioner of Education Committee of MPAcc, Executive Director of Chartered Accountants Association of Guangdong, Director of Guangdong Audit Association; Director of Internal Audit Association of China and Director of Budget and Accounting Research Association of Guangdong.

PhD. of Management (Accounting). He has served as Principal Director of Accounting Department in School of Business of SUN YAT-SEN University, Associate Dean of School of Business of SUN YAT-SEN University.

Directors, Supervisors, Senior Managers and Employees

Zhai Meiqing

Shareholders Representative Supervisor

Ms. Zhai is Chairman of the Board and President of Heungkong Group Co., Ltd., Chairman of the Board of Directors of Kinhom Group Co., Ltd. and of Heungkong Southern Group Co., Ltd., Chairman of the Board of Directors of Heungkong Holding. Member of the Standing Committee of All-China Women's Federation, Deputy President of China Association for the Promotion of Industry Development, Member of the Standing Committee of the Guangdong People's Political Consultative Conference, Member of the Standing Committee of the Shenzhen People's Political Consultative Conference, Chairman of Heungkong Social Assistance Fund, Deputy Chairman of Guangdong Association of Industry & Commerce, President of Guangdong Association of Women Entrepreneurs.
Master of Management.

Edward Chou

Deputy President, Chief Financial Officer

Master of Finance. He has served as the Manager of Treasury Operations Department; Head of Financial Accounting & Reporting of Citibank, Taipei; Chief Financial Officer of Chase Manhattan Bank, Taipei; Chief Financial Officer of Citigroup, China; Representative of Citibank China Head Office and Chief of Staff of Citigroup, China.

Zheng Xiaolong

Secretary to Board of Directors

Master of Economics. He used to serve for Economy Management Faculty of Electronic Industry Cadre College as the Lecturer of Management Teaching Research Office and Deputy Head of Economy Management Faculty. He also held position in Everbright International Leasing Co., Ltd.. After joining GDB, he has participated in Guangdong Development Bank Co., Ltd.'s acquisition of Zhong Yin Trust & Investment Co., Ltd.. He has served as the Deputy Branch President in charge of Huizhou Branch's operation; the General Manager of the Planning and Management Department of the Head Office, the Head of the Restructuring and Development Office and the Head of the Preparatory Working Group for Board Office.

Directors, Supervisors, Senior Managers and Employees

(Chinese names listed according to strokes of family name; English according to alphabetical order)

Zheng Lianming

Deputy President

Master's degree, Senior Economist Engineer. He used to work for the State Development and Planning Commission as Deputy Director of Policy Research Office and Deputy Director of Laws and Regulations Restructuring Bureau. After joining GDB, he has served as Deputy General Manager of HO General Office, Deputy General Manager and General Manager of International Business Department, President Assistant of Head Office and President of Foshan Branch, President Assistant of GDB Head Office, General Manager of the HO General Office, Deputy President of GDB Head office and member of CPC Committee of the Bank.

Jin Haiteng

Deputy President

Senior Economist Engineer. As the educated youth, he once worked in the countryside of Yi Lan County in Heilongjiang Province to experience the life there. He has served as the Deputy Section Chief, Deputy General Director of Ningbo Commodities Price Bureau; Deputy Director, Deputy Secretary of CPC Committee of Ningbo Finance & Trade Office; Secretary of CPC Committee and Director General of Ningbo Commercial Bureau, County Head, Deputy Secretary of County Party Committee of Yinxian County, Deputy General Manager, Principal of oversea business in Zhong Yin Trust and Investment Corporation Ltd., President, Secretary of CPC Committee of Guangdong Development Bank Hangzhou Branch, Deputy President, member of Party Committee of Guangdong Development Bank Head Office.

Gaurang Hattangdi

Deputy President

MBA from the Graduate School of Business at the University of Chicago, USA and a Chartered Accountant from the Institute of Chartered Accountants of India. He used to serve as the Branded Consumer Industry Head in the Corporate Banking Group in Citibank, India Branch; Business Head for Commercial Banking Group, Citibank, India Branch; Managing Director and Asia Business Development Head for the Commercial Banking Group at Citibank. He is a Senior Credit Officer in Citibank.

2) Shares held by Directors, Supervisors and Senior Managers

No Directors, Supervisors and Senior Managers of the Bank holds GDB shares.

3) Annual Remuneration and Incentive Measures

According to Remuneration Policy for Non-Executive Directors and Supervisors of Guangdong Development Bank adopted by 2006 Annual General Meeting of Shareholders, based on market practices of compensation level and structure, the Bank took into consideration of workload, responsibility and risk to distribute remuneration to Non-Executive Directors and Supervisors. With the assistance of consultant agencies, the Bank is proactively improving remuneration plan for Senior Managers, aiming to formulate a scientific mechanism of incentive and constraint. As approved by General Meeting of Shareholders, the Bank had purchased liability insurance for Directors, Supervisors and Senior Managers.

The remuneration for Non-Executive directors and supervisors is mainly consisted of director/supervisor reward, Committee member/chairman reward and meeting fees:

a. The annual reward for director is RMB 200,000 and the annual reward for supervisor is RMB 100,000;

b. The annual reward for the Audit Committee member is RMB 26,000 and the annual reward for other Committee member is RMB 24,000. The annual reward for Audit Committee Chairman is RMB 45, 000 and the annual reward for other Committee chairman is RMB34, 000. If an individual sits on multiple Committees, his remuneration is calculated according to the number of Committees he sits on.

c. Meeting fee refers to the allowances paid to Non-Executive directors/supervisors for attending the Board of Directors/Board of Supervisors meetings. The meeting fee is RMB 3,000 per meeting.

By the end of 2008 December 31, 2008 accrued remuneration for directors, supervisors and senior managers has amounted to RMB 24 million.

4) Changes of Directors, Supervisors and Senior Managers

On 22nd April 2008, the First Extraordinary General Meeting of Shareholders approved the Resignation of Mr. Li Ruge from the Fifth Board of Directors of the Bank and elected Mr. Lin Jianjun as Director of the Fifth Board of the Bank.

On 20th May 2008, the Fifth Meeting of the Fifth Board of Directors appointed 5 persons, including Edward Chou, Wang Xin, Raymond Lim, Zheng Lianming and Gaurang Hattangdi, as Deputy Presidents of Guangdong Development Bank, with the same tenure of current senior management.

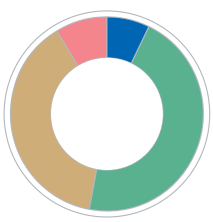
On 5th September 2008, the Sixth Meeting of the Fifth Board of Directors reviewed and passed Proposal on the Resignation of Mr. Robert Morse from the Fifth Board of Directors of Guangdong Development Bank Co., Ltd. and relevant Arrangement concerning the By-election of Director. Due to the resignation of Mr. Robert Morse, the Board of Directors triggered a shortage of Directors and did not cause the quorum of the Board of Directors to fall below the statutory minimum pursuant to regulations of Article 110 of AOA. The Board of Directors appoints Mr. Martin Wong to be the Director of the Fifth Board, the appointing term will be terminated until next General Meeting of Shareholders. The Board of Directors will submit the proposal concerning the by-election of Director to the General Meeting of Shareholders for review. The meeting approved the resignation of Ms. Yvonne Chan, Mr. David A. Moore, Mr. J. C. Goh, Mr. Yu Jin and Ms. Eliza Ong from the Position of Senior Managers.

On 18th February 2009, the Second Meeting of the Second Employee Congress elected Mr. Li Jinsheng, Mr. Hong Wenjian, Mr. Ma Xiangdong, Mr. Liang Jianhua as Staff and Workers Representative Supervisors of the Fourth Board of Supervisors of the Bank.

On 23rd February 2009, the First Meeting of the Fourth Board of Supervisors elected Mr. Li Jinsheng as the Chairman of the Fourth Board of Supervisors.

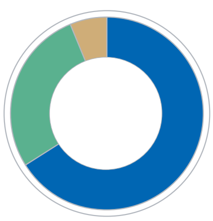
2. Employees

As of the end of 2008, the Bank had 14,191 employees. With respect to academic achievement, 7.17% of all employees have received PhD degree or master degree; 45.75% of all have bachelor's degree, 38.39% with associate degree from junior colleges, and 8.69% with other education background. In terms of age structure, 66.01% of all employees are less than 35 years old; 27.78% of all are between 36 years old and 45 years old; 6.21% of all are more than 46 years old. Total retired employees amounted to 418 persons.



Employees

PhD degree and master degree	7.17%
bachelor's degree	45.75%
associate degree from junior colleges	38.39%
others	8.69%
Total	**100%**



Employees

less than 35 years old	66.01%
between 36 years old and 45 years old	27.78%
more than 46 years old	6.21%
Total	**100%**

Corporate Governance

The improvement of corporate governance is the basis on which to strengthen overall competitiveness and the internal demand to achieve healthy business development. During the reporting period, in compliance with regulatory requirements, the Bank combined its status and the experience from peers, made further progress in corporate governance, and enhanced overall governance capability by strengthening team building of Senior Managers, clarifying boundaries of responsibilities, optimizing organizational structure, improving information communication and disclosure mechanism and other measures.

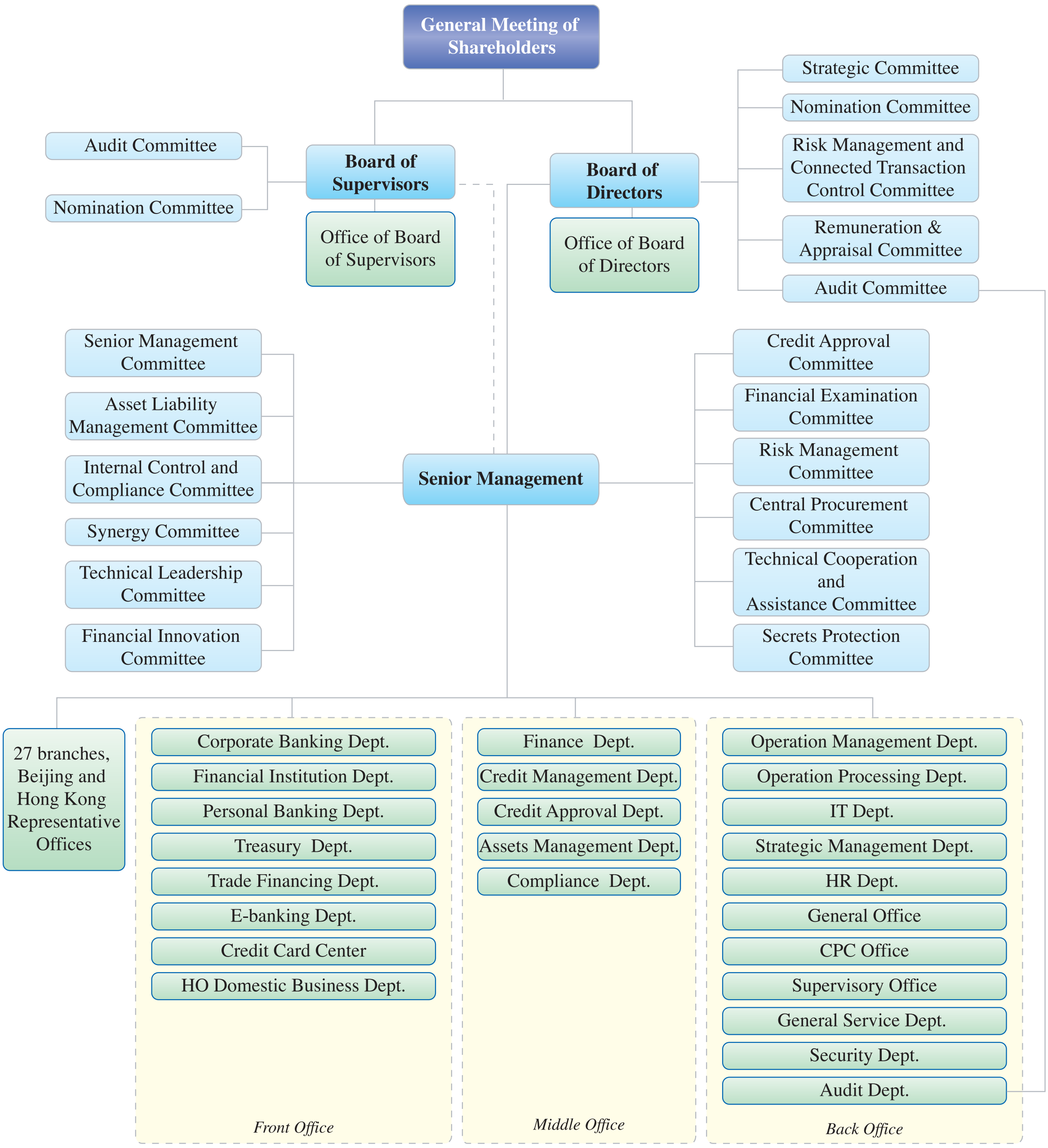
First, the Bank strengthened team building of Senior Managers. To raise operation and management efficiency, the Bank instituted realignment to the Senior Management team, clarified their duties and responsibilities, and fully leveraged the strength and expertise of each Senior Manager. As a result, the Bank's leadership and execution power of decision-making has been enhanced. Meanwhile, the Board of Directors engaged professional consulting agencies and developed executive compensation plan, improved relevant incentive and appraisal mechanism, and guided the Bank to a heightened sense of shareholder value and its creation.

Second, the Bank continued to clarify boundaries of responsibilities of "three-Boards and one-Committee". According to corporate governance guidelines and regulatory guidance and requirements, the Bank proactively and effectively pushed forward the revision and improvement of working rules of "three-Boards and one-Committee" through broad/in-depth communication and coordination with all the parties concerned. Relevant institutional practices progress through active implementation.

Third, the Bank launched the Post and Remuneration Reform Project and completed the optimization and adjustment of Head Office organizational structure. With a view to increase core competitiveness, and to set up a human resources management system that is more scientific, standardized, and in line with future industry trends, the Bank launched the Post and Remuneration Reform Project. The project will tackle in stages and steps aspects in organizational structure, post set-up and evaluation, payroll ratification, career development, compensation structure, appraisal system and others. As approved by the Board of Directors, optimization and adjustment of Head Office organizational structure has been accomplished.

Fourth, the Bank improved information communication and disclosure mechanism. The Board of Directors, the Board of Supervisors, and Senior Managers maintained close contact with each other to exchange opinions and information. Multilayer information communication channels include special reports, regular reports, situation briefing, meetings, compilation of Newsletter of Directors and Supervisors and others. These measures ensure that Directors and Supervisors have access to major up-to-date operation information of the Bank, and provide feedbacks to the Senior Managers effectively. Meanwhile, the Bank has proactively improved external communication. It has strengthened interaction with rating agencies and successfully implemented disclosure including the compilation and release of Annual Report. In investor relations, the Bank proactively visited shareholders on a regular basis, presenting the Bank's operation in a timely manner and contributing to a legal and compliant operation.

1. Organizational structure



The supreme organ of the Bank is the General Meeting of Shareholders. The Board of Directors (hereinafter as BoD or Board) serves as the enforcement organ of the General Meeting, to which it shall be accountable; The Board of Supervisors (hereinafter as BoS) serves as the supervisory organ of the Bank and is accountable to the General Meeting. The Senior Management is subject to the leadership of the Board of Directors and engages in operational and management activities of the Bank by laws. According to requirements by corporate governance, unswerving efforts have been made for the establishment and improvement of the operational mechanism for scientific decision making, strong execution and effective supervision.

The Bank implements the single legal person system, with each branch institution as non-independent accounting unit. Branches carry out operational and management activities according to delegation by the Head Office and report duty to the Head Office.

With the assistance of professional consultant agencies, the Bank kicked off Post Remuneration Reform Project and completed the optimization of HO organizational structure, which focuses on the division of front office, middle office and back office for better risk control, and efficient integration of local and foreign currency business, embodying the principle of unification and efficiency. On this basis, the Bank is orderly pushing forward a series of subsequent work, including design and adoption of proposals related to post management, job appraisal, personnel-position matching, remuneration implementation, performance management, career development channel, realignment of branch-wide organizational structure and headcount ratification, and so on.

2. Specialized Committees under the Board of Directors

The Board of Directors has set up five Specialized Committees under itself: Strategic Committee, Audit Committee, Risk Management and Connected Transaction Control Committee, Remuneration and Appraisal Committee, and Nomination Committee. More than half of members of Audit Committee, Risk Management and Connected Transaction Control Committee and Nomination Committee are Independent Directors and the heads of the said Committees are all Independent Directors.

In 2008, 15 meetings of Specialized Committees under the Board of Directors were convened, which have provided professional supports for the scientific decision-making of the Board and taken further steps to improve corporate governance of the Bank.

Strategic Committee

- Head: Chairman Li Ruohong
- Members: Director Wang Xin, Director Liu Jiade, Director Lin Jianjun, Director Zhang Shengman, Director Pu Jian, Director Michael Zink

- Main Responsibilities: To formulate the business objectives and long-term development strategies of the Bank and to supervise and review the implementation of the annual business plan and investment proposal.

Audit Committee

- Head: Independent Director Lin Yixiang

- Members: Independent Director Phee Boon Kang, Director Martin Wong

- Main Responsibilities: To review the Bank's accounting policies, financial conditions and procedures of financial reporting of the Bank; examine the risk and compliance of the Bank; be responsible for the annual audit of the Bank and shall submit a report for the consideration of the Board of Directors commenting on the truthfulness, completeness and accuracy of the audited financial report.

Risk Management and Connected Transaction Control Committee

- Head: Independent Director Phee Boon Kang

- Members: Director Wang Fenghua, Director Li Zimin, Independent Director Chan Tai Loi, Independent Director Lin Yixiang, Director R. Daniel Massey

- Main Responsibilities: To supervise the risk control situation of the senior management in respect to credit, market, operations, etc; regularly evaluate the risks, risk management, risk endurance capacity, and level of risk endurance of the bank; review the internal control system of the Bank and propose opinions for improvements regarding the risk management and internal control and evaluate the working procedures and effectiveness of the internal audit department; review the financial information of the Bank and its disclosure; check and examine the connected transactions of the Bank; manage the connected transactions of the Bank and control the risks of connected transactions.

Remuneration and Appraisal Committee

- Head: Director Wang Fenghua

- Members: Director Wan Feng, Director Gai Yongguang, Director Zhang Shengman, Director Pu Jian, Director Martin Wong

- Main Responsibilities: To studying, evaluate and make suggestions to the standards and guidelines of the assessment system for Directors and Senior Management; formulate remuneration proposals for Directors, Supervisors, President and other members of Senior Management; make suggestions to the board of Directors regarding the same; and supervise the implementation of the proposals.

Nomination Committee

- Head: Independent Director Chan Tai Loi
- Members: Independent Director Lin Yixiang, Director Raymond Lim
- Main Responsibilities: To formulate the standards and procedures for the appointment of Directors and members of Senior Management; conduct preliminary examination on the qualification and terms of employment of the candidates for Directors and members of Senior Management and make recommendations to the Board of Directors; search extensively for candidates qualified to act as Directors and members of Senior Management.

1. Annual General Meeting of Shareholders

On 27 June 2008, 2007 Annual General Meeting of Shareholders was held in Guangzhou.

71 Shareholders and proxies, who hold ten billion forty seven million shares (10.047 billion shares) accounting for 88.07% of total shares, attended the meeting.

The meeting deliberated each proposal and approved the following proposals by ballot: 2007 Working Report and 2008 Working Plan of the Board of Directors of Guangdong Development Bank Co., Ltd., Proposal on the 2007 Final Financial Report of Guangdong Development Bank Co., Ltd., Proposal on 2007 Profit Distribution Plan of Guangdong Development Bank Co., Ltd., Proposal on the 2008 Business Plan and Financial Budget of Guangdong Development Bank Co., Ltd. Relevant resolutions were reached at the meeting.

King & Wood Lawyer's Office provided on-site witness for and released legal opinions on the legality of the convening and procedures of the meeting, the qualification of the shareholders present, the voting procedures and other relevant issues.

2. Extraordinary General Meeting of Shareholders

On 22 April 2008, the First Extraordinary General Meeting of Shareholders in 2008 was held in Guangzhou.

71 Shareholders and proxies, who hold ten billion one hundred and thirty four million shares (10.134 billion shares) accounting for 88.83% of total shares, attended the meeting.

The meeting deliberated each proposal and approved the following proposals by ballot: Proposal on the Approval of the Resignation of Mr. Li Ruge from the Fifth Board of Directors of GDB, Proposal on Electing Mr. Lin Jianjun to the Fifth Board of Directors of GDB, Proposal on Issuance Plan for Subordinated Bonds. Relevant resolutions were reached at the meeting.

King & Wood Lawyer’s Office provided on-site witness for and released legal opinions on the legality of the convening and procedures of the meeting, the qualification of the shareholders present, the voting procedures and other relevant issues.

Management Discussion and Analysis

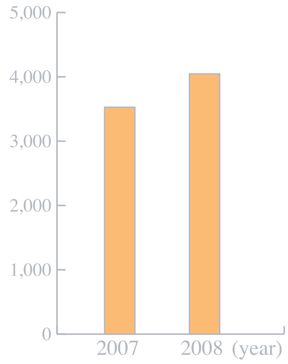
1. Overall Operation Performance

Steady and Robust Business Growth Sustained, Marked Strengthening of Risk Management

Assets and liabilities increased in a balanced manner. As of end of the year, Total Assets grew to 546 billion yuan, tallying a growth of 24.7 percent compared with the beginning of the year. Liabilities reached 526.4 billion yuan, representing a growth of 24.7 percent compared with the beginning of the year. Shareholders Equity grew 25.4 percent to 19.6 billion yuan on a year-to-date basis. Growth of loans and deposits remained steady. Year-end deposits balance grew 14.7 percent to 404.7 billion yuan. Loan balance reached 311.7 billion yuan with a year-to-date growth of 25.5 percent. RMB daily average excess reserve ratio of the full year is kept above 3%, and a good liquidity is seen here. In compliance with regulatory requirements for a substantial raise of Loan Provision Coverage Ratio up to 150%, the Bank still posted an after-tax profit of 2.784 billion yuan on a year-on-year growth of 3.82 percent. The quality of assets improved gradually with a ‘double-reduction’ in Non-performing Loans and Non-performing Loan Ratio. Non-performing loan balance was reduced by 1.06 billion yuan from the beginning of the year to a year-end level of 8.87 billion yuan. Non-performing Loan Ratio declined by 1.15 percent to 2.85 percent. Cost-control initiatives proved effective, resulting in a Cost-to-Income Ratio of 37 percent, a drop of 8 percent from the beginning of the year.

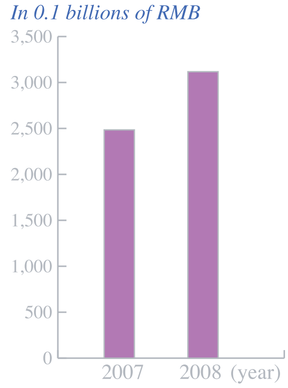
Balance of deposits

In 0.1 billions of RMB



Balance of Loans

In 0.1 billions of RMB



In 2008, all liquidity indicators of GDB met regulator’s standard, and capital provision and liquidity were in good condition. By the end of 2008, GDB’s RMB excess reserve ratio was 4.6%; daily-average excess reserve ratio was 3.2%; total cash reserve was RMB 228.3 billion, taking up 42% of total assets; RMB and FX loan-to-deposit ratios were 74.8% and 47.6% respectively; RMB and FX liquidity ratios were 52.6% and 120.8% respectively; RMB called-in ratio and RMB called-out ratio were 2.8% and 2.5% respectively. The quick realizable assets amounted to RMB 260 billion, which was 47.6% of total assets.

Successful Issuance of Subordinated Bonds, Capital Adequacy Ratio (CAR) Reaching Beyond Regulatory Requirement

The Bank successfully completed issuance of subordinated bonds of 5 billion yuan in China’s interbank bond market. The issuance boosted the Bank’s CAR to beyond regulatory requirements, and laid a firm foundation for business and network expansion. At the end of the year, the Bank’s CAR reached 11.6 percent and Core CAR was 6.7 percent.

Focus on Key Reform Initiatives, Comprehensive Upgrade of Infrastructure

The Bank launched some meaningful significant reform projects, which include: Post Remuneration Reform Project (PRRP), with an aim to build cutting-edge strategic human resources management system; Back-office Process Reengineering Project, to form an operation infrastructure system that is focused, professional, efficient and effective; Five-year IT Strategic Planning (ITSP) was completed, and implementation of the five-year ITSP project followed in step. The successful relocation of the Bank's data center has enhanced bank-wide IT infrastructure supporting capability. Research and Development centering on application projects were steadily carried out to provide more support to businesses and their management.

More Branding Efforts Lifting Market Image

Leveraging on the opportunities presented by anniversary of the Thirty-year Open Reform, the Beijing Olympics and other historically meaningful events, the Bank stepped up brand promotion and marketed its 20th Anniversary with bursts of national advertising campaigns. The Bank was subsequently rewarded with heightened awareness. Major international rating agencies have rated the Bank "Positive" with "Stable" outlooks.

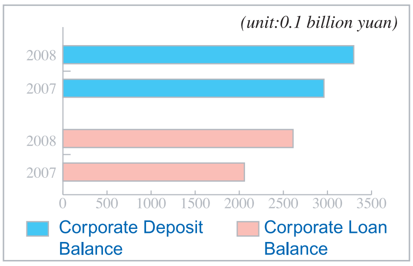
Model Corporate Citizenship with Active Involvement in Local Communities

In accordance with state requirements in macroeconomic controls, the Bank has adjusted credit policy, credit size and industry portfolio for credit, lending strong credit support to Small- and Medium-sized Enterprises (SMEs). In the area of social responsibility, the Bank dedicated itself to the betterment of the well-being of local communities. An initial donation of five million yuan was made to the earthquake-stricken Sichuan area. The act was followed by the co-founding of the Guangfa Hope Charity Fund with China Youth Development Foundation, and a contribution of one million yuan to the Fund.

2. Operation Review

Corporate Banking

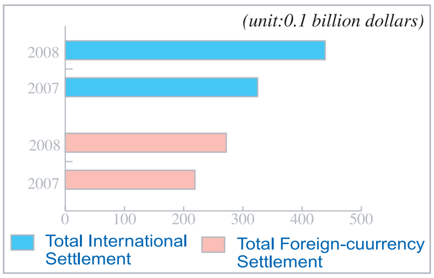
— **Corporate Deposits and Lending.** The Bank proactively experimented a centric model of marketing and sales to large corporate clients by setting up marketing taskforces to improve marketing effectiveness and instituting a working mechanism crisscrossing a variety of business departments. Pilot branches were named in Dongguan, Shenyang, Zhuhai, Nanjing and Kunming to promote and improve a new SMEs loan package. By the end of the year, Corporate Deposit Balance grew 11.4 percent to 329.8 billion yuan. Corporate Loan Balance increased 26.8 percent to 261 billion yuan.



Report of the Board of Directors

— **Bills.** Marketing of Bills business received strong support, in particular that of customer bills business, to stabilize and secure quality client base. Pricing ability was honed with an attention to interest rate changes and to control for rate volatility. Innovation came in a combined operation package for interbank bills business. The year saw a total volume of 762.1 billion yuan for bills discounting and interbank bills business.

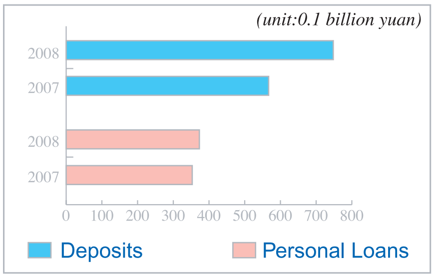
— **Trade Finance and International Settlement.** An innovative platform of derivatives projects comprising of RMB forward business and others was launched. Multiple framework agreements reached with a host of logistics companies resolved cargo monitoring in the trade finance business and benefited the development of import financing on cargo rights. The Bank's trade finance service offerings were further enriched with the introduction of the innovative pre-shipping financing solution. In recognition of the Bank's reform progress and business growth, regulators granted the Bank license to operate RMB Swap business. Total International Settlement amounted to 43.9 billion US dollars on a year-on-year growth of 35 percent. Total foreign-currency settlement increased by 24 percent to 27.2 billion US dollars.



— **Financial Institutions Business.** The year saw broader cooperation with the Bank's shareholders. Agency sales of bancassurance products totaled 790 million yuan with Insurance Companies' FI deposit balance of 8 billion yuan. Cooperations with Citigroup were strengthened in training of securitization business and talent development. Expansion of the Financial Institution business recorded marked progress. Daily Average Financial Institution Deposit Balance reached 38 billion yuan. Agency sales volume of bancassurance amounted to 1.4 billion yuan.

Consumer Banking

— **Personal Deposits and Loans.** Major progress was made in key infrastructure projects including the Model Branch, Relationship Manager Team-building, and Key Technology System and others. A total of 114 Model Branch outlets were built or renovated. Nineteen of the Model Branch outlets were transformed into Flagships. A team of 714 Wealth Management Relationship Managers were specially equipped for the Model Branch project. Product innovation continued, and new products were launched to market, including automatic notice deposits, insurance policy pledge loan, second-hand property fund custody, and the Salary-plus-Salary wealth management line. By the end of the year, savings deposits grew 32 percent on a year-on-year basis to 74.8 billion yuan. Personal Loans increased by 5.6 percent on a year-on-year basis to 37.3 billion yuan.



— **Credit Cards Business.** The year saw two successful product launches of the Olympic Cards and the Guangfa Hope Card, the promotions of which lifted brand image of the credit cards business. Cross-selling was proactively implemented across corporate and retail banking businesses. Repayment channels increased and more investment and installation was made in Self-service Payment CRSs. Agency Credit Payment and other repayment channels were expanded to effectively improve customer experience in making credit card repayments. Two million new credit cards were issued in the year, with a pre-tax profit of 300 million yuan and a relatively low new NCL rate at 2 percent.

Treasury

The Bank readjusted bond investment strategy and compressed bond assets maturity. A mix of multiple financing tools was used to increase capital efficiency. Innovations in debt financing made an active contribution to the development of investment banking business. By the end of the year, Renminbi Bond Assets Balance recorded a year-on-year growth of 53 percent, or that of 25.7 billion yuan, to 74 billion yuan. Annual Daily Average Net Fund Financing totaled 5 billion yuan. Financing transaction volume reached 2 trillion yuan on a year-on-year growth rate of 25 percent. The Bank acted as the chief underwriter or co-underwriter in nine projects including Henan Pinggao Electric Co., Ltd., Jiangsu Expressway Co., Ltd., Jiangsu High Hope International Group, generating a total underwriting volume of 4.4 billion yuan. Among the projects, Jiangsu Dongguang Micro-electronics Co., Ltd., the first short term Commercial Papers whose issuer belongs to the SMEs category was successfully issued by the Bank as the chief underwriter. Number of Agency Settlement Account grew from five at the beginning of the year to fifteen at the end of the year. Bond Settlement Volume increased to 1.9 billion yuan at the end of the year from 90 million yuan last year.

Distribution Channels

The Bank commands a diverse network of distribution channels to serve its multiple customer bases. Apart from readjusting its current network of outlets and increasing investment in self-service banking equipments, the Bank stepped up on the improvement of E-Banking, Phone Banking and other electronic service channels. The project of “1100 self-service machines” progressed smoothly, which had brought 916 machines to work in 2008. By the end of the year, the Bank has built a network of self-service banking equipments totaling 2385. Number of transactions on ATMs and CRSs increased by 37.7 percent to a total of around 63.18 million. Number of E-Banking customers grew 78 percent to 0.95 million. Around 2.28 million transfer transactions were made, amounting to 894.5 billion yuan. A total number of 9.14 million online payment transactions were conducted with total volume at 3.57 billion yuan.

The Bank’s Prospect in Future

Economic outlooks for the year 2009, globally and nationally, are not optimistic. With major developed countries mired in recession and continuous instability in the international financial market, market confidence is unlikely to recover in the near future. China will be experiencing heavier downturn pressure on the economy, and businesses are encountering more difficulties. All of the above have brought huge challenges to banking operation. Nevertheless, opportunities exist for banks. The government has sharply increased public spending. Spending in key areas and key infrastructure projects is sustained, and reform initiatives keep moving forward.

In the face of the grave challenges as well as the gleaming opportunities, the Bank has worked out the following as its working philosophies for 2009: to sustain with confidence the implementation of central economic policies through a deep and thorough understanding and execution of requirements from the People's Bank of China and the regulators; to strengthen risk management and apply strict risk controls, with focuses on existing assets to control for the occurrence of new non-performing loans and to proactively resolve existing risks; to further integrate headquarter and branches in joint-action for innovations, business opportunities, profitability, and steady development of business lines; and to keep to the path of strategic reform, to the market positionings identified in the Five-year Strategic Development Plan, and to the pursuit of effective operation.

First, the Bank shall proactively implement Scientific Development and take advantage of growth opportunities. New profit centers will be built with more initiatives in innovation, and a steady and healthy development of all business lines will be one of the corporate goals.

Second, the Bank shall progress with a transformation of operation, and strive to expand core business areas. Customer resource sharing and integration, as well as cross-selling, will be improved between personal banking business and credit cards business. VIP customers will be target for breakthrough in the effort to upgrade customer relationship management. Pilots in large corporate client marketing model and the SMEs loan package model will continue as planned. More efforts will be channeled into marketing for cash management business. Growth of Investment banking business such as underwriting for corporate bond financing will continue. Fee-based businesses in interbank markets and low-risk businesses will receive more attention. Bond investment portfolio will be optimized, and spot/swap trading in Renminbi against dollars transactions will pick up.

Third, the Bank shall put in more efforts to capital management to increase capital efficiency. Depending on business conditions, there may be new issuance of subordinated bonds to increase CAR and to enhance risk withstanding capability.

Fourth, the Bank shall strengthen risk management and internal controls. With an insistence on full-range risk management principle, the Bank shall build stricter risk controls around key links of loan service, and make stricter risk detection and investigation on target clients. Management roles and measures of the compliance functions will be improved. A reform of vertical management will progress in the structure of the audit functions. Vertical audit management will be enhanced, so will risk-oriented audit inspection and monitoring.

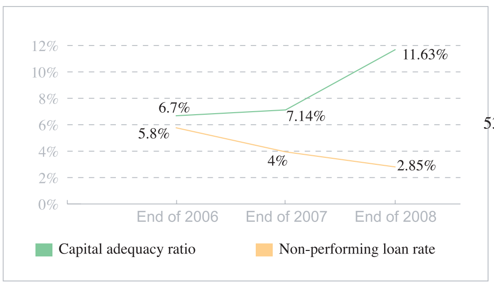
Fifth, the Bank shall stick to enhancing liquidity management for liquidity security. In face of severe economic situation of 2009, the Bank will keep close tap on the market, and proactively adopt and implement sound financial measures to cope with such impact on our operation. Emphasis will be placed on the following work. Firstly, initiating with work related to mechanism establishment, system optimization and personnel allocation and so on, we will make great efforts on fund position calculation, supervision on liquidity indicators including loan to deposit ratio, cash reserve ratio, and the like. Secondly, we will improve the efficiency and quality of liquidity pressure test and adjust emergency plan at appropriate time, aiming to ensure sufficient cash reserve. Thirdly, taking the opportunity of organizational structure optimization project, we will strictly divide front office, middle office and back office in terms of funds, in an effort to control fund dealing risk and operational risk effectively. Fourthly, we will further strengthen central management of RMB and FX funds, implement authority approval mechanisms and system for reporting funds flowing-in/out in large amount, enhance internal funds transfer pricing, intensify HO-branch joint-efforts and improve efficiency of fund flowing.

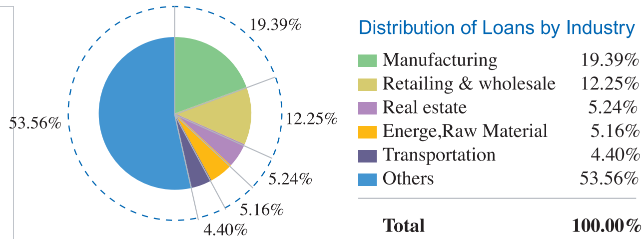
Sixth, the Bank shall optimize network of outlets and channels. Within the year of 2009, the Bank aims to complete filing and pre-launch work for one to two new branches and a number of sub-branches in economically prosperous regions. Pace of relocation and readjustment of current outlets shall pick up. Functions and services will be upgraded and improved at outlets, as well as on E-Banking channels.

Seventh, the Bank shall sustain efforts on key infrastructure reform initiatives including the Post Remuneration Reform Project, Back-office Process Reengineering Project, and ITSP, to ensure the completion of a secure and effective support system.

1. Additional Financial Indicators in the Past Three Years as of the Reporting Period

Major indicators (%)		Regulatory indicators (%)	End of 2008 (%)	End of 2007 (%)	End of 2006 (%)
Capital adequacy ratio		⩾ 8	11.63	7.14	6.70
Non-performing loan rate		⩽ 5	2.85	4.00	5.80
Loan/deposit ratio	RMB	⩽ 75	74.80	68.66	68.15
	FX	⩽ 85	47.61	56.98	24.82
	Converted into RMB	⩽ 75	73.97	68.19	65.65
Ratio of assets liquidity	RMB	⩾ 25	52.59	36.46	50.71
	FX	⩾ 60	120.82	168.18	158.00
Proportion of Call loans	Called-in RMB	⩽ 4	2.84	0.04	0.03
	Called-out RMB	⩽ 8	2.52	1.37	0.38
Proportion of loans to the top single borrower		⩽ 10	4.37	9.11	11.76
Proportion of loans to the top 10 borrowers		⩽ 50	31.07	64.84	69.47





2. Risk Management

1) Distribution of Loans by Industry

Unit: RMB 1,000

Industry	Balance	% of total
Manufacturing	60,427,548	19.39%
Retailing & wholesale	38,167,253	12.25%
Real estate	16,347,974	5.24%
Energe, Raw Material	16,082,883	5.16%
Transportation	13,707,018	4.40%
Total	**144,732,676**	**46.44%**

2) Regional Distribution of Loans

Unit: RMB 1,000

Region	Balance	% of total
Guangzhou	69,149,940	22.18%
Hangzhou	38,739,714	12.43%
Beijing	31,248,516	10.03%
Nanjing	24,837,045	7.97%
Zhengzhou	19,439,467	6.24%
Dongguan	18,959,838	6.08%
Shanghai	18,434,861	5.91%
Shenzhen	15,987,620	5.13%
Shenyang	12,085,074	3.88%
Foshan	10,752,103	3.45%
Kunming	7,375,149	2.37%
Wuhan	7,095,983	2.27%
Others	37,593,196	12.06%
Total	**311,698,506**	**100.00%**

3) Top Ten Borrowers

Unit: RMB 1,000

No.	Name	Balance	% of Net Capital	% of Total Balance
1	Highway Administration Bureau of Henan's Traffic Department	1,400,000	4.37%	0.45%
2	Shenyang Hongyuan Group Co., Ltd.	1,265,960	3.95%	0.41%
3	Shougang Group	1,000,000	3.12%	0.32%
4	Financial Street Holding Co., Ltd.	1,000,000	3.12%	0.32%
5	Shanghai Road and Bridge Development Co., Ltd.	1,000,000	3.12%	0.32%
6	China Ministry of Railway	1,000,000	3.12%	0.32%
7	Guangdong Meihe Express Highway Co., Ltd.	998,600	3.11%	0.32%
8	China Guodian Corporation	800,000	2.49%	0.26%
9	China National Gold Group Corporation	800,000	2.49%	0.26%
10	Huaneng Power International Inc.	700,000	2.18%	0.22%
Total		**9,964,560**	**31.07%**	**3.20%**

4) Five-Grade Categorization and Loan Loss Provision

The Bank assesses and manages credit assets quality according to the "Loan Risk Categorization Guidance" of CBRC. It required commercial banks to categorize credit assets into five grades, namely pass, special mentioned, sub-standard, doubtful, and loss. Loans of the last three grades are NPL.

The core definitions of the five grades are as below:

Pass:	The borrower can perform the loan contract and there are no sufficient reasons to doubt that the principal and interests cannot be collected when maturity.
Special mentioned:	Though the borrower has the ability to pay back principal and interest currently, there is some unfavorable factors affecting its repayment.
Sub-standard:	The borrower has obvious difficulties in repaying the loans. He/she can not repay the loan by its operation income. Even guaranteed, some loss may happen.
Doubtful:	The borrower is not able to guarantee fully repayment of the principal and interest of the loans. Even guaranteed, major loss is sure to happen.
Loss:	Even all measures and all necessary legal procedures are made, principal and interest cannot be reclaimed, or only small part of principal and interest can be collected.

At the same time, the Bank retrieves off-sheet business into customer unified facility, manages the credit limit, and categorizes off-sheet credit business according to "Loan Risk Categorization Guidance".

(a) Five-tier Loan Grading Result and Loan Loss Provision

Unit: RMB 1,000

Item	End of 2008	% of total
Pass	284,574,084	91.30%
Special-mentioned	18,254,700	5.85%
Sub-standard	3,457,367	1.11%
Doubtful	4,422,854	1.42%
Loss	989,501	0.32%
Total	**311,698,506**	**100.00%**

Notes:The Bank assesses impairment of loans and advances individually or collectively. The amount of the loss caused by non-performing loans is measured as the difference between the asset's book value and its present value discounted at initial real interest rate. The deduction amount is confirmed as "allowance for assets impairment" and recognized into Income Statement. The present value of expected future cash flows is computed according to the financial instruments initial real interest rate and the value of relevant security (not including the transaction fee of the security). Initial real interest rate is the real interest rate while the asset was recognized initially. For floating interest rate loan, receivables and held-to-maturity assets, the Bank used the current contract rate as discount rate to calculate the present value of expected future cash flows. At the end of reporting period, the balance of provisions for loan loss of the Bank is 13.36 billion RMB, provision coverage ratio is 150.6%.

(b) Changes to the Bank's Non-Performing Loans

Unit: RMB 1,000

Item	End of 2007		Change within the reporting period		End of 2008	
	Amount	% of total	Amount	% of total	Amount	% of total
Sub-standard	4,386,482	1.77	(929,115)	(0.66)	3,457,367	1.11
Doubtful	4,450,983	1.79	(28,129)	(0.37)	4,422,854	1.42
Loss	1,094,230	0.44	(104,729)	(0.12)	989,501	0.32
Total	**9,931,695**	**4.00**	**(1,061,973)**	**(1.15)**	**8,869,722**	**2.85**

5) Loan Loss Provision in 2008

Unit: RMB 1,000

Item	Loan Loss Provision
Opening Balance	(7,841,383)
Charge to P/L	(7,540,923)
Amount Written back	862,646
Unwinding Interest	92,224
Recoveries of Loans written off in prior year	(26,290)
Write-off	1,093,457
Ending Balance	**(13,360,269)**

6) Risk Management of Group Client Credit Business

According to “Risk Management Guidance for Group Client Credit Business of Commercial Banks” of CBRC, the Bank formulated “Management Method of Credit to Legal Person Customers of Guangdong Development Bank” which included legal persons directly or indirectly connected, controlled by one third party enterprise, directly or indirectly controlled by one natural person, etc into group client management and control credit business risks by checking and ratifying the integrated unified credit limit of Group Client, and strictly follow the principles of unification of credit body, credit form, credit currency and credit target. In the management of group clients, the Bank set a system of main charging unit, assistant charging unit and persons in charge, made clear each one’s responsibilities in information collection, facility plan design, regular interview, coordination and communication, post-loan management, etc. In the approval of group credit, when the credit exposure of group members exceed a certain limit or the group facility concerns different branches, HO will intervene to review and approve the credit plan. As to the risk early-warning of group clients, no matter how much the credit limit is, it shall be reported to HO within five working days for risk delusion and prevention work if signal of major risk early-warning emerges.

7) Basic Information of Foreclosed Assets

The Bank’s foreclosed assets mainly include real estates, lands, machine equipment, vehicles etc. The Bank’s book balance of the foreclosed assets was RMB 84.65 million as of the end of 2008, compared with RMB 86.25 million at the beginning of the year. The Bank's foreclosed assets provision at the end of 2008 was RMB 29.58 million, against RMB 59.87 million at the beginning of the year.

8) External Investments and Bank-owned Enterprises and Entities

Enterprises with shares	Equity investment time	Recording currency	Equity investment cost (end of 2008)	
			Original currency	RMB
VISA International Organization (Visa)	2007-12-01	US Dollar	2,842,517	19,427,468
MasterCard International organization (Mastercard)	2006-09-01	US Dollar	1,826,931	12,486,344
China UnionPay Co., Ltd.	2002-12-10	RMB	41,840,265	41,840,265
China UnionPay Co., Ltd. (Shenzhen Branch)	2002-01-01	RMB	370,000	370,000
Shenzhen Vpower Finance Security Co.,Ltd.	1996-11-01	RMB	600,000	600,000
Society for Worldwide Interbank Financial Telecommunication (SWIFT)	1996-06-01	US Dollar	29,300	200,254
Shenzhen Financial Electronic Settlement center	1995-06-01	RMB	2,684,194	2,684,194
Guangdong GDB International Financial Consultation Co., Ltd.	1994-04-05	RMB	4,100,000	4,100,000
total				**81,708,525**

9) Off-balance Sheet Projects which may have Material Impact on Financial Position and Business Performance

Unit: RMB 1,000

Item	End of 2008	End of 2007	End of 2006
Loan commitments	28,066,636	30,801,422	13,774,049
Bank acceptances	89,604,814	69,493,613	72,426,987
Providing letter of guarantee	5,764,956	5,034,687	6,341,897
Providing letter of credit	6,675,550	8,292,452	3,754,409
Derivative financial instruments	8,844,523	1,958,596	3,575,113

10) Main Policies, Measures, and Effects of Non-Performing Assets Management

At the same time of strengthening the risk management, the Bank made great effort to prevent new NPLs and collect existing NPLs. "Double reduction" of NPL volume and NPL ratio were realized. Many measures were adopted to manage NPLs, mainly including: First, implement industry policies and credit policies of the State actively to strengthen the guidance of loans issuance fields and optimize the structure of credit assets; reinforce the supervision on credit business of key risk fields to ensure the healthy development of businesses and control the new NPLs from the very source. Second, manage credit risk assets in the whole flow under the conception of all-rounded risk management; reengineer and improve the entire risk business processes of credit access, pre-loan investigation, loan review, post-loan management, NPL collection and disposal, etc. Third, work out feasible and detailed plans of NPL collection and appraisal, linkage of Head Office and Branches, collect and dispose NPLs by all means, such as direct collecting, lawsuit, NPL compromise, assignment of creditor's right, restructuring, etc. Fourth, lay special emphasis on Branches with large sum NPL projects and large balance of NPLs. Through focused attention and efforts, some large sum NPL projects have been collected partly or resolved. Fifth, regulate the write-offs of NPL strictly according to "Administrative Rules of NPL Write-offs of Financial Institutions (2008 revision)" of Ministry of Finance to dispose NPLs timely and enhance the risk-resistance ability of the Bank. Sixth, strengthen appraisal mechanism, establish a series of stimulus systems to improve the collection of NPLs, including NPL collection rewarding, more flexible expenses, full provision to new NPL, provision withdrawal for cases as defendant, etc. Seventh, strengthen the internal construction continuously, optimize NPL assets management information systems, reinforce the NPL collection personnel and raise the quality and efficiency of the working team.

Through out arduous work in 2008, the Bank has made remarkable achievements in NPL management:

(a) NPL volume decreased by RMB 1.06 billion compared with that of last year, NPL ratio decreased by 1.15 percentile, and "double reduction" of NPL balance and NPL ratio was realized.

(b) NPA collection and disposal amounted to RMB 4.727 billion in total, collected and disposed NPL principal amounting to RMB 4.259 billion. RMB 2.917 cash has been collected from NPA and NPA cash collection ratio was RMB 61.7%.

11) The Completeness, Rationality and Effectiveness of the Internal Control Systems

Abiding by Law of the People's Republic of China on Commercial Banks and other relevant financial rules and regulations of CBRC strictly, the Bank took steps to improve corporate governance structure, reengineer the organizational structure and business flow, strengthen risk recognition and appraisal ability, reinforce internal control management, and enhance the supervision and rectification. Thus, the internal control ability of the bank was upgraded further and the stable and healthy development of business was guaranteed.

First, according to the requirement of regulators and Articles of Association (hereinafter as AOA), the Bank established a balanced and mutual disciplined corporate governance system and structure based on General Meeting of Shareholders, Board of Directors, Board of Supervisors, and the Management with preliminary responsibility boundaries. The Board of Directors and Special Committees under Board of Directors performed their duties industriously and made scientific decisions according to relating laws and regulations, AOA, and their mandate. Related systems of Board of Directors and Board of Supervisors were improved and the function of decision making and supervision was strengthened. The Senior Management was adjusted and optimized. Under it, there are cross-department Committees such as Credit Approval Committee, Financial Examination Committee, Internal Control and Compliance Committee, etc. They exercised their functions as democratic discussion and collective consideration in credit approval, expense and risk control, etc, which organizationally guaranteed the effective internal control of GDB.

Second, some reform projects such as Post and Remuneration Reform Project and Back Office Reform Project were launched in order to optimize the organizational structure and HR management, to enhance the efficiency of management, to separate front, middle and back office businesses, to strengthen the mutual supervision between different posts.The Bank will further optimize business flow, complete stimulus mechanism, raise the core competitive edge and risk resistance ability, approaching the goal of constructing a functional bank.

Third, recognition and control of all kinds of risks were strengthened by establishing business operation guidance and internal control regulation covering all business processes, operation workflow, all departments and positions. The standardized degree of internal control system was continuously improved and upgraded.

Fourth, IT Strategic Project was launched. Till now, the design of IT construction and infrastructure has completed and some key sub-projects have been launched to synergize, streamline, and optimize IT system. The main data base was enlarged and moved to a new location. The core business system was upgraded and more modernized. The Bank's IT system obtained higher ability to control internal risks.

Fifth, many measures were taken to strengthen the management and internal supervision. The examination and guidance to branches were strengthened. Audit Department conducted independent supervision and appraisal and reinforced accountability system. The Bank implemented CBRC's requirements on case prevention and operation risk examination to strengthen the rectification and raise the ability to prevent cases. Stress testing of all kinds of risks was conducted to enhance our ability of quantifing management and resistance on risks.

The Bank has established a complete, rational and effective internal control system, and is keeping improving it in practice.

3. Risks Encountered by the Bank and Corresponding Countermeasures

In 2008, great progress was made in the risk management work of the Bank with independent, comprehensive, professional risk management system further improved and the overall structure of risk management more reasonable and integrated. A comprehensive and independent risk management organizational structure was set up in the area of corporate credit, personal credit, FI treasury business, market and liquidity risks etc, and the Bank's risk management ability was further enhanced. The Risk Management and Connected Transaction Control Committee was set up under BoD which is responsible for deliberating risk polices and internal control construction implementation schemes, assessing the internal and external risk management ability of the Bank on a regular basis, and formulating credit risk, liquidity risk, and market risk and operation risk management strategy. The Committee authorized Chief Risk Officer who was engaged by the Bank, to manage the risks comprehensively and independently, and monitor and make decisions on the whole bank's risk management work. Credit Approval Committees of all levels are the decision-making bodies for the facility approval of the Bank, and carry out work according to the risk control procedures approved by the BoD. Credit Management Department, Credit Approval Department and Risk Assets Management Department manage the risks correspondingly according to the Bank's risk management strategy and requirements.

1) Credit Risk

Credit risk refers to the risks caused by the borrowers or trade counterparts of the bank due to their failure to fulfill its relevant obligations for any reasons.

(a) Risk policies were more scientific, standard and detailed. The construction of credit risk management policies made great headway in terms of organizational structure, personnel management, operation standards, and implementation, and the system safeguard of interfering ability into the credit risks were enhanced.

(b) Business risks guidelines were conventionalized. The Bank had paid close attention to the changes of the domestic and overseas economic changes and the adjustment of state economic polices. By means of research and analysis, the Bank sifted those credit risk factors that might affect the Bank's businesses, and formed business risk guidelines that are circulated on a regular basis to guide the risk management work of the whole bank.

(c) Credit approval flow was optimized and reformed. Ever since 2007, with the approval of BoD, the Bank has continued to optimize and adjust the whole bank's credit approval procedures, enhanced the control and management of credit risks, clearly defined the loan approval steps, functions and responsibilities. Credit approval and review work were more professional, standardized and centralized, and the risk management ability was greatly enhanced.

(d) The timeliness and effectiveness of the disposal of NPAs were further improved. In 2008, by closely centering on the NPL collection tasks nailed down at the beginning of the year by BoD, the Bank nailed down the branches with most NPLs and large NPL projects as our focuses. By means of joint efforts between head office and branches, branches were guided to collect and dispose NPAs in the form of collecting cash, compromising the debt right, selling debt right, pay off debt in kind, risk agency etc, and great achievements were made.

(e) Risk management and pre-warning mechanism were enhanced. Post-loan risk management work was advanced in terms of network construction and efforts input, the risk management of group customers, large-sum loans, key areas was more normalized, and the comprehensive centralized facility management polices of group (connected) customers were further implemented.

(f) The guarantee management mechanism was further improved. The Bank took acquired collateral, deposits margin, the gurantee of guarantor as the major means to control the credit risks. Within the year, the Bank stipulated the type of special collateral and pledge that were acceptable by the Bank and the corresponding collateral and pledge ratio, enhanced the estimation and management of the value of collateral, thus improved the risk management of guarantee and ensured that the mechanism on the management of guarantee was in place.

(g) The Bank gradually adopted stress testing and other measurement methods in credit risk management, and the risk measurement and analysis work achieved great progress.

2) Liquidity Risk

Liquidity risk refers to the risk that banks can not meet the needs of customers to withdraw due liabilities and new loans or reasonable financing needs, or can not meet these needs with normal cost.

The Bank implements first-level legal person management principles, manages the liquidity from top-to-bottom and grade-by-grade. On the HO level, liquidity is managed by the HO Asset Liability Management Committee, which will decide the management policies of liquidity, and monitor the liquidity indexes month by month, and authorize the Treasury Department and International Department to respectively manage the liquidity of the RMB and FCY. The major measures of the management of the liquidity of the RMB and FCY are: track the market, calculate the position everyday to ensure that the payment of the whole bank is sufficient; Continue to monitor the structure changes in terms of the liquidity assets and the interest-yielding assets of the HO and Branch such as provision ratio and the cash of the bank, ensure meeting the liquidity needs of the Bank; set up multi-layered liquidity screen; enhance the base of liability business, improve the core liability assets ratio, keep good market financing ability; improve credit risk management; set up liquidity risk pre-warning mechanism and contingency plan.

In 2008, the Bank successfully issued RMB 5 billion RMB subordinated bonds, improved CAR ratio and long-term liability structure; further optimized the structure of deposit customers.

At the end of 2008, the RMB and FCY loan deposit ratio of the Bank was respectively 74.8% and 47.6%, the RMB and FCY liquidity ratio of the Bank was respectively 52.6% and 120.8%, and all of them met the regulatory standards. The liquidity structure of assets was good. At the end of 2008, RMB security portfolio of high level and high liquidity took up over 20% of the RMB assets scale; FX fund that was used in the short-term currency market with high liquidity exceeded 55% of the FX deposits.

3) Market Risk

Market risk refers to losses in transaction and non-transaction businesses of the Bank caused by unfavorable fluctuation of market price (including interest rates, exchange rates, stock and commodities).

Key components and features of market risk management system of the Bank include: direct leadership and monitoring from the highest level; independent risk control institutions; appropriate market risk management policies and procedures; quantitative risk limit authorization; monitoring to risk limit use; regular risk report system.

In 2008, Risk Management and Connected Transaction Control Committee under the Board strengthened leadership to the market risk management. Chief Risk Officer was set in the Senior Management, formulating, regularly reviewing, monitoring and executing market risk management polices, procedures and concreting operation guidelines, monitoring and appraising the all-sidedness of market risk management under the authority of the Board. Market risk management department carried out management and monitoring to market risks of the Bank, and performed the duty to independently report to the Senior Management and Risk Management and Connected Transaction Control Committee.

The Bank adopted Risk monitoring approaches including duration monitoring, exposure analysis, sensitivity analysis and scenario analysis, etc. to conduct risk identification, calculation and monitoring management to market risks of various businesses; established market risk limit system mainly concentrating on the indicator of interest rates sensitivity to monitor the use of market risk limit; ensured early identification and appraisal of market risks of new businesses through deliberation procedures of market risks in new products and complicated transaction businesses; carried out pressure testing of market risks under prudential conditions as required by CBRC. Brand new asset and liability management information system of the Bank has been officially launched to conduct centralized management on market risks to items of assets and liabilities including bank accounts and transaction accounts.

Market risks of the Bank mainly come from interest rate risks of various asset liability businesses and products participating in the market operation. Due to effective business and risk control, the Bank maintained steady development of various businesses and effectively controlled market risks through grasp of macro-economy and financial market and timely countermeasures in the global financial crisis in 2008. In domestic market, the duration of RMB bonds portfolio held by the Bank further decreased, investment asset portfolio continually got optimization, meanwhile short-term financing bonds underwriting and RMB interest rates derivative transaction were actively and prudently processed, the Bank adopted prudential attitude to applied mathematic model in overseas investment, all along didn't buy and hold sub-prime mortgage securities or MBS and CDOs, CMOs and CSOs etc. of debt mortgage products with embedded credit rating, and didn't hold products of U.S. GSE agency bond, or Lehman Brothers Holdings and Bear Stearns, etc.

(a) Exchange Rate Risk Management

The exchange rate risk for transaction accounts includes the exchange rate risks caused by agency FCY deals and its square transactions, and the Bank's self-run short term speculation FCY deals business. The Bank mainly applies transaction limits (including exposure limits and stop-loss limits) to control exchange rate risk of transaction account. The transaction limits are determined in a prudential way: except Hong Kong dollar which has lined exchange rate system and RMB exchange settlement and sales exposures are limited by State Administration of Foreign Exchange (SAFE), the total exchange rate exposure of all currencies against US dollar should not exceed 1% of the FCY capital.

(b) Interest Rate Risk Management

The key measures for interest rate risk management mainly include three aspects: firstly, to quantify the interest rate risk. At present, the Bank has realized correct quantification of interest rate risk for HO treasury and investment, the market risk management middle counter can realize real-time monitoring to interest rate exposure; asset/liability management system (that is interest rates management system for deposit and loan banking accounts) has been officially launched; secondly, to define the interest rates limit, i.e. define the interest rates risk exposures appropriately according to the Bank's capability and business development requirement; thirdly, front office business operators should make accurate judgment of the interest rates trend of major currencies.

The interest rates of RMB deposits and loans of the Bank strictly conforms to interest rates management rules of People's Bank of China (hereinafter as PBoC). The repricing of RMB deposit and loan interest rate is basically synchronous, and the risk of maturing gap exposure is relatively small.

(c) Derivative Product Business Management

The Bank has prudential risk awareness towards derivative product business, and set low market risk exposure.

4) Operation Risk

Operation risk refers to the risk of losses resulting from inadequate or failed internal processes, employees and IT systems, or external incidences.

Operation risk management system of the Bank has been basically established, Internal Control and Compliance Committee established by HO is mainly responsible for coordinating and organizing bank-wide operation risk management. Meanwhile, Credit Management Department, Compliance Department, Audit Department, IT Department and E-banking Department play core role in operation risk management of the Bank. Major operation risk management measures of the Bank in 2008 included:

(a) Facilitated business IT platform construction. The Bank consistently carried out IT innovation and IT platform construction in accordance with IT development strategies in 2008. The Bank successively launched a series of IT strategy planning projects, integrated IT system, and raised modernization and IT risk prevention and control capacity of core business systems; completed capacity expansion and relocation of HO Data Center, which significantly improved infrastructure's supporting capacity to business and technology development; strengthened security management in Disaster Recovery Center and implemented data offsite backup in the same city to improve business continuity level; developed or completed multi information systems to control operation risks; made good progress in the input and construction of core systems of asset business, corporate banking business management system and personal loan business management system.

(b) Continued to strengthen system construction. Measures adopted included: optimized business and management procedures, segmented and completed various business operation guidelines, strengthened rule and regulation construction; launched post remuneration reform, back office business procedure reconstruction projects, promoted separation of front, middle and back office, strengthened mutual monitoring and restriction between posts, and gradually formed internal control mechanism of prior risk prevention, mid-process control, post monitoring and rectification in related business operation.

(c) Advanced staff incentive mechanism construction. Adopted measures such as increase business training, reformed remuneration system and guaranteed stability of staff, etc.

(d) Steadily advanced centralized management of operation business, proactively explored risk centralized control mechanism under IT support, and constructed operation management mode with separation of front office, middle office and back office of modern commercial banks;

meanwhile, enlarged training force to counter staff and management staff, strengthened business quality and risk awareness of staff and built sound accounting and internal control culture.

(e) To guard against operation risks, the Bank continued to persist in the principle that on-site investigation as the main method, while off-site monitoring as complementary method, consistently promote daily monitoring upon operation risks of branch institutions. The Bank carried out "One Hundred Day Great Anti-case" campaign, actively conducted self-checking and self-rectification of operation risks, strengthened monitoring management to weak links of incidental cases, seriously investigated and penalized acts and cases in violation of rules, disciplines and laws, promoted accountability system construction and effectively prevented operation risks.

Routine Work of the Board of Directors

There are 17 members in the Board of Directors, including 3 Independent Directors, 4 Executive Directors. The number and composition of Board of Directors are in line with regulatory requirements and Articles of Association.

1. Details of Board Meetings

On 15th January 2008, the Bank convened the First extraordinary meeting in 2008 of the Fifth Board of Directors, which reviewed the following proposals: 2008 Business Plan and Financial Budget of GDB, 2008 Network Development Strategic Plan of GDB, Recommendation Report of Executive Position Compensation of GDB, Working Report and Results on Performance Appraisal of Senior Management of GDB in the 1st half of 2007, Establishing Futures Business Department, Delegating Senior Management to Approve the External Donation, Provisional Proposal to Issue No Less than RMB 3 Billion Subordinated Bonds. Relevant resolutions were reached at the meeting.

On January 30, 2008, the Second Extraordinary Meeting in 2008 of the Fifth Board of Directors in form of correspondence for voting reviewed Proposal for NPL Compromise of Shandong Wan-Tong-Da. Relevant resolutions were reached at the meeting.

On 18th March 2008, the Bank convened the Third Extraordinary Meeting in 2008 of the Fifth Board of Directors, which reviewed the following proposals: Proposal on 2007 Auditors' Reports of Guangdong Development Bank Co., Ltd., Proposal on the 2007 Audit Fee of Guangdong Development Bank Co., Ltd., Proposal on the 2007 Final Financial Report of Guangdong Development Bank Co., Ltd., Proposal on 2007 Profit Distribution Plan of Guangdong Development Bank Co., Ltd., Proposal on the 2008 Business Plan and Financial Budget of Guangdong Development Bank Co., Ltd., Proposal on Issuance Plan for Subordinated Bonds, Proposal on Administrative Rules for the Annual Report's Information Disclosure of Guangdong Development Bank Co. Ltd., Proposal on NPL Compromise Management Procedure of Guangdong Development Bank Co., Ltd., Proposal on Senior Management Realignment of Guangdong Development Bank, Proposal on Chairman Li Ruohong's Related Suggestions on the Implementation of Instructions by CBRC Supervisory Department II, Proposal on Executive Compensation Plan of Guangdong Development Bank Co., Ltd., Proposal on Establishing Financial Innovation Department, Proposal on Modifying Articles of Association of Guangdong Development Bank Co., Ltd., Interim Proposal on Urging the Management to Formulate Execution Procedure of Senior Management and Submit it to the Board ASAP. Relevant resolutions were reached at the meeting.

On 20th May 2008, the Bank convened the fifth meeting of the fifth Board of Directors, which reviewed the following proposals: Proposal on the Convening of the 2007 Annual General Meeting of Shareholders of Guangdong Development Bank Co., Ltd., Proposal on Shares to be wholly Transferred from Shareholder State Grid Corporation of China to State Grid Asset Management Co., Ltd. without Compensation, Proposal on the 2007 Working Report and 2008 Working Plan of the Board of Directors of Guangdong Development Bank Co., Ltd., Proposal on 2007 Annual Report of Guangdong Development Bank Co., Ltd., Proposal on the Approval of the Resignation of Ms. Yvonne Chan from the Director of Corporate Affairs of Guangdong Development Bank Co., Ltd., Proposal on the Approval of the Resignation of Mr. David Moore from the Director of Operations and Technology of Guangdong Development Bank Co., Ltd., Proposal on the Approval of the Resignation of Mr. J.C.Goh from the Director of Treasury of Guangdong Development Bank Co., Ltd., Proposal on the Approval of the Resignation of Mr. Yu Jin from the Director of HR of Guangdong Development Bank Co., Ltd., Proposal on the Appointment of Deputy Presidents of Guangdong Development Bank Co., Ltd., Proposal on Detailed Working Rules for President and the Senior Management Committee of Guangdong Development Bank Co., Ltd., Proposal on Clarifying the Employment Status and Compensation for Senior Managers of Guangdong Development Bank Co., Ltd ("GDB") nominated by Citigroup Inc. ("Citi"), Proposal on NPL Compromise of Yifang International Trade (Shanghai) Co., Ltd, Proposal on NPL Compromise of Shaoguan General Foundry & Forging Works, Proposal on Engagement of King & Wood Law Firm as Annual Legal Counsel to Guangdong Development Bank Co., Ltd., Provisional Proposal on 2007 Audited Financial Report (US GAAP) of Guangdong Development Bank Co., Ltd. Relevant resolutions were reached at the meeting.

On July 7, 2008, the Fourth Extraordinary Meeting in 2008 of the Fifth Board of Directors in form of correspondence for voting reviewed Proposal on Raising to BoD to Approve the "GDB Hope Charity Fund" Donation Affairs. Relevant resolutions were reached at the meeting.

On 5th September 2008, the Bank convened the Sixth Meeting of the Fifth Board of Directors, which reviewed the following proposals: Proposal on Employment Issues of the Senior Managers of Guangdong Development Bank Co., Ltd., Proposal on the Approval of the Resignation of Ms. Yvonne Chan from the Position of Director of Corporate Affairs of Guangdong Development Bank Co., Ltd., Proposal on the Approval of the Resignation of Mr. David A. Moore from the Position of Director of Operations and Technology of Guangdong Development Bank Co., Ltd., Proposal on the Approval of the Resignation of Mr. J. C. Goh from the Position of Director of Treasury of Guangdong Development Bank Co., Ltd., Proposal on the Approval of the Resignation of Mr. Yu Jin from the Position of Director of HR of Guangdong Development Bank Co., Ltd., Proposal on the Approval of the Resignation of Ms. Eliza Ong from the Position of Director of Audit of Guangdong Development Bank Co., Ltd., Proposal on the Renewal Plan of 2008/2009 D&O for Directors, Supervisors and Senior Mangers, Proposal on Engagement of accounting firm for GDB audit 2008, Proposal on Mandate on Donation of 2008, Proposal on Delegation to Senior Management for Bad Debt Write-Off of Guangdong Development Bank Co., Ltd., Proposal on Waving the Overdue Penalty and Compound Interest of Changqing Co., Ltd., Proposal on Waving the Overdue Penalty and Compound Interest of Shanghai Taiqi Real Estate Co., Ltd., Proposal for Connected Transaction Business of CITIC 'Hongtu' RMB Wealth Management Product, Proposal on the Commercial Life Insurance of RMB 280 million Pension Fund for GDB Employees Accepted by China Life Guangzhou Branch, Proposal on Technical Cooperation and Assistance Expenses and Management Measures, Proposal on the Resignation of Mr. Robert Morse from the 5th Board of Directors of Guangdong Development Bank Co., Ltd. and Relevant Arrangement Concerning the by-election of Director. Relevant resolutions were reached at the meeting.

On 21st November 2008, the Bank convened the Seventh Meeting of the Fifth Board of Directors, which reviewed the following proposals: Proposal on the Organization Structure Optimization of Guangdong Development Bank Co., Ltd., Proposal on Increasing the Bank's 2008 Total Remuneration, Proposal on Technical Cooperation and Assistance (TCA) Expenses and Management Measures. Relevant resolutions were reached at the meeting.

On 30th December 2008, the Fifth Extraordinary Meeting in 2008 of the fifth Board of Directors in form of correspondence for voting reviewed Proposal on Improving Loan Provision to Consolidate the Financial Basis. Relevant resolutions were reached at the meeting.

2. Execution to Resolutions of General Meeting of Shareholders by the BoD

During the reporting period, the BoD executed resolutions by General Meeting of Shareholders in a responsible manner, and proactively promoted relevant implementation. Despite of the severe impact from external market factors, the business target set at the beginning of the year has been basically accomplished, e.g. successful issuance of subordinated bonds of RMB 5 billion, gaining CBRC's approval to the job qualification of Director Lin Jianjun, and so on.

3. Responsibility Fulfillment by Independent Directors

There are three Independent Directors in the BoD, which conforms to the requirement in Articles of Association regarding the quantity of Independent Directors. The Principal Members of Committees of Audit, Risk Management and Connected Transaction Control, and Nomination are taken by Independent Directors. During the reporting period, in line of the principle of impersonality, independent and prudence, Independent Directors have brought their specialty into play. On the basis of protecting interests of investors and related parties, Independent Directors attended BoD meetings and specialized Committee meetings in a responsible manner, industriously performed their duties and made due contribution to the BoD's scientific decision making and continuous sound development of the Bank.

During the reporting period, the attendance by Independent Directors to BoD meetings is as follows:

Name	Required times	Attendance in Person (times)	Attendance by Entrusting Representative (times)	Absence	Remarks
Chan Tai Loi	8	8	0	0	/
Lin Yixiang	8	7	1	0	Authorized Independent Director Phee Boon Kang to vote on his behalf in the Fifth Meeting of the Fifth BoD
Kang Phee Boon	8	6	2	0	Authorized Independent Director Lin Yixiang to vote on his behalf in the Third and Fifth Extraordinay Meeting in 2008 of the Fifth BoD respectively.

2008 Profit Distribution Plan

KPMG Huazhen ("KPMG") appointed by the Bank has issued standard unqualified Auditor's Report. The audited net profit for 2008 is RMB 2,784,007,022. After considering the beginning balance of undistributed profit of 2008 RMB 244,341,567, and the retrospective adjustment of RMB 195,831,000 caused by the change of accounting standards, the year-end distributable profit of 2008 is RMB 3,224,179,589. According to the Financial Regulation for Finance Enterprise [MOF (Ministry of Finance) No.42] and the Articles of Association, the 2008 profit distribution plan is hereby proposed as follows:

Firstly, based on Article 44 of the Financial Regulation for Finance Enterprise, statutory surplus reserve should be accrued by 10% of realizable net profit for the current year; and it is not compulsory when the balance of accumulated statutory surplus reserve has reached 50% of the registered capital. By the end of 2007, the Bank's balance of statutory surplus reserve is RMB266,815,603, which is 2.34% of the registered capital. RMB 278,400,702 was accrued for 2008's statutory surplus reserve basing on 10% of the audited net profit.

Secondly, based on Article 5 of the Regulation of the Bad Debt Provision for Finance Enterprise [Caijin(2005)No. 49], the ratio of the general provision should be decided by synthetically considering all the risks the financial institution facing; and in principle the balance of this provision should be not less than 1% of the balance of total risk assets. In 2008, RMB 708,340,000 was accrued as the general provision, so as to assure that the general provision at the end of 2008 reach 1% of the balance of the risk assets.

Thirdly, the audited distributable profit to shareholders of the Bank is RMB 2,237,438,887. On consideration of regulatory opinion and capital replenishment of the Bank, share dividend of 0.5 share and cash dividend of RMB 0.244 (tax include) are planed to be paid for every 10 shares basing on the total 11,408,422,597 shares of the Bank.

The remaining distributable profit RMB 1,388,652,245 will be left for the years afterwards.

The above Profit Distribution Plan will be submitted to the 2008 Annual General Meeting of Shareholders of the Bank for approval.

Report of the Board of Supervisors

The 4th Board of Supervisors consists of 9 Supervisors, including four Staff and Workers Representative Supervisors, three Shareholder Representative Supervisors and two External Supervisors. Audit Committee and Nomination Committee were set up under the Board of Supervisors. 2006 General Meeting of Shareholders elected 3 Shareholder Representative Supervisors including Mr. Wang Jianmin, Mr. Deng Jianhua and Ms. Zhai Meiqing, and 1 External Supervisor Mr. Tan Jinsong. Besides, the 2nd Meeting of the 2nd Employee Representatives Congress elected 4 Staff and Workers Representative Supervisors, including Mr. Li Jinsheng, Mr. Hong Wenjian, Mr. Ma Xiangdong and Mr. Liang Jianhua.

During the reporting period, the Board of Supervisors exercised its duties according to relating laws, regulations and AOA, boosted the perfection of BoS personnel and organizational structure, drafted "Detailed Working Rules of Board of Supervisors", "Detailed Working Rules of Audit Committee of Board of Supervisors", "Detailed Working Rules of Nomination Committee of Board of Supervisors", etc. which contributed a lot in the consolidation of corporate governance foundation and further completion of the corporate governance mechanism.

During the reporting period, in line with stipulations of Company Law and of Articles of Association, the Board of Supervisors of the Bank performed its duties in an earnest, prudent and diligent manner and convened BoS Meetings: on 11 June 2008, BoS held tele-conference to arrange the departure audit on the resignation of five senior managers such as J. C. Goh and reached resolutions; on 26 June 2008, BoS held tele-conference to discuss and deliberate the departure audit reports of five senior managers such as J. C. Goh and reached resolutions.

During the reporting period, Supervisors sat in General Meetings of Shareholders and BoD meetings to supervise over the duty performance of Directors and Senior Managers, the legality and validity of General Meeting of Shareholders and BoD Meetings, the implementation status by BoD upon resolutions of General Meetings of Shareholders, GDB's operational status, financial activities, connected party transactions, internal control, etc. to ensure the compliance and legality of the operation and decision making of the Bank.

1. Increase or Decrease of Registered Capital

The registered capital of the Bank was 11,408,422,597 RMB as of end of 2008. There is no change in the registered capital during the reporting period.

2. Acquisition, Sales of Assets and Merger-related Issues

During the year of 2008, the Bank had sold debt assets with amount of RMB 44.22 million through open auctions, etc..

3. Vital litigations, arbitrations and cases

As of the end of the reporting period, there were pending litigation cases and disputes with the Bank as the defendant with a total claim of about RMB 370 million. Based on opinions of internal and external lawyers, the Bank had made provisions for the estimated loss accrued by the cases and disputes.

4. Material Events Concerning Custody, Guarantees, Commitments, Entrustment of Asset Management during the Reporting Period

1) Material Custody, Contract and lease

In 2008, there were no such material events as custody, contracting and leasing of other companies' assets or custody, contracting and leasing of the Bank's assets by other companies, apart from the asset custody business conducted by the Bank within business scope as approved by CBRC.

2) Material Guarantees

In 2008, there were no material guarantee events, apart from the financial guarantee business conducted by the Bank within business scope as approved by CBRC.

3) Material Entrustment of Asset Management

In 2008, there were no material events concerning entrustment of asset management

5. Subordinated Bonds Issuance

Pursuant to the Proposal on Subordinated Bonds Issuance Plan adopted by the First Extraordinary General Meeting of Shareholders in 2008, as approved by CBRC's document (No.233 2008) and PBoC's reply on market entry (No.22, 2008), the Bank issued RMB 5 billion of subordinated bonds in Chinese inter-bank bonds market, which were divided into two sections, with a term of 10 (5 + 5) years each. The RMB 2.3 billion issuance of the first section was completed on July 28, of which the size of bonds with fixed interest was RMB 1.6 billion, with coupon rate at 6.3%, the size of bonds with floating interest was RMB 700 million. Coupon rate is the sum of benchmark interest rate and basic spread; the benchmark interest rate was pegged to the interest rate for 1-year deposit and withdrawal in lump sum published by PBoC, and the basic spread was 2.00%. The issuance in second section was completed on September 25. This section's scale was RMB 2.7 billion, consisting entirely of bonds with fixed interest rate at 5.85%.

6. Punishment for the Commercial Banks, their Directors and/or Senior Managers by Related Regulatory and/or the Judiciary Authorities

Neither the Bank nor any of its Directors or Senior Managers has been subjected to serious punishment by the State Regulatory Authorities within the reporting period.

7. Engagement and Disengagement of Public Accounting Agencies

According to the resolution by the Sixth Meeting of the Fifth Board of Directors, the Bank continued to engage KPMG Huazhen accounting firm and KPMG accounting firm to audit the Bank's 2008 annual financial statements compiled in line with the 2006-issued Accounting Standards for Financial Enterprises, International Financial Reporting Standards and Generally Accepted Accounting Principle for US and issue audit reports. The engagement with each firm lasts for one year.

8. Other Important Events

January 16 State Administration of Foreign Exchange issued a recording notice, which approved GDB's business license of forward purchase/sale of Foreign Exchange.

January 18 PBoC issued Notice on Construction of SHIBOR (CBRC [2008] No.14), which approved GDB's license of Shibor Offering bank.

February 13 State Administration of Foreign Exchange approved GDB to be the member of Inter-bank Forward Foreign Exchange Market in China Foreign Exchange Trading Center.

July 8 GDB launched News Conference of Guangfa Hope Card and established "Guangfa Hope Charity Fund".

September 3-5 Credit Card Center passed the field audit on ISO quality management system's operation with the result of "Zero" non-conformity, which was conducted by external audit team of BSI (British Standards Institution) Certification Co., Ltd.

November 12 Hexun Website announced 2008 annual evaluation report on China's credit card, in which GDB credit card won two awards of "The Best Issuer Bank" and "The Best Platinum Card".

November 17 GDB's 15 outlets were entitled as "Model Units of Standardized Service in China Banking Industry" by Chinese Banking Association, and 21 outlets were entitled as "Model Units of Standardized Service" by banking associations at provincial level.

November 28 GDB's E-banking won award of "The Best Business Expansion in 2008 of National Commercial Banks" which was issued by China Finance Certification Authority (CFCA).

December 16 GDB won the award of "The Guangdong Benchmark Enterprise in 30 years' Reform and Opening up" hosted by "Nanfang Daily".

December 19 GDB was entitled as "The Advanced Collective for Earthquake Relief and Society Donation" by Guangdong Charity Federation.

December GDB won award of "The Most Promising Chinese Bank" amongst the Competitiveness Ranking of 2008 Asian Banks, which was jointly sponsored by Faculty of Business Administration of the Chinese University of Hong Kong and the domestic dominant financial media - "21st Century Economic Report ".

KPMG

Special Report on
2008 Internal Control and Risk Management System Assessment Report
of Guangdong Development Bank Co., Ltd.

KPMG-A (2009) OR No.0011

The Board of Directors of Guangdong Development Bank Co., Ltd.:

We were appointed by Guangdong Development Bank Co., Ltd. (referred to below as "the Bank") to audit its balance sheet as at 31 December 2008, and the income statement, the statement of changes in equity and the cash flow statement for the year then ended, and the explanatory notes to the financial statements (collectively referred to below as "the financial statements"), which were prepared in accordance with the China Accounting Standards for Business Enterprises (2006) issued by the Ministry of Finance of the People's Republic of China, and the unqualified audit report was issued on 17 March 2009. The Bank's management is responsible for the preparation of the financial statements and our responsibility is to express an opinion on the financial statements based on our audit.

In accordance with the requirements of Auditing Standard for Certified Public Accountants of China No. 1211 - "Understanding the entity and its environment and assessing the risks of material misstatement", we obtain an understanding of the internal controls relevant to the entity, and internal controls relevant to the audit of the Bank's financial statements in order to assess the risks of material misstatement of the financial statements, and to plan the nature, timing, and scope of further audit procedures. As part of the audit of the financial statements, we also performed test of control procedures in accordance with the relevant requirements of Auditing Standard for Certified Public Accountants of China No. 1231 - "Procedures in response to assessed risks of material misstatement". Our understanding and testing of the Bank's internal controls as mentioned above were not performed specifically for the purpose of expressing an opinion on the internal controls and were not for the purpose of identifying any defects, fraud, or corrupt practices existing within the internal control system. The Bank is responsible for the establishment of a sound internal control system. In the course of our understanding and testing of the internal controls as mentioned above, we took into account the Bank's actual circumstance, and performed procedures including enquiry, observation, examination, walkthrough of the processing of transactions in the financial reporting information system and re-performance of procedures, that we considered necessary.

System of internal controls are subject to inherent limitations, and accordingly, financial statement misstatements may occur and not be detected due to error or fraud. In addition, any projection of the effectiveness of internal control in the future based on the result of assessment of the current internal control entails certain level of risk as changes of the circumstances may result in the inappropriateness of the internal control or weaken its compliance with internal control policies and procedures. Consequently, an internal control that is effective in the current circumstance may not guarantee its effectiveness in the future.

In accordance with the Bank's appointment and the requirements of Notice on Standardizing the Content of Annual Report of Joint Stock Commercial Banks (Yin Jian Fa [2004] No.8) issued by the China Banking Regulatory Commission, we issue the following special report on the internal control and risk management system relevant to the preparation of financial statements as described in the 2008 Internal Control and Risk Management System Assessment Report of Guangdong Development Bank Co., Ltd. which is prepared by the Bank.

We have read the 2008 Internal Control and Risk Management System Assessment Report of Guangdong Development Bank Co., Ltd. prepared by the Bank's management. Based on the work we performed, we have not identified any significant inconsistencies between the Bank's internal control and risk management system relevant to the preparation of financial statements as described in the 2008 Internal Control and Risk Management System Assessment Report of Guangdong Development Bank Co., Ltd., and our audit findings based on our audit of the Bank's above-mentioned financial statements.

This report is intended solely for the use by the Bank to prepare its 2008 annual report and should not be used for any other purposes without our prior written consent.

KPMG Huazhen

Certified Public of Accountants
Registered in the People's Republic of China
Li Wan Wei

He Shan

8th Floor, Office Tower E2
Oriental Plaza
1 East Chang An Avenue
Beijing 100738
China

17 March 2009

This is a translation only. In case of discrepancy, the original version in Chinese shall prevail.

KPMG

Auditors' Report

All shareholders of Guangdong Development Bank Co. Ltd.:

We have audited the accompanying financial statements of Guangdong Development Bank Co. Ltd. ("the Bank") on pages 72 to 161, which comprise the balance sheet as at 31 December 2008, and the income statement, the statement of changes in shareholders' equity and cash flow statement for the year 2008, and notes to the financial statements.

1. Management's responsibility for the financial statements

The Bank's management is responsible for the preparation of these financial statements in accordance with the China Accounting Standards for Business Enterprises (2006) issued by the Ministry of Finance of the People's Republic of China. 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. Auditors' responsibility

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

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

3. Opinion

In our opinion, the Bank's financial statements comply with the requirements of the China Accounting Standards for Business Enterprises (2006) issued by the Ministry of Finance of the People's Republic of China and present fairly, in all material respects, the financial position of the Bank as at 31 December 2008, and the results of operations and cash flows of the Bank for the year 2008.

KPMG Huazhen

Certified Public Accountants
Registered in the People's Republic of China
Li Wan Wei

8th Floor, Office Tower E2
Oriental Plaza
1 East Chang An Avenue
Beijing 100738
China

He Shan

17 March 2009

These financial statements have been issued in Chinese. This English translation copy is prepared for reference only. If there is any conflict of meaning between the Chinese and English versions, the Chinese version will prevail.

Guangdong Development Bank Co., Ltd.

Balance sheet

as at 31 December 2008

(Expressed in thousands of Renminbi)

	Note	**2008**	**2007**
Assets			
Cash		2,249,273	2,116,919
Balances with central banks	6	61,385,225	59,477,657
Balances with financial institutions	7	3,785,583	3,515,749
Placements with financial institutions	8	16,412,333	12,972,244
Trading financial assets	9	2,999,080	3,133,945
Positive fair value of derivatives	52(d)	156,376	26,778
Balances under resale agreements of financial assets	10	64,851,478	50,485,991
Interest receivables	11	2,612,876	1,547,521
Loans and advances to customers	12	298,338,237	240,544,962
Available-for-sale financial assets	13	39,881,607	41,758,979
Held-to-maturity investments	14	30,770,132	-
Receivables investments	15	6,377,428	6,827,360
Long-term equity investments	16	4,100	4,100
Fixed assets	17	2,969,908	2,571,595
Construction in progress	18	54,903	243,473
Intangible assets	19	310,976	254,649
Long-term deferred expenses	20	459,567	334,351
Repossessed assets	21	55,064	26,371
Deferred tax assets	22	2,611,813	1,396,057
Other assets	23	9,729,390	10,488,044
Total assets		**546,015,349**	**437,726,745**

The notes on pages 82 to 161 form part of these financial statements.

Guangdong Development Bank Co., Ltd.
Balance sheet (continued)
as at 31 December 2008
(Expressed in thousands of Renminbi)

	Note	**2008**	**2007**
Liabilities and shareholders' equity			
Liabilities			
Deposits from financial institutions	25	51,054,132	39,188,991
Takings from financial institutions	26	11,863,236	432,760
Negative fair value of derivatives	52(d)	150,338	30,753
Balances under repurchase agreements of financial assets	27	44,271,061	21,566,178
Deposits from customers	28	404,654,710	352,735,392
Salaries and welfare payables	29	1,053,583	922,005
Tax payables	5(c)	1,604,350	2,095,162
Interest payables	30	4,243,380	2,454,075
Provision for contingencies	31	47,059	84,301
Subordinated bonds issued	32	5,000,000	-
Other liabilities	33	2,471,785	2,586,520
Total liabilities		**526,413,634**	**422,096,137**

The notes on pages 82 to 161 form part of these financial statements.

Guangdong Development Bank Co., Ltd.
Balance sheet (continued)
as at 31 December 2008
(Expressed in thousands of Renminbi)

	Note	**2008**	**2007**
Liabilities and shareholders' equity (continued)			
Shareholders' equity			
Share capital	34	11,408,423	11,408,423
Capital reserve	35	(32,219)	(17,052)
Surplus reserve	36	546,568	268,167
Statutory general risk reserve	37	4,233,000	3,524,660
Investment revaluation reserve	38	1,208,504	6,238
Retained earnings		2,237,439	440,172
Total shareholders' equity		19,601,715	15,630,608
Total liabilities and shareholders' equity		**546,015,349**	**437,726,745**

These financial statements have been approved by the Board of Directors of the Bank on 17 March 2009.

Li Ruohong
Authorised representative
(Signature and stamp)

Michael Zink
President
(Signature and stamp)

Edward Chou
Vice President and
Chief Financial Officer
(Signature and stamp)

Sun Fei
General Manager of the
Finance Department
(Signature and stamp)

Guangdong Development
Bank Co., Ltd.

(Company chop)

The notes on pages 82 to 161 form part of these financial statements.

Guangdong Development Bank Co., Ltd.
Income statement
for the year ended 31 December 2008
(Expressed in thousands of Renminbi)

	Note	**2008**	**2007**
Operating income			
Interest income		32,596,104	22,430,426
Interest expense		(16,879,626)	(11,107,551)
Net interest income	39	15,716,478	11,322,875
Fees and commission income		2,040,103	1,516,920
Fees and commission expense		(468,167)	(370,646)
Net fees and commission income	40	1,571,936	1,146,274
Investment income	41	268,399	61,988
Gain/(loss) arising from changes in fair value	42	39,178	(141,048)
Foreign exchange gain/(loss)		102,024	(36,162)
Other operating income		12,976	14,066
Operating income		**17,710,991**	**12,367,993**

The notes on pages 82 to 161 form part of these financial statements.

Guangdong Development Bank Co., Ltd.
Income statement (continued)
for the year ended 31 December 2008
(Expressed in thousands of Renminbi)

	Note	**2008**	**2007**
Operating income		**17,710,991**	**12,367,993**
Operating expenses			
Business taxes and surcharges		(1,296,719)	(894,072)
Operating and administrative expenses	43	(6,530,295)	(5,565,209)
Allowances for asset impairment	44	(6,865,318)	(967,538)
Other operating cost		(41,503)	(29,620)
Operating expenses		**(14,733,835)**	**(7,456,439)**
Operating profit		**2,977,156**	**4,911,554**
Add: Non-operating income	45	194,576	186,279
Less: Non-operating expenses	46	(88,101)	(109,825)
Gross profit		3,083,631	4,988,008
Less: Income tax expense	47	(299,623)	(2,306,343)
Net profit		**2,784,008**	**2,681,665**

These financial statements have been approved by the Board of Directors of the Bank on 17 March 2009.

Li Ruohong
Authorised representative
(Signature and stamp)

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President
(Signature and stamp)

Edward Chou
Vice President and
Chief Financial Officer
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Sun Fei
General Manager of the
Finance Department
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Guangdong Development
Bank Co., Ltd.

(Company chop)

The notes on pages 82 to 161 form part of these financial statements.

Guangdong Development Bank Co., Ltd.
Cash flow statement
for the year ended 31 December 2008
(Expressed in thousands of Renminbi)

	Note to the cash flow statement	2008	2007
Cash flow from operating activities			
Interest, fees and commission received		31,282,190	21,870,797
Net balances with banks and other financial institutions		476,940	2,153,118
Net cash received from banks and other financial institutions		11,865,141	7,300,651
Net takings from banks and other financial institutions		11,430,476	-
Net balances under repurchase agreements		22,704,883	18,857,418
Net amount of deposits from customers		51,919,318	33,534,888
Recoveries of prior year written-off loans		26,290	-
Net cash received from other operating activities		479,682	48,899
Sub-total of cash inflows		130,184,920	83,765,771
Interest, fees and commission paid		(15,557,579)	(10,825,354)
Net change in balances with central bank		(4,403,467)	(17,784,717)
Net placements with banks and other financial institutions		(8,092,208)	(3,381,885)
Net balances under resale agreements		(23,302,643)	(19,727,837)
Net change in loans and advances to customer		(64,405,618)	(31,061,994)
Net takings from banks and other financial institutions		-	(75,719)
Cash paid to and for employees		(3,306,796)	(2,184,582)
Cash paid for all types of taxes		(3,405,162)	(2,022,693)
Net cash paid for other operating activities		(3,257,574)	(2,471,626)
Sub-total of cash outflows		(125,731,047)	(89,536,407)
Net cash flow from operating activities	**48(a)**	**4,453,873**	**(5,770,636)**

The notes on pages 82 to 161 form part of these financial statements.

Guangdong Development Bank Co., Ltd.
Cash flow statement (continued)
for the year ended 31 December 2008
(Expressed in thousands of Renminbi)

	Note to the cash flow statement	2008	2007
Cash flow from investing activities			
Cash received from disposal of investments		298,933,549	130,981,142
Cash received from interest on debt securities		1,943,319	1,309,069
Cash received from interest on dividend income		1,400	2,310
Cash received from disposal of fixed assets and other long-term assets		23,472	141,113
Sub-total of cash inflows		300,901,740	132,433,634
Cash paid for purchase of investments		(325,656,830)	(124,482,424)
Cash paid for purchase of fixed assets and other long-term assets		(871,188)	(439,863)
Sub-total of cash outflows		(326,528,018)	(124,922,287)
Net cash flow from investing activities		**(25,626,278)**	**7,511,347**

The notes on pages 82 to 161 form part of these financial statements.

Guangdong Development Bank Co., Ltd.
Cash flow statement (continued)
for the year ended 31 December 2008
(Expressed in thousands of Renminbi)

	Note to the cash flow statement	2008	2007
Cash flow from financing activities			
Cash received from issuance of subordinated bonds		5,000,000	-
Cash paid to issuance cost of subordinated bonds		(15,000)	-
Cash received from settlement of receivables on transfer of non-performing assets		1,269,693	-
Net cash flow from financing activities		6,254,693	-
Effect of foreign exchange rate changes on cash		(288,334)	(385,807)
Net decrease/increase in cash and cash equivalents	48(b)	(15,206,046)	1,354,904
Add: Cash and cash equivalents at the beginning of the year		57,600,044	56,245,140
Cash and cash equivalents at the end of the year	**48(c)**	**42,393,998**	**57,600,044**

These financial statements have been approved by the Board of Directors of the Bank on 17 March 2009.

Li Ruohong
Authorised representative
(Signature and stamp)

Michael Zink
President
(Signature and stamp)

Edward Chou
Vice President and
Chief Financial Officer
(Signature and stamp)

Sun Fei
General Manager of the
Finance Department
(Signature and stamp)

Guangdong Development
Bank Co., Ltd.

(Company chop)

The notes on pages 82 to 161 form part of these financial statements.

Financial Statements

Guangdong Development Bank Co., Ltd.
Statement of changes in shareholders' equity
for the year ended 31 December 2008

(Expressed in thousands of Renminbi)

	Note	Share capital	Capital reserve	Surplus reserve	Statutory general risk reserve	Investment revaluation reserve	Retained earnings	Total
31 December 2007		11,408,423	(17,052)	266,816	3,524,660	-	244,341	15,427,188
Changes in accounting policies		-	-	1,351	-	6,238	195,831	203,420
1 January 2008		11,408,423	(17,052)	268,167	3,524,660	6,238	440,172	15,630,608
Current year movements:								
1. Net profit		-	-	-	-	-	2,784,008	2,784,008
2. Gains and losses recognised directly in shareholders' equity								
- Net changes in fair value of available-for-sale financial assets		-	-	-	-	1,281,792	-	1,281,792
- Realisation of net gain on disposal of - available- for-sale financial assets		-	-	-	-	(55,513)	-	(55,513)
- Amortisation of changes in fair value - of investments reclassified from-available-for-sale to held-to -maturity		-	-	-	-	(36,013)	-	(36,013)
- Transfer out changes in fair value on - impairment of available-for-sale - financial assets		-	-	-	-	12,000	-	12,000
- Exchange difference		-	(15,167)	-	-	-	-	(15,167)
Sub-total of item 1 and item 2 above:		-	(15,167)	-	-	1,202,266	2,784,008	3,971,107
3. Profit appropriations								
- Appropriation to statutory surplus reserve	36	-	-	278,401	-	-	(278,401)	-
- Appropriation to statutory risk general reserve	37	-	-	-	708,340	-	(708,340)	-
31 December 2008		**11,408,423**	**(32,219)**	**546,568**	**4,233,000**	**1,208,504**	**2,237,439**	**19,601,715**

The notes on pages 82 to 161 form part of these financial statements.

Guangdong Development Bank Co., Ltd.
Statement of changes in shareholders' equity (continued)
for the year ended 31 December 2008
(Expressed in thousands of Renminbi)

	Note	Share capital	Capital reserve	Surplus reserve	Statutory general risk reserve	Investment revaluation reserve	Retained earnings	Total
31 December 2006		11,408,423	(7,109)	-	1,284,002	-	83,659	12,768,975
Changes in accounting policies		-	-	-	-	164,951	183,673	348,624
1 January 2007		11,408,423	(7,109)	-	1,284,002	164,951	267,332	13,117,599
Current year movements:								
1. Net profit		-	-	-	-	-	2,681,665	2,681,665
2. Gains and losses recognised directly in shareholders' equity								
- Effect of change in tax rate		-	-	-	-	19,696	-	19,696
- Net changes in fair value of available-for-sale financial assets		-	-	-	-	(124,597)	-	(124,597)
- Realisation of net gain on disposal of available-for-sale financial assets		-	-	-	-	(73,672)	-	(73,672)
- Transfer out accumulated changes in fair value on impairment of available-for-sale financial assets		-	-	-	-	19,860	-	19,860
- Exchange difference		-	(9,943)	-	-	-	-	(9,943)
Sub-total of item 1 and item 2 above:		-	(9,943)	-	-	(158,713)	2,681,665	2,513,009
3. Profit appropriations								
- Appropriation to statutory surplus reserve	36	-	-	268,167	-	-	(268,167)	-
- Appropriation to statutory general risk reserve		-	-	-	2,240,658	-	(2,240,658)	-
31 December 2007		**11,408,423**	**(17,052)**	**268,167**	**3,524,660**	**6,238**	**440,172**	**15,630,608**

These financial statements have been approved by the Board of Directors of the Bank on 17 March 2009.

Li Ruohong
Authorised representative
(Signature and stamp)

Michael Zink
President
(Signature and stamp)

Edward Chou
Vice President and
Chief Financial Officer
(Signature and stamp)

Sun Fei
General Manager of the
Finance Department
(Signature and stamp)

Guangdong Development
Bank Co., Ltd.

(Company chop)

The notes on pages 82 to 161 form part of these financial statements.

Guangdong Development Bank Co., Ltd.
Notes on the financial statements
(Expressed in thousands of Renminbi unless otherwise stated)

1 Basic information

Guangdong Development Bank Co., Ltd. ("the Bank") is a joint stock commercial bank with limited liability incorporated in Guangzhou Municipal of Guangdong Province in the People's Republic of China ("the PRC") on 8 September 1988 with the approval of the State Council and the People's Bank of China ("the PBOC").

As at 31 December 2008, apart from the Head Office, the Bank has set up 27 branches in Beijing, Shanghai, Dalian, Shenyang, Zhengzhou, Nanjing, Hangzhou, Kunming, Guangzhou, Shenzhen, Dongguan, Zhuhai, Shantou, Meizhou, Huizhou, Shaoguan, Qingyuan, Zhongshan, Foshan, Jiangmen, Zhaoqing, Yangjiang, Zhanjiang, Wuhan, Maoming, Heyuan and Macau respectively. In addition, the Bank has representative offices in Beijing and Hong Kong.

The Bank's principal activities include the taking of deposits from the public, extension of loans, settlement, bill discounting, acting as issue and acceptance agent and underwriter for government debts and marketable securities other than shares, purchase and sale of government debts and marketable securities other than shares, issuance of credit cards, offshore business, and other Renminbi ("RMB") and foreign currency businesses approved by the PBOC and the China Banking Regulatory Commission ("the CBRC").

2 Basis of preparation

(a) Statement of compliance

The financial statements have been prepared in accordance with the requirements of the China Accounting Standards for Business Enterprises ("CAS (2006)") issued by the Ministry of Finance ("the MOF"). These financial statements present truly and completely the financial position, the results of operations and the cash flows of the Bank.

(b) Accounting year

The accounting year of the Bank is from 1 January to 31 December.

(c) Measurement basis

The measurement basis used in the preparation of the financial statements is historical cost basis except that the assets and liabilities set out below:

- Financial assets and financial liabilities at fair value through profit or loss (including financial assets or financial liabilities held for trading) (See Note 3(j))

- Available-for-sale financial assets (See Note 3(j))

2 Basis of preparation (continued)

(d) Functional currency and presentation currency

The Bank's functional currency is RMB. These financial statements are presented in RMB. As the Bank's Macau Branch adopts a currency other than RMB as its functional currency, the Bank has translated the foreign currency denominated financial statements of Macau Branch into RMB when preparing these financial statements (see Note 3(b)).

3 Significant accounting policies and accounting estimates

(a) Basis of preparing combined financial statements of the Bank

The combined financial statements of the Bank are prepared based on the information from the financial statements of the Head Office and branches and other information. All significant intra-bank transactions and balances have been eliminated on combination.

(b) Translation of foreign currencies

When the Bank receives capital in foreign currencies from investors, the capital is translated to RMB at the spot exchange rate on the date of the receipt. Other foreign currency transactions are, on initial recognition, translated to RMB at the spot exchange rates or the rates that approximate the spot exchange rates on the dates of the transactions.

A spot exchange rate is an exchange rate quoted by the PBOC. A rate that approximates the spot exchange rate is a rate determined under a systematic and rational method, normally the average exchange rate of the current period.

Monetary items denominated in foreign currencies are translated to RMB at the spot exchange rate at the balance sheet date. The resulting exchange differences are recognised in profit or loss, except those arising from the principals and interests on foreign currency borrowings specifically for the purpose of acquisition, construction of qualifying assets. Foreign currency non-monetary items are measured at historical cost and the amounts in functional currency remain unchanged. Non-monetary items denominated in foreign currencies that are measured at fair value are translated using the foreign exchange rate at the date when the fair value is determined; the exchange differences are recognised in profit or loss, except for the differences arising from the translation of available-for-sale financial assets, which is recognised in capital reserve.

3 Significant accounting policies and accounting estimates (continued)

(b) Translation of foreign currencies (continued)

The assets and liabilities of foreign operation are translated to RMB at the spot exchange rates on the balance sheet date. The equity items, excluding "Retained earning", are translated to RMB at the spot exchange rates on the transaction dates. The income and expenses of foreign operation are translated to RMB at the spot exchange rates or the rates that approximate the spot exchange rates on the transaction dates. The resulting exchange differences are recognised in a separate component of equity. Upon disposal of a foreign operation, the cumulative amount of the exchange differences recognised in equity which relate to that foreign operation is transferred to profit or loss in the period in which the disposal occurs.

(c) Cash and Cash equivalents

Cash and cash equivalents comprise cash on hand, demand deposits, non-restricted balances with central banks, banks and non-bank financial institutions, and short-term, highly liquid investments and financial assets under resale agreements that are readily convertible into known amounts of cash and are subject to an insignificant risk of change in value.

(d) Long-term equity investments

In the Bank's financial statements, investments in subsidiaries are accounted for using the cost method. The investments are stated at cost less impairment losses (see Note 3(i)) in the balance sheet. An investment in a subsidiary acquired otherwise than through a business combination is initially recognised at actual payment cost if the Bank acquires the investment by cash.

(e) Fixed assets and construction in progress

Fixed assets represent the tangible assets held by the Bank for use for operation and administrative purposes with useful lives over one year.

Fixed assets are stated in the balance sheet at cost less accumulated depreciation and impairment losses (see Note 3(i)). Construction in progress is stated in the balance sheet at cost less impairment losses (see Note 3(i)).

The cost of a purchased fixed asset comprises the purchase price, related taxes, and any directly attributable expenditure for bringing the asset to working condition for its intended use. The cost of self-constructed assets includes the cost of materials, direct labour, capitalised borrowing costs, and any other costs directly attributable to bringing the asset to working condition for its intended use.

Construction in progress is transferred to fixed assets when it is ready for its intended use. No depreciation is provided against construction in progress.

3 Significant accounting policies and accounting estimates (continued)

(e) Fixed assets and construction in progress (continued)

Where the individual component parts of an item of fixed asset have different useful lives or provide benefits to the Bank in different patterns thus necessitating use of different depreciation rates or methods, they are recognised as a separate fixed asset.

The subsequent costs including the cost of replacing part of an item of fixed assets are recognised in the carrying amount of the item if the recognition criteria are satisfied, and the carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of fixed assets are recognised in profit or loss as incurred.

Gains or losses arising from the retirement or disposal of an item of fixed assets are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Fixed assets are depreciated using the straight-line method over their estimated useful lives. The estimated useful lives, residual values and depreciation rates of each class of fixed assets are as follows:

	Estimated useful life	Estimated residual value	Depreciation rate
Plants and buildings	30-35 years	5%	3%
Electronic equipment	5 years	5%	19%
Transportation and other equipment	5 years	5%	19%

Useful lives, residual values and depreciation methods are reviewed at at least each year-end.

(f) Intangible assets

Intangible assets are stated in the balance sheet at cost less accumulated amortisation and impairment losses (see Note 3(i)). For an intangible asset with finite useful life, its cost less impairment loss is amortised on the straight-line method over its estimated useful life. The respective amortisation periods for such intangible assets are as follows:

Types of assets	Estimated useful life
Land use rights	30-50 years
Software	5 years
Others	5 years

An intangible asset is regarded as having an indefinite useful life and is not amortised when there is no foreseeable limit to the period over which the asset is expected to generate economic benefits for the Bank. At the balance sheet date, the Bank doesn’t have any intangible assets with indefinite useful lives.

3 Significant accounting policies and accounting estimates (continued)

(g) Long-term deferred expenses

Long-term deferred expenses are stated in the balance sheet at cost less accumulated amortization and impairment loss (See Note 3(i)).

Long-term deferred expenses are amortized at cost less impairment loss using straight-line method over the period they are expected to generate economic benefits for the Bank. The amortization periods of each class of long-term deferred expenses are as follows;

	Amortization period
Leasehold improvement	3-15 years
Rental prepayment	2-10 years
Others	2-17 years

Deferred expenses that are not expected to generate economic benefits in the succeeding accounting period is recognized in profit or loss accounts immediately.

(h) Repossessed assets

Repossessed assets are collaterals related to loans and advances to customers. The Bank collects these collaterals according to the agreement between the Bank and the debtor or the court ruling as a result of the debtor's default on loan repayment due to financial deterioration.

Repossessed assets are stated in the balance sheet at cost less impairment loss (See Note 3(i)).

Repossessed assets are initially recognised at the carrying amount of the loan principal and interest receivable less the corresponding loan provision balance, plus any taxes and other costs paid for the seizure of the assets.

Repossessed assets are not depreciated or amortized.

(i) Impairment of non-financial assets

The carrying amounts of the following assets are reviewed at each balance sheet date based on the internal and external sources of information to determine whether there is any indication of impairment:

- Long-term equity investment in subsidiaries
- fixed assets
- construction in progress
- intangible assets
- long-term deferred expenses
- repossessed assets

3 Significant accounting policies and accounting estimates (continued)

(i) Impairment of non-financial assets (continued)

If any indication exists that an asset or asset group may be impaired, recoverable amount of the asset is estimated. In addition, for intangible assets with indefinite useful lives or not ready for their intended use, the Bank estimates their recoverable amount at least each year, irrespective of whether there is any indication of impairment or not.

An asset group is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or asset groups. An asset group is composed of assets directly relating to cash-generation. Identification of an asset group is based on whether major cash inflows generated by the asset group are largely independent of the cash inflows from other assets or asset groups. In identifying an asset group, the Bank also considers how management monitors the Bank's operations and how management makes decisions about continuing or disposing of the Bank's assets.

The recoverable amount of an asset, asset group or set of asset groups is the higher of its fair value less costs to sell and its present value of expected future cash flows.

An asset's fair value less costs to sell is the amount determined by the price of a sale agreement in an arm's length transaction, less the costs that are directly attributable to the disposal of the asset. The present value of expected future cash flows of an asset is determined by discounting the future cash flows, estimated to be derived from continuing use of the asset and from its ultimate disposal, to their present value using an appropriate pre-tax discount rate.

An impairment loss is recognised if the carrying amount of an asset exceeds its recoverable amount. The carrying amount of the asset is then deducted to the recoverable amount with the deduction recognized as impairment loss in profit or loss. A provision for impairment loss of the asset is recognised accordingly.

An impairment loss is not reversed in subsequent periods.

(j) Financial instruments

Financial instruments comprise cash at bank and on hand, debt securities investments and equity securities investments other than long-term equity investments, receivables, payables, subordinated bonds issued and share capital, etc.

(i) Initial recognition of financial assets and financial liabilities

A financial asset or financial liability is recognised in the balance sheet when the Bank becomes a party to the contractual provisions of financial instruments related.

The Bank classifies financial assets and liabilities into different categories at initial recognition based on the purpose of acquiring assets or assuming liabilities: financial assets and financial liabilities at fair value through profit or loss, held-to-maturity investments, loans and receivables, available-for-sale financial assets and other financial liabilities.

3 Significant accounting policies and accounting estimates (continued)

(j) *Financial instruments (continued)*

(i) Initial recognition of financial assets and financial liabilities (continued)

Financial assets and financial liabilities are measured initially at fair value. For financial assets and financial liabilities at fair value through profit or loss, any directly attributable transaction costs are charged to profit or loss; for other categories of financial assets and financial liabilities, any attributable transaction costs are included in their initial costs.

(ii) Categorisation of financial assets and financial liabilities

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

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

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

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

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

- a derivative (except for a derivative that is a designated and effective hedging instrument, or a financial guarantee contract, or a derivative that is linked to and must be settled by delivery of an unquoted equity instrument (without a quoted price from an active market) whose fair value cannot be reliably measured).

Financial assets and financial liabilities are designated at fair value through profit or loss upon initial recognition when one of the following criteria are met:

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

3 Significant accounting policies and accounting estimates (continued)

(j) Financial instruments (continued)

(ii) Categorisation of financial assets and financial liabilities (continued)

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

- a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis, and information about the group is reported on that basis to the Bank's key management personnels. Formal documentation has been prepared with respect to such risk management or investment strategy; or

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

  - the embedded derivative(s) does not significantly modify the cash flows that otherwise would be required by the contract; or
  - it is clear with little or no analysis when a similar hybrid (combined) instrument is first considered that separation of the embedded derivative(s) is prohibited.

Held-to-maturity investments

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

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than (a) those that the Bank intends to sell immediately or in the near term; (b) those that the Bank, upon initial recognition, designates as at fair value through profit or loss or as available-for-sale; or (c) those where the Bank may not recover substantially all of its initial investment, other than because of credit deterioration.

Available-for-sale financial assets

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

3 Significant accounting policies and accounting estimates (continued)

(j) Financial instruments (continued)

(ii) Categorisation of financial assets and financial liabilities (continued)

Other financial liabilities

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

(iii) Subsequent measurement of financial assets and financial liabilities

Subsequent to initial recognition, financial assets and financial liabilities are measured at fair value without any deduction for transaction costs that may occur on sale or other disposal, except:

- Receivables and held-to-maturity investments are stated at amortised cost using the effective interest method;

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

- Financial guarantee contracts that are not designated as financial liabilities at fair value through profit or loss are measured at the higher of the amount initially recognised less accumulated amortisation and the amount of a provision (see Note 3(m)(i)) determined in accordance with the principles of contingent liabilities. Financial guarantees are contracts that require the issuer (i.e. the guarantor) to make specified payments to reimburse the beneficiary of the guarantee (the holder) for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument; or

- Except for the other financial liabilities described above, subsequent to initial recognition, other financial liabilities are measured at amortised cost using the effective interest method.

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

For financial assets and liabilities carried at amortised cost, a gain or loss is recognised in the income statement when the financial asset or liability is derecognised, impaired and amortised.

3 Significant accounting policies and accounting estimates (continued)

(j) Financial instruments (continued)

(iv) Impairment of financial assets

The carrying amounts of financial assets (other than those at fair value through profit or loss) are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such evidence exists, impairment loss is provided.

Objective evidence that a financial asset is impaired is one or more events that occurred after the initial recognition of the financial asset and that event has an impact on the estimated future cash flows of the financial assets which can be reliably estimated. Objective evidence that a financial asset is impaired includes the following events:

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

3 Significant accounting policies and accounting estimates (continued)

(j) Financial instruments (continued)

(iv) Impairment of financial assets (continued)

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

Receivables and held-to-maturity investments

Held-to-maturity investments and receivables are assessed for impairment both on an individual basis and on a collective group basis.

An impairment loss in respect of a receivable or held-to-maturity investment is calculated as the excess of its carrying amount over the present value of the estimated future cash flows (exclusive of future credit losses that have not been incurred) discounted at the original effective interest rate. All impairment losses are recognised in profit or loss.

Present value of estimated future cash flows is discounted at the financial asset's original effective interest rate and includes the value of any related collateral (after deducting the cost in obtaining and selling the collateral). The original effective interest rate is the effective interest rate computed at initial recognition of the financial asset. For those loans, receivables or held-to-maturity investments having a variable interest rate, the Bank uses the current effective interest rates stipulated in the contract as the discount rate to calculate the present value of future cash flows.

If the difference between the expected future cash flows of a short-term receivable and their present value is insignificant, the future cash flows will not be discounted when assessing the impairment loss of such short-term receivable.

For a held-to-maturity investment or a receivable that is individually significant, the Bank assesses its impairment individually. For a held-to-maturity investment or a receivable that is individually insignificant, the Bank will include the asset in a group of financial assets with similar credit risk characteristics and collectively assess them for impairment.

If no objective evidence of impairment exists for an individually assessed held-to-maturity investment or receivable (whether it is individually significant or not individually significant), the Bank will include the asset in a group of financial assets with similar credit risk characteristics and collectively assess them for impairment. A held-to-maturity investment or receivable for which an impairment loss is individually recognized will not be included in a collective assessment of impairment.

3 Significant accounting policies and accounting estimates (continued)

(j) Financial instruments (continued)

(iv) Impairment of financial assets (continued)

Receivables and held-to-maturity investments (continued)

The assessment is made collectively where receivables share similar credit risk characteristics (including those having not been individually assessed as impaired), based on their historical loss experiences, and adjusted by the observative figures reflecting present economic conditions.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss will not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

Available-for-sale financial assets

Available-for-sale financial assets are assessed for impairment on an individual basis.

When an available-for-sale financial asset is impaired, the cumulative loss arising from decline in fair value that has been recognised directly in equity is removed from equity and recognised in profit or loss even though the financial asset has not been derecognised. The amount of the cumulative loss that is removed from equity is the difference between the acquisition cost net of any principal repayment and amortization and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss.

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

3 Significant accounting policies and accounting estimates (continued)

(j) Financial instruments (continued)

(v) Determination of fair values

If there is an active market for a financial asset or financial liability, the quoted price in the active market without adjusting for transaction costs that may be incurred upon future disposal or settlement is used to establish the fair value of the financial asset or financial liability. For a financial asset held or a financial liability to be assumed, the quoted price is the current bid price and, for a financial asset to be acquired or a financial liability assumed, it is the current asking price. Quoted prices from an active market are prices that are readily and regularly available from an exchange, broker, industry group or pricing service agency etc., and represent prices of actual market transactions on an arm's length basis.

If no active market exists for a financial instrument, a valuation technique is used to establish the fair value. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties; reference to the current fair value of another instrument that is substantially the same; discounted cash flow analysis and option pricing models. The Bank calibrates the valuation technique and tests it for validity periodically.

When the Bank is using a valuation technique to establish the fair value of a financial instrument, the valuation technique shall whenever possibly incorporate all factors that market participants would consider in setting a price of the instrument, including but not limit to such factors as risk-free interest rate, credit risk, exchange rate and expected rate of price changes of financial instruments.

In applying discounted cash flow analysis to determine the fair value of a financial instrument, the expected cash flow will adopt the Bank management's best estimation, and the discount rates shall equal to the prevailing rates of return for financial instruments having substantially the same terms and characteristics.

(vi) Derecognition of financial assets and financial liabilities

Financial asset

A financial asset is derecognised when one of the following criteria are met:

- the Bank's contractual rights to the cash flows from the financial asset expire;
- the Bank transfers substantially all the risks and rewards of ownership of the financial asset to another party; or
- the Bank neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset, while the Bank has not retained control of the financial asset.

3 Significant accounting policies and accounting estimates (continued)

(j) Financial instruments (continued)

(vi) Derecognition of financial assets and financial liabilities (continued)

Financial asset (continued)

Where a transfer of a financial asset in its entirely meets the criteria of the derecognition, the difference between the two amounts below is recognised in profit or loss:

- carrying amount of the financial asset transferred

- the sum of the consideration received from the transfer and any cumulative gain or loss that has been recognised directly in shareholders' equity.

Financial liability

The Bank derecognises a financial liability (or part of it) only when the underlying present obligation (or part of it) is discharged.

(vii) Offsetting

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

(viii) Derivative financial instruments

The Bank uses derivative financial instruments by request of its customers or for the Bank's risk management purpose. In accordance with its treasury policy, the Bank generally does not hold or issue derivative financial instruments for trading purpose. However, derivatives that do not qualify for hedge accounting are accounted for as trading financial assets and financial liabilities.

Derivative financial instruments are recognised at fair value. The gain or loss on re-measurement to fair value is recognised immediately in the income statement.

The Bank does not hold any derivative financial instruments which qualified for hedge accounting.

3 Significant accounting policies and accounting estimates (continued)

(k) *Resale and repurchase agreements*

Assets purchased subject to agreements to resell them at future dates ("resale agreements") are not recognised. Resale agreements are reported at the amount of the proceeds from the sale of the assets after deduction of impairment allowance in the balance sheet. Assets sold subject to a simultaneous agreements to repurchase at a later date at a fixed price ("repurchase agreements") continue to be recognised in the financial statements and are measured in accordance with the accounting policy for such assets. Repurchase agreements are reported at the amount of the payment made for the purchase of the assets in the balance sheet.

The difference between the sale and repurchase considerations, and that between the purchase and resale considerations, are amortised over the period of the respective transaction using the effective interest method and are included in interest income and interest expense respectively.

(l) *Employee benefits*

Employee benefits are all forms of considerations given and other related expenditures incurred in exchange for services rendered by employees. Except for termination benefits, employee benefits are recognised as a liability in the period in which the associated services are rendered by employees, with a corresponding increase in cost of relevant assets or expenses in the current period.

(i) Retirement benefits

Pursuant to the relevant laws and regulations of the PRC, the Bank has joined a defined contribution basic retirement scheme for the employees arranged by local Labour and Social Security Bureaus. The Bank makes contributions to the retirement scheme at the applicable rates based on the amounts stipulated by the government organisation. The contributions are charged to profit or loss on an accrual basis. When employees retire, the local Labour and Social Security Bureaus are responsible for the payment of the basic retirement benefits to the retired employees.

(ii) Housing fund and other social insurances

Besides the retirement benefits, pursuant to the relevant laws and regulations of the PRC, the Bank has joined defined social security contributions for employees, such as a housing fund, basic medical insurance, unemployment insurance, injury insurance and maternity insurance. The Bank makes contributions to the housing fund and other social insurances mentioned above at the applicable rate(s) based on the employees' salaries. The contributions are recognised as cost of assets or charged to profit or loss on an accrual basis.

3 Significant accounting policies and accounting estimates (continued)

(l) Employee benefits (continued)

(iii) Termination benefits

When the Bank terminates the employment relationship with employees before the employment contracts have expired, or provides compensation as an offer to encourage employees to accept voluntary redundancy, a provision for the termination benefits provided, is recognised in profit or loss when both of the following conditions have been satisfied:

- The Bank has a formal plan for the termination of employment or has made an offer to employees for voluntary redundancy, which will be implemented shortly; and

- The Bank is not allowed to withdraw from termination plan or redundancy offer unilaterally.

(m) Provisions and contingent liabilities

(i) Financial guarantee issued

Financial guarantees are contracts that require the guarantor (the "issuer") to make specified payments to reimburse the beneficiary of the guarantee (the "holder") for a loss the holder incurs when a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Where the Bank issues a financial guarantee to customers, the fair value of the guarantee (being the guarantee fees received) is initially recognised as deferred income in "Other liabilities and provisions". The deferred income is amortised over the term of the guarantee and is recognised in the income statement as income from financial guarantees issued. In addition, provisions are recognised in the balance sheet in accordance with Note 3(j)(viii) if and when (a) it becomes probable that the holder of the guarantee will call upon the Bank under the guarantee, and (b) the amount of that claim on the Bank is expected to exceed the carrying amount of the deferred income.

(ii) Other provision and contingent liabilities

A provision is recognised in the balance sheet when the Bank has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation and the related amount could be measured reliably. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events, are also needed to be disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

3 Significant accounting policies and accounting estimates (continued)

(n) Income recognition principles

Provided it is probable that the economic benefits will flow to the Bank and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in the income statement as follows:

(i) Interest income

Interest income for all interest-bearing assets is recognised in the income statement using the effective interest rate method or an applicable floating rate on an accrual basis. Interest income (including interest income arising from dealing securities) includes the amortisation of any discount or premium or other differences between the initial carrying amount of an interest-bearing instrument and its amount at maturity calculated on an effective interest rate basis.

The effective interest rate method is a method of calculating the amortised cost of a financial asset and of allocating the interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset. When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

The accrual of interest income of an impaired customer loan based on the original terms of the claim is discontinued. Instead, interest income will continue to be recognised on the impaired financial assets using the interest rate used to discount future cash flows ("unwinding of discount") for the purpose of measuring the related impairment loss.

(ii) Fees and commission income

Fees and commission income is recognised on an accrual basis when the corresponding service is provided. Origination or commitment fee collected by the Bank for creation or acquisition of a financial asset is deferred and recognised as an adjustment to the effective interest rate. If the commitment expires without the Bank making a loan, the fee is recognised as revenue on expiry.

(o) Operating leases

Lease payments made are recognised in the income statement on a straight-line basis over the terms of the leases.

3 Significant accounting policies and accounting estimates (continued)

(p) Income tax

Current tax and deferred tax are recognised in profit or loss except to the extent that they relate to items recognised directly in equity, in which case they are recognised in equity.

Current tax is the expected tax payable calculated at the applicable tax rate on taxable income for the year, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases, which include the deductible losses and tax credits carry-forward to subsequent periods. Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which deductible temporary differences can be utilised.

At the balance sheet date, the amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates that are expected to be applied in the period when the asset is realised or the liability is settled in accordance with tax laws.

(q) Dividends appropriated to investors

Dividends or distributions of profits proposed in the profit appropriation plan which will be authorised and declared after the balance sheet date, are not recognised as a liability at the balance sheet date but disclosed in the notes separately.

(r) Entrusted lending business

The Bank enters into entrusted loan agreements with a number of customers, whereby the customers provide funding ("the entrusted funds") to the Bank, and the Bank extends loans to third parties ("the entrusted loans") at the instruction of the customers. As the Bank does not assume the risks and rewards of the entrusted loans and the corresponding entrusted funds, entrusted loans and funds are recorded as off-balance sheet items at their principal amount and no allowances for impairment are made for these entrusted loans.

(s) Related parties

If the Bank has the power to control, jointly control or exercise significant influence over another party, or vice versa, or where the Bank and one or more parties are subject to common control, jointly control, or significant influence from another party, they are considered to be related parties. Related parties may be individuals or enterprises. Enterprises with which the Bank is under common control only from the State and that have no other related party relationships are not regarded as related parties of the Bank. The Bank's related parties include, but are not limited to:

3 Significant accounting policies and accounting estimates (continued)

(s) Related parties (continued)

(a) the Bank's parent

(b) the Bank's subsidiaries

(c) enterprises that are controlled by the Bank's parent

(d) investors that have joint control over the Bank

(e) investors that exercise significant influence over the Bank

(f) joint ventures of the Bank

(g) associates of the Bank

(h) principal individual investors and close family members of such individuals

(i) key management personnel of the Bank and close family members of such individuals

(j) key management personnel of the Bank's parent

(k) close family members of key management personnel of the Bank's parent

(l) other enterprises that are controlled, jointly controlled or significantly influenced by principal individual investors, key management personnel of the Bank, and close family members of such individuals.

(t) Significant accounting estimates and judgments

The preparation of financial statements requires management to make estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

(i) Impairment of receivables and held-to-maturity financial assets

As described in Note 3(j)(iv), receivables and held-to-maturity financial assets that are measured at amortisation cost are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such evidence exists, impairment loss is provided. Objective evidence of impairment includes observable data that comes to the attention of the Bank about loss events such as a significant decline in the estimated future cash flow of an individual debtor or the portfolio of debtors, and significant changes in the financial condition that have an adverse effect on the debtor. If there is an indication that there has been a change in the factors used to determine the provision for impairment, the impairment loss recognised in prior years is reversed.

(ii) Impairment of available-for-sale investments

For available-for-sale investments, a significant or prolonged decline in fair value below cost is considered to be objective evidence of impairment. Judgement is required when determining whether a decline in fair value has been significant or prolonged. In making this judgement, the historical data on market volatility as well as in the share price of the specific equity investment are taken into account. The Bank also takes into account other factors, such as industry and sector performance and financial information regarding the investee.

3 Significant accounting policies and accounting estimates (continued)

(t) Significant accounting estimates and judgments (continued)

(iii) Impairment of non-financial assets

As described in Note 3(i), non-financial assets are reviewed at each balance sheet date to determine whether the carrying amount exceeds the recoverable amount of the assets. If any such indication exists, impairment loss is provided.

The recoverable amount of an asset (asset group) is the greater of its net selling price and its present value of expected future cash flows. Since a market price of the asset (the asset group) cannot be obtained reliably, the fair value of the asset cannot be estimated reliably. In assessing value in use, significant judgements are exercised over the asset's production, selling price, related operating expenses and discounting rate to calculate the present value. All relevant materials which can be obtained are used for estimation of the recoverable amount, including the estimation of the production, selling price and related operating expenses based on reasonable and supportable assumption.

(iv) Depreciation and amortisation

As described in Note 3(e), 3(f) and 3(g), fixed assets, intangible assets and long-term deferred expenses are depreciated and amortised using the straight-line method over their estimated useful lives after taking into account residual value (if applicable). The estimated useful lives are regularly reviewed to determine the depreciation and amortisation costs charged in each reporting period. The estimated useful lives are determined based on historical experiences of similar assets and the estimated technical changes. If there is an indication that there has been a change in the factors used to determine the depreciation or amortisation, the amount of depreciation or amortisation is revised.

(v) Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity investments if the Bank has the intention and ability to hold them until maturity. In evaluating whether the requirement to classify a financial asset as held-to-maturity are met, management make significant judgements. Failure in correctly assessing the Bank's intention and ability to hold specific investment until maturity may result in reclassification of the whole portfolio as available-for-sale, which are measured at fair value.

3 Significant accounting policies and accounting estimates (continued)

(t) Significant accounting estimates and judgments (continued)

(vi) Fair value of financial instruments

For a number of financial instruments, no quoted prices from an active market exist. The fair values for these financial instruments are established by using valuation techniques. These techniques include using recent arm's length market transactions, reference to the current fair value of similar instruments and discounted cash flow analysis and option pricing models. The Bank has established a process to ensure that valuation techniques are constructed by qualified personnel and are validated and reviewed by personnel independent of the area that constructed the valuation techniques. Valuation techniques are certified before being implemented for valuation and are calibrated to ensure that outputs reflect actual market conditions. Valuation models established by the Bank make the maximum use of market inputs and rely as little as possible on Bank-specific data. However, it should be noted that some inputs, such as credit and counterparty risk and risk correlations, require management estimates. Management estimates and assumptions are reviewed periodically and are adjusted if necessary.

(vii) Income taxes

Determining income tax provisions involves judgement on the future tax treatment of certain transactions. The Bank carefully evaluates tax implications of transactions and tax provisions are set up accordingly. The tax treatment of such transactions is reconsidered periodically to take into account all changes in tax legislations. Deferred tax assets are recognised for tax losses not yet used and temporary deductible differences. As those deferred tax assets can only be recognised to the extent that it is probable that future taxable profit will be available against which the unused tax credits can be utilised, management's judgement is therefore required to assess the probability of future taxable profits. Management's assessment is constantly reviewed and additional deferred tax assets are recognised if it becomes probable that future taxable profits will allow the deferred tax asset to be recovered.

(viii) Receivables from transfer for non-performing assets

According to the non-performing assets transfer agreement, the Bank received RMB 48.14 billion on 18 December 2006 as a part of the repayment of the receivable. The remaining RMB 10 billion will be repaid by instalment over a period of five years starting from 1 January 2007 by the Government of Guangdong Province ("the GGP") and the MOF with an annual interest rate of 2.7% of the remaining amount. The remaining receivables will be settled by the funding from the corporate income tax payment over a period of five years. In accordance with CAS (2006), the effective interest rate of the RMB 10 billion receivable, after taking into account the estimated future cash flow over the five years, is 2.68%. Management's estimations on the above future cash flow are reviewed periodically and are adjusted if necessary.

4 Changes in accounting policies

(a) Changes in accounting policies and their effects

The Bank adopted CAS (2006) on 1 January 2008. The significant accounting policies applicable to the Bank under CAS (2006) are summarised in Note 3.

The Bank made retrospective adjustments to the following items (i) and (iii) in accordance with the transitional requirements of CAS (2006). No retrospective adjustments were made to other items. Upon the adoption of CAS (2006), the Bank's significant accounting policies changed as follows:

(i) Financial instruments

Before 1 January 2008, financial assets, financial liabilities and equity instruments were measured at historical costs. As of 1 January 2008, they are now measured at fair value, amortisation cost or cost according to the classification based on the principle in Note 3(j).

The following adjustments were made because of the change in accounting policies of financial instruments on 1 January 2008:

- Financial assets at fair value through profit or loss or available-for-sale financial assets were measured at fair value on 1 January 2008. The difference between fair value and carrying amount was adjusted to retained earnings.

(ii) Reversal of impairment loss of non-financial assets

Before 1 January 2008, for an asset, such as a long-term equity investment, fixed asset and intangible asset, if there is an indication that there has been a change in the factors used to determine the provision for impairment and as a result the estimated recoverable amount is greater than its carrying amount, the impairment loss recognised in prior years was to be reversed. The impairment loss is reversed only to the extent of the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. As of 1 January 2008, such impairment loss is no longer permitted to be reversed.

No retrospective adjustment has been made by the Bank for the above change of accounting policy on asset impairment.

4 Changes in accounting policies (continued)

(a) Changes in accounting policies and their effects (continued)

(iii) Income tax

Due to the changes in accounting policies on financial instruments as described in item (i), on 1 January 2008, deferred taxes arising from temporary differences between the carrying amounts and the tax bases of assets and liabilities were retrospectively adjusted. The relevant 2007 comparative items have been adjusted accordingly.

(iv) Salaries and welfare payables

According to the requirement of "CAS 9 - Emloyee Benefits", the Bank has included all forms of consideration and other relevant expenditures incurred by the Bank in exchange for services rendered by staff that have not yet been officially nominated by the Bank or have not yet signed employment contracts with the Bank as well as internal retirement benefits in the scope of salaries and welfare payables. The relevant 2007 comparative items have been adjusted accordingly.

(v) Fixed assets

On 1 January 2008, in accordance with the requirement of "CAS 4 - Fixed Assets", the Bank reclassified leasehold improvement expenditure to long term deferred expenses, which are amortised on a reasonable basis. The relevant items in 2007 comparative financial statements have been adjusted accordingly.

(vi) Intangible assets

On 1 January 2008, in accordance with the requirement of "CAS 6 - Intangible Assets", the Bank reclassified certain land use rights from construction in progress and fixed assets to intangible assets, which are amortised on a reasonable basis. Such land use rights can be individually recognised. The relevant items in 2007 comparative financial statements have been adjusted accordingly.

4 Changes in accounting policies (continued)

(b) *Effects of the above changes in accounting policies on the Bank's net profits and shareholders' equity for 2007 and prior years are summarised as follows:*

	2007 Net profit	2007 Closing balance of investment revaluation reserve	2007 Closing balance of retained earnings	2007 Closing balance of statutory surplus reserve	2007 Opening balance of investment revaluation reserve	2007 Opening balance of retained earnings
Net profit and shareholders' equity before adjustments	2,668,156	-	244,341	266,816	-	83,659
Financial assets at fair value through profit or loss, and available-for-sale financial assets	(4,007)	(4,214)	181,562	-	246,196	185,569
Deferred tax impact	17,516	10,452	15,620	-	(81,245)	(1,896)
Additional appropriation of statutory surplus reserve	-	-	(1,351)	1,351	-	-
Total	**13,509**	**6,238**	**195,831**	**1,351**	**164,951**	**183,673**
Net profit and shareholders' equity after adjustments	**2,681,665**	**6,238**	**440,172**	**268,167**	**164,951**	**267,332**

(i) Affected assets and liabilities items in the balance sheet as at 31 December 2007:

	Note	Before adjustment	Adjustment	After adjustment
Balances with financial institutions		3,363,253	152,496	3,515,749
Short-term loan	*	102,390,138	(102,390,138)	-
Trade Finance	*	7,206,854	(7,206,854)	-
Discounted bills	*	38,972,754	(38,972,754)	-
Medium and long-term loans	*	91,451,194	(91,451,194)	-
Non-accrual loans	*	8,365,405	(8,365,405)	-
Provisions for loan loss	*	(7,841,383)	7,841,383	-
Loan and advance to customers	*	-	240,544,962	240,544,962
Short-term investments		13,882,403	(13,882,403)	-
Long-term debt investments maturing within one year		5,834,002	(5,834,002)	-
Long-term debt investments		32,138,727	(32,138,727)	-
Trading financial assets		-	3,133,945	3,133,945
Positive fair value of derivatives		-	26,778	26,778
Available-for-sale financial assets		-	41,758,979	41,758,979
Receivable investments		-	6,827,360	6,827,360
Long-term equity investments		53,444	(49,344)	4,100
Interest receivables		1,253,310	294,211	1,547,521
Fixed assets	*	2,832,401	(260,806)	2,571,595
Construction in progress	*	347,621	(104,148)	243,473
Intangible assets	*	139,984	114,665	254,649
Long-term deferred expenses	*	84,065	250,286	334,351
Deferred tax assets		1,455,153	(59,096)	1,396,057
Other receivables	*	10,514,818	(10,514,818)	-
Other assets		-	10,488,044	10,488,044
Total		**312,444,143**	**203,420**	**312,647,563**

4 Changes in accounting policies (continued)

(b) Effects of the above changes in accounting policies on the Bank's net profits and shareholders' equity for 2007 and prior years are summarised as follows (continued):

(i) Affected assets and liabilities items in the balance sheet as at 31 December 2007 (continued):

	Note	**Before adjustment**	**Adjustment**	**After adjustment**
Negative fair value of derivative instrument	*	-	30,753	30,753
Short-term deposits	*	166,998,838	(166,998,838)	-
Short-term savings deposits	*	50,395,233	(50,395,233)	-
Fiscal deposits	*	8,962,224	(8,962,224)	-
Short-term pledged deposits	*	53,844,355	(53,844,355)	-
Outward remittances	*	78,006	(78,006)	-
Inward remittances	*	419,774	(419,774)	-
Long-term deposits	*	66,226,896	(66,226,896)	-
Long-term savings deposits	*	5,521,986	(5,521,986)	-
Long-term pledged deposits	*	288,080	(288,080)	-
Deposits from customers	*	-	352,735,392	352,735,392
Welfare payable	*	55,505	(55,505)	-
Salaries and welfare payables	*	555,661	366,344	922,005
Contingent liabilities	*	-	84,301	84,301
Other payables	*	3,012,413	(3,012,413)	-
Other liabilities	*	-	2,586,520	2,586,520
Total liabilities		**356,358,971**	**-**	**356,358,971**
Net amount		**(43,914,828)**	**203,420**	**(43,711,408)**

* *Apart from the retrospective adjustments made on relevant items in the balance sheet as at 31 December 2007 described in Note 4(a), certain items in the comparative figures of 2007 have been reclassified to conform with the requirements of CAS 38.*

4 Changes in accounting policies (continued)

(b) Effects of the above changes in accounting policies on the Bank's net profits and shareholders' equity for 2007 and prior years are summarised as follows (continued):

(ii) Affected income and expenses items in the income statement for the year ended 31 December 2007:

	Note	Before adjustment	Adjustment	After adjustment
Interest income		14,612,478	7,817,948	22,430,426
Interest income on balances and placements with financial institutions	*	5,998,730	(5,998,730)	-
Loss arising from fair value changes		-	(141,048)	(141,048)
Investment income		1,754,956	(1,692,968)	61,988
Allowance for assets impairment		(978,329)	10,791	(967,538)
Income tax		(2,323,859)	17,516	(2,306,343)
Total		**19,063,976**	**13,509**	**19,077,485**

* *Apart from the retrospective adjustments made on relevant items in the income statement for the year then ended 31 December 2007 described in Note 4(a), certain items in the comparative figures of 2007 have been reclassified to conform with the requirements of CAS 38.*

5 Taxation

(a) The major types of tax and their tax rates applicable to the Bank are as follows:

Business tax:	5%
City maintenance and construction tax :	1% to 7% of the business tax
Education surcharge:	3% of the business tax

(b) Income tax

For current year, the income tax rate is 25% (2007: 33%).

(c) Tax payable

	2008	2007
Income tax payable	1,010,135	1,618,220
Business tax and surcharge payable	520,674	396,410
Property tax payable	51,379	63,855
Others	22,162	16,677
Total	**1,604,350**	**2,095,162**

6 Balances with central banks

	2008	2007
Statutory deposit reserve funds (Note (i))	46,584,550	42,256,812
Surplus deposit reserve funds (Note (ii))	14,633,002	17,128,901
Fiscal deposits	167,673	91,944
Total	**61,385,225**	**59,477,657**

(i) The Bank places statutory deposit reserve funds with the PBOC and the central bank of Macau. The statutory deposit reserve funds are not available for the Bank's daily business.

From 1 January 2008 to 24 January 2008, the RMB deposit statutory deposit reserve funds placed with the PBOC were calculated at 14.5% of eligible RMB deposits. The deposit reserve ratio increased six times to 17.5% between 25 January 2008 and 24 September 2008. The deposit reserve ratio decreased four times to 13.5% between 25 September 2008 and 25 December 2008. The Bank is also required to deposit an amount equivalent to 5% of its foreign currency customer deposits accepted by domestic branches as statutory deposit reserve funds from 1 January 2008 to 31 December 2008.

The amount of statutory deposit reserve funds placed with the central bank of Macau by Macau Branch is determined by the local jurisdiction.

(ii) The balances mainly represent surplus deposit reserve funds maintained with the PBOC for the purposes of clearing.

7 Deposits with financial institutions

(a) Analysed by types of financial institutions and geographical sector

	2008	2007
Onshore		
- Banks (Note (i))	3,021,441	2,683,568
- Financial institutions	14,314	23,747
Sub-total	**3,035,755**	**2,707,315**
Offshore banks	749,828	808,434
Total	**3,785,583**	**3,515,749**

(i) As at 31 December 2008, the Bank's deposits were free from restrictions of use. The Bank deposited approximately RMB 0.16 billion with China Development Bank ("CDB") as at 31 December 2007, which served as pledged deposit in return for CDB providing guarantee to the Bank on certain syndicated loans. The deposit matured in 2008.

(b) The Bank has not made any impairment allowances against deposits with financial institutions as at 31 December 2007 and 31 December 2008.

8 Placements with financial institutions

(a) *Analysed by types of financial institutions and geographical sector*

	2008	2007
Onshore		
- Banks	11,426,311	7,578,581
- Financial institutions	10,946	510,963
Sub-total	**11,437,257**	**8,089,544**
Offshore banks	4,985,761	4,893,385
Total	**16,423,018**	**12,982,929**
Less:Individually assessed allowances for impairment (Note 24)	(10,685)	(10,685)
Net balances	**16,412,333**	**12,972,244**

(b) *Movements in allowances for impairment*

	2008	2007
Opening balance	(10,685)	(16,463)
Write-offs for the year	-	5,778
Closing balance	**(10,685)**	**(10,685)**

9 Trading financial assets

	2008	2007
Listed / quoted		
Onshore - PRC government bonds	703,958	518,724
- PBOC bills	544,754	1,185,464
- Debt securities issued by policy banks	1,065,707	550,866
- Debt securities issued by financial institutions	486,770	610,156
- Corporate bonds	100,337	-
Offshore - Other debt securities	97,554	268,735
Total	**2,999,080**	**3,133,945**

(i) The CDB become a joint stock bank with the approval of CBRC on 15 December 2008. Accordingly, the bonds issued by CDB are bonds issued by policy banks presented as bonds issued by financial institution. The comparative figures as at 31 December 2007 (Note 9 and 13) have been reclassified to enhance its comparability.

10 Balances under resale agreements of financial assets

(a) *Analysed by types of financial assets under purchase and resale agreements*

	2008	2007
Debt securities investments	19,881,500	18,523,988
Discounted bills	44,669,978	30,802,824
Loans and advances to customers	300,000	1,159,179
Total	**64,851,478**	**50,485,991**

(b) *The Bank has not made any impairment allowances against balances under resale agreements of financial assets as at 31 December 2007 and 31 December 2008.*

11 Interest receivables

Analysed by types of financial assets generating the interest receivables

	2008	2007
Debt securities	1,636,806	874,721
Loans and advances to customers	811,877	600,463
Placements with financial institutions	100,848	40,811
Others	63,345	31,526
Total	**2,612,876**	**1,547,521**

12 Loans and advances to customers

(a) *Analysed by nature*

	2008	2007
Corporate loans	192,022,231	166,755,067
Mortgages	30,603,890	28,133,367
Credit cards receivables	13,451,067	7,305,476
Other personal loans	6,659,174	7,155,089
Personal loans	50,714,131	42,593,932
Discounted bills	68,962,144	39,037,346
Gross balance of loans and advances	311,698,506	248,386,345
Less:allowances of impairment (note 24)		
- individually-assessed	(3,746,516)	(3,941,641)
- collectively-assessed	(9,613,753)	(3,899,742)
Total	**(13,360,269)**	**(7,841,383)**
Net balances of loans and advances	**298,338,237**	**240,544,962**

12 Loans and advances to customers (continued)

(b) Overdue loans and advances analysed by overdue period

	2008				
	Overdue between 1 day and 90 days (including 90 days)	Overdue between 90 days and 360 days (including 360 days)	Overdue between 360 days and three years (including three years)	Overdue more than three years	Total
Pledged loans	740,238	359,388	219,024	14,150	1,332,800
Collateralised loans	1,576,451	1,158,070	1,126,430	34,342	3,895,293
Guaranteed loans	821,458	881,910	569,435	17,886	2,290,689
Unsecured loans	1,902,302	48,680	17,660	37	1,968,679
Total	**5,040,449**	**2,448,048**	**1,932,549**	**66,415**	**9,487,461**

	2007				
	Overdue between 1 day and 90 days (including 90 days)	Overdue between 90 days and 360 days (including 360 days)	Overdue between 360 days and three years (including three years)	Overdue more than three years	Total
Pledged loans	110,996	141,279	437,983	18,954	709,212
Collateralised loans	759,504	1,127,779	1,224,977	24,811	3,137,071
Guaranteed loans	275,190	418,185	622,274	7,536	1,323,185
Unsecured loans	874,494	81,983	4,292	460	961,229
Total	**2,020,184**	**1,769,226**	**2,289,526**	**51,761**	**6,130,697**

12 Loans and advances to customers (continued)

(c) *Analysed by business sector and collateralised loans*

	2008			2007		
	Balance	%	Collateralised loans as a% of gross loan balances (%)	Balance	%	Collateralised loans as a% of gross loan balances (%)
Corporate loans						
- Manufacturing	60,427,548	19.39	32	54,955,096	22.12	21
- Wholesale and retail	38,167,253	12.25	35	33,002,398	13.29	23
- Energy and raw materials	16,082,883	5.16	9	12,161,130	4.90	23
- Transportation	13,707,018	4.40	14	14,065,187	5.66	5
- Property development	16,347,974	5.24	64	16,720,616	6.73	51
- Tourism and service sector	9,317,377	2.99	33	3,951,068	1.59	32
- Securities and investment management	2,104,565	0.68	3	2,423,340	0.98	5
- Construction and installation	12,060,430	3.87	28	9,364,623	3.77	16
- Telecommunications and postal services	2,099,325	0.67	35	2,520,504	1.01	8
- Others	21,707,858	6.96	20	17,591,105	7.08	9
Total corporate loans	192,022,231	61.61	30	166,755,067	67.13	22
Total personal loans	50,714,131	16.27	68	42,593,932	17.15	76
Sub-total	242,736,362	77.88	38	209,348,999	84.28	33
Discounted bills	68,962,144	22.12	-	39,037,346	15.72	-
Gross balances	311,698,506	100.00	30	248,386,345	100.00	28
Less: Allowances for impairment	(13,360,269)			(7,841,383)		
Net balances	**298,338,237**			**240,544,962**		

12 Loans and advances to customers (continued)

(d) Analysed by geographical sector and collateralised loans

	2008			2007		
	Balance	%	Collateralised loans as a% of gross loan balances (%)	Balance	%	Collateralised loans as a% of gross loan balances (%)
Guangzhou	69,149,940	22.18	11	37,167,714	14.96	13
Hangzhou	38,739,714	12.43	42	36,602,426	14.74	30
Beijing	31,248,516	10.03	14	26,285,144	10.58	19
Nanjing	24,837,045	7.97	32	20,737,958	8.35	16
Zhengzhou	19,439,467	6.24	21	16,975,227	6.83	20
Dongguan	18,959,838	6.08	56	17,534,926	7.06	54
Shanghai	18,434,861	5.91	34	14,600,506	5.88	26
Shenzhen	15,987,620	5.13	40	15,276,781	6.15	42
Foshan	10,752,103	3.45	30	9,461,109	3.81	30
Kunming	7,375,149	2.37	19	7,321,233	2.95	9
Dalian	6,508,825	2.09	38	5,570,441	2.24	37
Others	50,265,428	16.12	43	40,852,880	16.45	38
Gross balances	**311,698,506**	**100.00**	**30**	**248,386,345**	**100.00**	**28**
Less: Allowances for impairment	(13,360,269)			(7,841,383)		
Net balances	**298,338,237**			**240,544,962**		

(e) Analysed by types of collaterals

	2008	2007
Pledged loans	29,312,592	30,504,465
Collateralised loans	92,523,686	68,446,228
Guaranteed loans	143,412,969	115,431,966
Unsecured loans	46,449,259	34,003,686
Gross balances of loans and advances	**311,698,506**	**248,386,345**
Less: Allowances for impairment	(13,360,269)	(7,841,383)
Net balances of loans and advances	**298,338,237**	**240,544,962**

12 Loans and advances to customers (continued)

(f) Analysed by corresponding allowances for impairment

	2008				
	Loans and advances for which allowances for impairment are collectively assessed	Impaired loans and advances: for which allowances for impairment are collectively assessed	Impaired loans and advances: for which allowances for impairment are individually assessed	Total	Impaired loans and advances as a % of total loans and advances (%)
Gross balances of loans and advances	302,828,784	1,142,701	7,727,021	311,698,506	2.85
Less:Allowances for impairment	(8,575,918)	(1,037,835)	(3,746,516)	(13,360,269)	
Net balances of loans and advances	**294,252,866**	**104,866**	**3,980,505**	**298,338,237**	

	2007				
	Loans and advances for which allowances for impairment are collectively assessed	Impaired loans and advances: for which allowances for impairment are collectively assessed	Impaired loans and advances: for which allowances for impairment are individually assessed	Total	Impaired loans and advances as a % of total loans and advances (%)
Gross balances of loans and advances	238,454,650	989,740	8,941,955	248,386,345	4.00
Less:Allowances for impairment	(3,005,597)	(894,145)	(3,941,641)	(7,841,383)	
Net balances of loans and advances	**235,449,053**	**95,595**	**5,000,314**	**240,544,962**	

12 Loans and advances to customers (continued)

(f) Analysed by corresponding allowances for impairment (continued)

The Bank assesses and provides for impairment allowances on loans and advances to customers in accordance with the accounting policy set out in Note 3(j) (iv).

The amount of the allowance for impairment on impaired loans is measured as the difference between the loan's carrying amount and the present value of expected future cash flows discounted at its original effective interest rate. The source of repayment may include:

(i) Cash flows generated by the business operation of the debtor;
(ii) Cash flows generated by the business of the guarantor or other party making the repayment for the debtor;
(iii) Cash inflow from an explicit refinancing plan of the debtor;
(iv) Disposition of collateral and repossessed assets; Valuation of repossessed assets and collateral can be provided by appraisals by an international reputable valuer, an intermediate with similar qualification legitimately incorporated in PRC, by the Bank based on market price and the estimated realisable value. Evaluation of recoverable amount from disposal of repossessed assets and collateral takes into consideration of the conditions of the title, market price, the net book value of the collateral, depreciation, difficulties on disposal, disposal costs, etc; and
(v) Sale of the loan in a secondary market.

The Bank assesses the collective impairment allowance on loans and advances to natural persons (including loans and advances to sole proprietors) and corporate loans and discounted bills classified as pass and special mention:

- For loans to natural persons, the Bank uses a flow rate methodology to assess impairment on a collective basis. This methodology utilises a statistical analysis of historical trends of probability of default and loss history.
- For loans to corporate loans classified as pass and special mention, the Bank classifies the loans into portfolios of similar credit risk characteristics. The collective impairment allowance is assessed after taking into account the following factors:

    (i) the flow rate analysis utilises data of not less than 4 years;
    (ii) an appropriate emergency period correlated to the similar credit risk characteristics of that loan portfolio, which shall not be less than 12 months; and
    (iii) the Bank management's assessment of inherent loss of the loan portfolio that based on current domestic and global economic and credit environment, but not yet reflected in historical experience, including consideration of factors in the regulatory environment.

12 Loans and advances to customers (continued)

(g) Movements of allowances for impairment

	2008			
	Allowances for impairment	Allowances for impaired loans and advances		
	which are collectively assessed	which are collectively assessed	which are individually assessed	Total
Opening balance	(3,005,597)	(894,145)	(3,941,641)	(7,841,383)
Charge for the year (Note 9)				
- Addition	(5,570,321)	(281,120)	(1,689,482)	(7,540,923)
- Release	-	-	862,646	862,646
Unwinding of discount	-	-	92,224	92,224
Recoveries of loans written off in prior year	-	(4,587)	(21,703)	(26,290)
Write-offs for the year	-	142,017	951,440	1,093,457
Closing balance	**(8,575,918)**	**(1,037,835)**	**(3,746,516)**	**(13,360,269)**

	2007			
	Allowances for impairment	Allowances for impaired loans and advances		
	which are collectively assessed	which are collectively assessed	which are individually assessed	Total
Opening balance	(2,540,655)	(863,179)	(4,023,215)	(7,427,049)
Charge for the year (Note 9)				
- Addition	(464,942)	(61,711)	(1,175,340)	(1,701,993)
- Release	-	-	702,130	702,130
Unwinding of discount	-	-	138,714	138,714
Transfer in during the year	-	-	(12,719)	(12,719)
Write-offs for the year	-	30,745	428,789	459,534
Closing balance	**(3,005,597)**	**(894,145)**	**(3,941,641)**	**(7,841,383)**

13 Available-for-sale financial assets

	2008	2007
Debt securities investments		
Listed / quoted		
Onshore - Government bonds	1,445,975	6,720,828
- PBOC bills	18,219,637	3,367,799
- Debt securities issued by policy banks	4,323,254	8,106,785
- Debt securities issued by financial institutions	10,501,188	17,624,256
- Corporate debt securities	81,305	133,853
Offshore - Other debt securities	68,878	90,208
	34,640,237	**36,043,729**
Unlisted / unquoted		
Onshore - PBOC bills	4,126,099	3,896,130
Offshore - Bills issued by central banks	427,232	427,408
- Other debt securities	610,430	1,251,925
	5,163,761	**5,575,463**
Carrying value of debt securities investments	**39,803,998**	**41,619,192**
Equity investments		
Unlisted equity investments	77,609	86,940
Listed equity investments	-	52,847
Total equity investments	**77,609**	**139,787**
Total	**39,881,607**	**41,758,979**

(i) The Bank's management re-assessed the bank's intention and ability to hold debt securities to maturity, and transfer available-for-sale debt securities investments amounted to RMB 30.8 billion to held-to-maturity investments (Note 14) during the year. The fair value of the debt securities investments was taken as the amortised cost of held-to-maturity investments.

14 Held-to-maturity investments

	2008	2007
Listed / quoted		
Onshore - Government bonds	3,942,558	-
- Debt securities issued by policy banks	12,474,141	-
- Debt securities issued by financial institutions	14,353,433	-
Total	**30,770,132**	**-**
Fair value	**31,382,938**	**-**

(i) Note 13 sets out the details of the transfer from available-for-sale debt securities investments to held-to-maturity investments.

15 Receivables investments

	2008	2007
Unlisted / unquoted		
Onshore - Government bonds	3,377,428	3,827,360
- PBOC bills	3,000,000	3,000,000
Total	**6,377,428**	**6,827,360**
Fair value	**6,583,864**	**6,743,232**

16 Long-term equity investments

	2008	2007
Equity investments in unlisted subsidiary	4,100	4,100

A subsidiary is a company in which the Bank has the power, directly or indirectly, to control the financial and operating policies, so as to obtain benefits from their activities. As the financial position and operating results of the subsidiary do not have a significant impact on the financial statements of the Bank, they are not consolidated but are stated as long-term equity investments using the cost method and stated at cost less allowances for impairment losses at year-end in the Bank's balance sheet (see Note 3(d)).

The principal subsidiary of the Bank as at 31 December 2008 and 31 December 2007 are as follows:

Name of company	Enterprise code	Place of incorporation	Principal activities	Registered share capital	Closing balance of actual investment made by the Bank	Closing balance of substantial form of net investment	% of ownership directly and indirectly held by the Bank	% of direct and indirect voting right of the Bank
Guangdong Guangfa International Fianancial & Consulting Co., Ltd	61743591-x	China	Credit card and related advisory	RMB 10,000,000	RMB 4,100,000	RMB 4,100,000	41%	41%

The financial information of the subsidiary at balance sheet date is as follows:

	2008	2007
Operating income	208,406	135,210
Net loss	**(94)**	**(174)**

Net carrying values of assets and liabilities are as follows:

	2008	2007
Total assets	7,416	9,657
Total liabilities	2,912	3,098
Total shareholders' equity	4,504	6,559

17 Fixed assets

	Properties and buildings	Electronic equipment	Transportation and other equipment	Total
Cost				
1 January 2008 (as restated)	3,195,400	1,366,624	444,471	5,006,495
Additions	57,084	346,245	53,073	456,402
Transfer from construction in progress (Note 18)	233,546	-	-	233,546
Disposal / retirement	(26,272)	(151,788)	(65,219)	(243,279)
31 December 2008	**3,459,758**	**1,561,081**	**432,325**	**5,453,164**
Less:Accumulated depreciation				
1 January 2008 (as restated)	(792,965)	(1,010,301)	(326,245)	(2,129,511)
Charge for the year	(83,191)	(144,888)	(32,562)	(260,641)
Written back on disposals	16,655	145,100	61,184	222,939
31 December 2008	**(859,501)**	**(1,010,089)**	**(297,623)**	**(2,167,213)**
Less:Allowance for impairment				
1 January 2008	(305,389)	-	-	(305,389)
Charge for the year	(16,544)	-	-	(16,544)
Written back on disposals	5,890	-	-	5,890
31 December 2008	**(316,043)**	**-**	**-**	**(316,043)**
Net carrying value				
31 December 2008	**2,284,214**	**550,992**	**134,702**	**2,969,908**
31 December 2007 (as restated)	**2,097,046**	**356,323**	**118,226**	**2,571,595**

(i) As at 31 December 2008, the Bank was in the process of completing the ownership documentation of certain properties and buildings with a net carrying value of approximately RMB 0.73 billion (2007: RMB 0.55 billion). The management are of the opinion that the Bank is entitled to legally and effectively occupy or use the above-mentioned properties and buildings.

(ii) As at 31 December 2008, the Bank assessed the recoverable amount of certain properties and buildings that are considered to be impaired. Based on the assessment, the Bank reduced the net carrying value of such assets by RMB 0.32 billion (2007: RMB 0.31 billion). The estimated recoverable amounts were determined based on the fair values of the properties and buildings less disposal costs, with reference to the recent observable market prices for similar properties and buildings within the same area.

(iii) As at 31 December 2008, the net carrying value of properties and buildings under operating lease amounted to RMB 0.34 billion (2007: RMB 0.47 billion).

18 Construction in progress

	Construction in progress
Cost	
At 1 January 2008 (as restated)	243,473
Additions	45,649
Transfer to fixed assets (note 17)	(233,546)
At 31 December 2008	**55,576**
Less:Allowance for impairment	
At 1 January 2008	-
Charge for the year	(673)
At 31 December 2008	**(673)**
Net carrying value	
At 31 December 2008	**54,903**
At 31 December 2007 (as restated)	**243,473**

19 Intangible assets

	Land use rights	Software	Others	Total
Cost				
1 January 2008 (as restated)	190,129	237,336	44,816	472,281
Increase for the year	30,886	76,839	-	107,725
Decrease for the year	(2,329)	(9,270)	(152)	(11,751)
31 December 2008	**218,686**	**304,905**	**44,664**	**568,255**
Less:Accumulated amortisation				
1 January 2008 (as restated)	(24,977)	(147,008)	(39,753)	(211,738)
Increase for the year	(7,921)	(38,860)	(2,469)	(49,250)
Decrease for the year	1,218	9,269	152	10,639
31 December 2008	**(31,680)**	**(176,599)**	**(42,070)**	**(250,349)**
Less:Allowance for impairment				
1 January 2008	(5,894)	-	-	(5,894)
Charge for the year	(1,036)	-	-	(1,036)
31 December 2008	**(6,930)**	**-**	**-**	**(6,930)**
Net carrying value				
31 December 2008	**180,076**	**128,306**	**2,594**	**310,976**
31 December 2007 (as restated)	**159,258**	**90,328**	**5,063**	**254,649**

(i) As at 31 December 2008, the Bank was in the process of completing the ownership documentation of certain land use rights with a net carrying value of approximately RMB 14 million (2007: RMB 40 million). The management are of the opinion that the Bank is entitled to legally and effectively occupy or use the above-mentioned land use rights.

20 Long-term deferred expenses

	2008	2007
Leasehold improvement	319,874	250,289
Rental prepayments	40,399	39,648
Others	99,294	44,414
Total	**459,567**	**334,351**

21 Repossessed assets

(a) Analysed by types

	2008	2007
Land	12,901	29,912
Properties and buildings	59,467	46,207
Others	12,278	10,126
Gross balances	**84,646**	**86,245**
Less:Individually assessed allowances for impairment (Note 21(b))	(29,582)	(59,874)
Net balances	**55,064**	**26,371**

The Bank transferred repossessed assets with a net carrying value of RMB 0.35 million (2007: RMB 90 million) to fixed assets in 2008.

(b) Movements in allowances for impairment

	2008	2007
Opening balance	(59,874)	(93,508)
Release / (Charge) for the year	13,065	(1,089)
Written back on disposals during the year	16,949	34,548
Others	278	175
Closing balance	**(29,582)**	**(59,874)**

22 Deferred tax assets

(a) Analysed by nature

	2008	2007
Deferred tax assets	2,854,613	1,490,581
Deferred tax liabilities	(242,800)	(94,524)
Net balance	**2,611,813**	**1,396,057**

22 Deferred tax assets (continued)

(b) *Movements of deferred tax*

	Allowances for impairment of loans and advances	Allowances for impairment of other assets	Fair value change of investments and financial derivatives	Others	Net balance
Opening balance (as restated)	1,312,418	105,807	25,490	(47,658)	1,396,057
Recognised in income statement	1,271,585	(37,293)	23,751	59,965	1,318,008
Recognised in equity	-	-	(141,289)	39,037	(102,252)
Closing balance	**2,584,003**	**68,514**	**(92,048)**	**51,344**	**2,611,813**

(i) The above deferred tax assets represent the tax effect of the difference between accounting profit before tax and taxable income, which the management believes may bring future tax benefits to the Bank. In forming this view, the Bank's management considered the current tax legislation and actual situation, as well as prudent accounting principles.

Based on the above principles, the Bank recognises the difference between deferred tax assets at the balance sheet date of each accounting period and those at the prior balance sheet date in the current year income tax expenses.

(c) As at 31 December 2008 and 31 December 2007, the Bank had no significant amount of deductible temporary differences or deductible tax losses for which deferred tax assets should have been recognised. The Bank also had no unrecognised deferred tax liabilities arising from taxable temporary differences which were related to the Bank's investments in subsidiaries.

23 Other assets

(a) *Analysed by nature*

	2008	2007
Receivables on transfer of non-performing assets (Note (i))	8,730,307	10,000,000
Advances for wealth management products (Note (ii))	439,683	-
Prepayment for purchase of fixed assets	212,371	1,194
Unamortised issuing costs of subordinated bonds (Note 32(iii))	14,091	-
Others	620,854	648,858
Gross balance	**10,017,306**	**10,650,052**
Less:Individually assessed allowances for impairment (Note 23(c))	(287,916)	(162,008)
Net balances	**9,729,390**	**10,488,044**

23 Other assets (continued)

(a) Analysed by nature (continued)

(i) Receivables on transfer of non-performing assets

Receivables on transfer of non-performing assets of RMB 10 billion will be settled by the refund of the Bank's income tax payments over a period of five years from 2007 to 2011. In 2006, the Office of Finance of Guangdong Province deposited 5-year fixed term of RMB 6 billion with the Bank to serve as the security deposit of the receivables.

According to Notice on the Policy for Guangdong Development Bank's Enterprise Income Tax, Refund after Imposture and Collective Tax Filing by Head Office [Caishui(2008)73] issued by the MOF and the State Administration of Taxation, the MOF and the GGP set up a co-managing fund with the refundable income tax paid by the Bank, and deposit the co-managing fund at a bank account opened with the Bank to collect and utilize such co-managing fund. The fund will be deposited for five years between 1 January 2007 and 31 December 2011. Before the maturity date of the fund, if the fund accumulates to RMB 10 billion, the policy on income tax refund will be ceased; if the fund does not accumulate to RMB 10 billion as a result of the Bank's operation, the GGP will make good the deficit; if the fund does not accumulate to RMB 10 billion as a result of the adjustment on State's tax policy, the MOF and the GGP will propose alternative arrangement for approval by the State Council before implementation.

The Bank has received RMB 1.27 billion of 2007's income tax refund from the co-managing account in 2008 (2007: Nil).

(ii) Advances for wealth management products

Since 2007, the Bank has offered non-principal-guaranteed, floating return wealth management products to the general public and engaged trust companies to conduct designed trust investments. As the trust assets under certain of the wealth management products could not be liquidated on maturity, the Bank made advance payments of RMB 0.44 billion to the investors in 2008 despite the Bank does not legally bear the risk on the wealth management products. The Bank has assessed the recoverable amount of the advance payments and provided allowances for impairment accordingly. The Bank is now proceeding with all the necessary legal procedures and taking actions to recover the advance.

23 Other assets (continued)

(b) *Analysed by aging*

Aging	2008 Amount	2008 Proportion (%)	2008 Impairment allowance	2007 Amount	2007 Proportion (%)	2007 Impairment allowance
Within 1 year	1,058,075	10%	(163,059)	444,246	4%	(84,918)
1 to 2 years	100,440	1%	(48,392)	10,077,532	95%	(24,001)
2 to 3 years	8,766,873	88%	(22,475)	32,155	-	(6,950)
Above 3 years	91,918	1%	(53,990)	96,119	1%	(46,139)
Total	**10,017,306**	**100%**	**(287,916)**	**10,650,052**	**100%**	**(162,008)**

Aging refers to the period between the recognition date of the receivables and the balance sheet date.

(c) *Movements in allowance for impairment*

	2008	2007
Opening balance	(162,008)	(949,322)
(Charge) / release for the year	(165,853)	27,057
Written back on disposals during the year	68,335	759,435
Others	(28,390)	822
Closing balance	**(287,916)**	**(162,008)**

24 Allowances for impairment assets

The following shows the movements of allowances for impairment of assets as at 31 December 2008:

	Note	Opening balance	(Charge)/release for the year	Unwinding of discount	Write-offs for the year	Others	Closing balance
Allowances for impairment on placements	8	(10,685)	-	-	-	-	(10,685)
Allowances for impairment on loans and advances	12	(7,841,383)	(6,678,277)	92,224	1,093,457	(26,290)	(13,360,269)
Allowances for impairment on fixed assets	17	(305,389)	(16,544)	-	5,890	-	(316,043)
Allowances for impairment on constructions in progress	18	-	(673)	-	-	-	(673)
Allowances for impairment on intangible assets	19	(5,894)	(1,036)	-	-	-	(6,930)
Allowances for impairment on repossessed assets	21	(59,874)	13,065	-	16,949	278	(29,582)
Allowances for impairment on other assets	23	(162,008)	(165,853)	-	68,335	(28,390)	(287,916)
Total		**(8,385,233)**	**(6,849,318)**	**92,224**	**1,184,631**	**(54,402)**	**(14,012,098)**

The reasons for the allowances for impairment recognised during the year for each type of assets are stated in respective note of each asset.

25 Deposits from financial institutions

Analysed by types of financial institutions and geographical sector

	2008	2007
Onshore		
- Banks	26,146,461	7,848,765
- Financial institutions	24,907,671	31,340,226
Total	**51,054,132**	**39,188,991**

26 Takings from financial institutions

Analysed by type of financial institutions and geographical sector

	2008	2007
Onshore		
- Banks	11,862,236	285,880
- Financial institutions	1,000	1,000
Sub-total	**11,863,236**	**286,880**
Offshore banks	-	145,880
Total	**11,863,236**	**432,760**

27 Balances under repurchase agreements of financial assets

Analysed by types of financial assets under repurchase agreements

	2008	2007
Debt securities investments	18,982,000	11,101,900
Discounted bills	24,988,838	9,029,428
Loans and advances	300,223	1,434,850
Total	**44,271,061**	**21,566,178**

28 Deposits from customers

	2008	2007
Saving deposits		
- Corporate customers	181,480,827	166,350,687
- Personal customers	40,313,859	48,642,304
	221,794,686	**214,992,991**
Time deposits		
- Corporate customers	73,077,270	66,226,896
- Personal customers	34,444,362	7,959,284
	107,521,632	**74,186,180**
Pledged deposits	67,280,541	54,132,435
Fiscal deposits	8,051,449	8,962,224
Structured deposits	6,402	461,562
Total	**404,654,710**	**352,735,392**

29 Salaries and welfare payables

	Opening balance *(as restated)*	Charge for the year	Payments made during the year	Closing balance
Salaries, bonuses,allowances and subsidies	558,961	2,099,989	(1,943,337)	715,613
Outsourcing expenses	43,696	418,328	(404,065)	57,959
Staff welfare	55,505	277,176	(332,681)	-
Social insurances	16,659	301,786	(294,091)	24,354
Housing fund	15,325	161,727	(157,979)	19,073
Labour union fee and staff education fee	60,023	70,869	(93,802)	37,090
Internal retirement benefits	120,404	16,741	(23,381)	113,764
Compensation to employees for termination of employment relationship	-	3,056	(3,056)	-
Others	51,432	88,702	(54,404)	85,730
Total	**922,005**	**3,438,374**	**(3,306,796)**	**1,053,583**

30 Interest payables

Analysed by types of financial liabilities that generate interest payables

	2008	2007
Deposits	3,828,021	2,405,126
Deposits from financial institutions	226,004	-
Subordinated bonds issued	104,254	-
Others	85,101	48,949
Total	**4,243,380**	**2,454,075**

31 Provision for contingencies

Movements of litigation provision

	2008	2007
Opening balance	84,301	209,006
Release for the year	(5,913)	(55,884)
Payments made during the year	(31,329)	(68,821)
Closing balance	**47,059**	**84,301**

(i) As at 31 December 2008, the Bank was the defendant in certain pending litigations, with gross claims of RMB 0.37 billion (2007: RMB 0.17 billion). Based on the opinions of the Bank's internal and external lawyers, provision has been made for the estimated losses of these litigations and disputes. Management of the Bank are of the view that the provision made is reasonable and adequate.

32 Subordinated bonds issued

	2008	2007
Subordinated fixed interest rate bonds (Note (i))	4,300,000	-
Subordinated floating interest rate bonds (Note (ii))	700,000	-
Total	**5,000,000**	**-**

(i) The Bank issued 10-year subordinated fixed interest rate bonds with face value of RMB 1.6 billion on 25 July 2008. The coupon interest rate per annum is 6.3%. The Bank has an option to redeem the bonds at the end of the fifth year. If the Bank does not exercise the option of redemption, the interest rate of the bonds will increase to 9.3% per annum from the sixth year for the next five years till maturity.
The Bank issued 10-year subordinated fixed interest rate bonds with face value of RMB 2.7 billion on 23 September 2008. The coupon interest rate per annum is 5.85%. The Bank has an option to redeem the bonds at the end of the fifth year. If the Bank does not exercise the option of redemption, the interest rate of the bonds will increase to 8.85% per annum from the sixth year for the next five years till maturity.

(ii) The Bank issued 10-year subordinated floating interest rate bonds with face value RMB 0.7 billion on 25 July 2008. The coupon interest rate per annum is the one-year fixed deposit rate set by the PBOC on the annual interest re-set date, plus an interest margin of 2%. The Bank has an option to redeem the bonds at the end of the fifth year. If the Bank does not exercise the option of redemption, the interest margin of the bonds will increase by 3% per annum from the sixth year for the next five years till maturity.

(iii) The issuing costs of the subordinated bonds amounted to RMB 15 million. The unamortised balance of RMB 14.09 million as at 31 December 2008 is recorded in other assets (Note 23).

(iv) As at 31 December 2008, the fair value of the subordinated bonds issued by the Bank is RMB 5.37 billion.

33 Other liabilities

	2008	2007
Deferred interest income on discounted bills	828,109	1,081,228
Accrued expenses	255,354	208,823
Payables in respect of the transferred non-performing assets (Note (i))	120,690	319,195
Dormant accounts of deposits from customers	116,822	95,438
Clearing account balances	79,000	20,006
Payables for purchase of fixed assets	58,402	339
Payables for fund subscription	45,095	25,200
Loan repayments pending settlement	24,367	31,944
Others	943,946	804,347
Total	**2,471,785**	**2,586,520**

33 Other liabilities (continued)

(i) According to the non-performing assets transfer agreement with GFIHL, the risk and rewards associated with the non-performing assets were transferred to GFIHL after the transfer reference date. As at 31 December 2008, the amounts collected on behalf of GFIHL that have not yet been paid to GFIHL and recognised in other liabilities amounted to RMB 0.12 billion (2007: RMB 0.32 billion).

34 Share capital

	2008 and 2007	
	No. of shares	Amount
	'000	*RMB'000*
Registered capital and share capital (Par value of RMB 1 each)	11,408,423	11,408,423

35 Capital reserve

	2008
Opening balance	(17,052)
Additions for the year	(15,167)
Closing balance	**(32,219)**

Capital reserve represents the foreign currency translation difference which results from adopting the accounting policy on foreign currency exchange (Note 3 (b)).

36 Surplus reserve

	2008
Opening balance (as restated)	268,167
Appropriation for the year	278,401
Closing balance	**546,568**

(i) Surplus reserve consists of statutory surplus reserve and discretionary surplus reserve.
The Bank is required to appropriate 10% of its net profit to the statutory surplus reserve until the balance reaches 50% of the registered capital. After making the appropriation to the statutory surplus reserve, the Bank may also appropriate its net profit to the discretionary surplus reserve upon approval by shareholders in a general meeting.

Subject to the approval of shareholders, statutory and discretionary surplus reserves may be used to make good prior year losses, if any, and may be converted into capital, provided that the balance of statutory surplus reserve after such capitalisation is not less than 25% of the registered capital.

(ii) Due to the first time adoption of CAS (2006) by the Bank in 2008, the Bank made retrospective adjustments to certain balance sheet items in accordance with the changes in accounting policies (Refer to Note 4 for details). The changes in accounting policies results in an increase in the Bank's retained earnings as at 31 December 2007. Accordingly, the Bank appropriated an additional amount of RMB 1. 351 million to the statutory surplus reserve for 2007.

37 Statutory general risk reserve

	2008
Opening balance	3,524,660
Appropriation for the year	708,340
Closing balance	**4,233,000**

Pursuant to a notice, Cai Jin [2005] No.49, issued by the MOF on 17 May 2005 and which became effective on 1 July 2005, banks and certain non-bank financial institutions (including the Bank) in Mainland China are required to set aside a statutory general risk reserve (in addition to allowances for impairment) to cover potential losses against their assets. The statutory general risk reserve is in principle not less than 1% of the aggregate amount of risk-bearing assets, before allowances for impairment, at the balance sheet date. The statutory general risk reserve forms part of the equity of the financial institution, and transfers to it are made through appropriations of profit after tax.

The MOF issued another notice, Cai Jin [2005] No. 90 on 5 September 2005. This notice requires financial institutions to set aside the statutory general risk reserve within a transitional period of approximately three years, but not more than five years, from 1 July 2005.

The Bank had fulfilled the requirement in accordance with the above notices and appropriated to the statutory general risk reserve equivalent to 1% of aggregate amount of risk-bearing assets, before allowances for impairment, at 31 December 2008.

38 Investment revaluation reserve

Investment revaluation reserve has been accounted for in accordance with the accounting policies adopted for the measurement of fair value of available-for-sale investments (Note 3(j)).

39 Net interest income

	2008	2007
Interest income		
Interest income from balances with central banks	1,015,202	641,982
Interest income from balances with financial institutions	41,504	151,077
Interest income from placements with financial institutions	580,407	590,054
Interest income from balances under resale Agreements of financial assets	2,837,133	1,280,675
Interest income from loans and advances (Note (i))		
- Corporate loans	13,608,921	9,423,964
- Personal loans	3,702,235	2,252,374
- Discounted bills	8,092,162	6,377,400
Interest income from investments in debt securities (Note (ii))	2,705,404	1,680,504
Other interest income	13,136	32,396
Total interest income	**32,596,104**	**22,430,426**

39 Net interest income (continued)

	2008	2007
Interest expense		
Interest expense on deposits from financial institutions	(1,512,899)	(525,578)
Interest expense on takings from financial institutions	(116,500)	(45,439)
Interest expense on re-discounted bills	(4,409,257)	(4,005,784)
Interest expense on balances under repurchase agreements of financial assets	(1,646,987)	(546,160)
Interest expense on deposits from customers	(8,993,637)	(5,933,304)
Interest expense on subordinated bonds issued	(105,163)	-
Other interest expense	(95,183)	(51,286)
Total Interest expense	**(16,879,626)**	**(11,107,551)**
Net interest income	**15,716,478**	**11,322,875**

(i) The amount includes interest income of RMB 0.32 billion (2007: RMB 0.44 billion) for the year ended 31 December 2008 with respect to individually assessed impaired loans, of which unwinding of discount on loan provision amounted to RMB 0.09 billion (2007: RMB 0.14 billion).

(ii) The amount includes interest income of RMB 2.47 billion (2007: RMB 1.65 billion) for the year ended 31 December 2008 with respect to debt securities that are not measured at fair value through profit or loss.

40 Net fees and commission income

	2008	2007
Fees and commission income		
Bank card fees	1,064,890	661,138
Agency fees (Note (i))	556,192	540,382
Remittance and settlement fees	339,205	266,338
Others	79,816	49,062
Total fees and commission income	**2,040,103**	**1,516,920**
Fees and commission expenses		
Credit card transaction fees	(224,530)	(167,663)
Remittance and settlement fees	(103,271)	(77,812)
Agency expenses	(19,791)	(14,593)
Others	(120,575)	(110,578)
Total fees and commission expense	**(468,167)**	**(370,646)**
Net fees and commission income	**1,571,936**	**1,146,274**

(i) The amount includes commission income related to financial assets or financial liabilities which exclude the financial assets or financial liabilities measured at fair value through profit and loss (other than amounts included in determining the effective interest rate) of RMB 0.03 billion (2007: RMB 0.03 billion).

41 Investment income

	2008	2007
Net dealing gain on trading debt investments	20,749	6,514
Net gain on disposal of available-for-sale		
securities investments		
- Net gain / (loss) arising in current year	172,232	(7,469)
- Net revaluation gain transferred from equity	74,018	60,633
	246,250	**53,164**
Dividend income from unlisted available-for-sale equity investment	1,400	2,310
Total	**268,399**	**61,988**

42 Gain / (loss) arising from changes in fair value

	2008	2007
Revaluation gain / (loss) on trading financial instruments for the year	59,927	(134,534)
Transfer to investment income on sale of trading debt securities	(20,749)	(6,514)
Total	**39,178**	**(141,048)**

43 Operating and administrative expenses

	2008	2007
Staff costs (Note (i) and Note 29(i))		
- Salaries and bonuses	2,116,730	1,822,134
- Welfare and insurance expenses (Note (ii))	903,316	744,423
- Outsourcing expenses	418,328	259,034
	3,438,374	**2,825,591**
Traveling and conference expenses	583,576	446,203
Office expenses	558,369	436,317
Rent	475,812	418,041
Repair and maintenance expenses	378,138	356,151
Depreciation	260,641	258,193
Communication expenses	162,574	150,309
Transportation expenses	143,344	118,467
Others	529,467	555,937
Total	**6,530,295**	**5,565,209**

(i) The amount includes the aggregate of emoluments for Directors, Supervisors and Senior Management for the year ended 31 December 2008, which amounted to RMB 24 million (2007: RMB 31 million).

None of the Directors, Supervisors and Senior Management received any inducements, or compensation for loss of office, or waived any emoluments during the years ended 31 December 2007 and 31 December 2008.

(ii) The amount includes statutory defined retirement plan contribution during the year ended 31 December 2008 amounted to RMB 0.15 billion (2007: RMB 0.14 billion).

44 Allowances for asset impairment / (release)

	2008	2007
Loans and advances to customers (Note12 (g))		
- Individually and collectively assessed allowances for impairment on impaired loans	1,107,956	534,921
- Collectively assessed allowances for impairment on unimpaired loans	5,570,321	464,942
Available-for-sales debt securities investment	16,000	26,479
Fixed assets	16,544	270
Construction in progress	673	-
Intangible assets	1,036	5,894
Repossessed assets	(13,065)	1,089
Others	165,853	(66,057)
Total	**6,865,318**	**967,538**

45 Non-operating income

	2008	2007
Release of litigation provision	43,965	44,971
Gain on disposal of intangible assets	16,131	31,916
Gain on disposal of fixed assets	15,260	3,653
Gain on disposal of repossessed assets	3,791	30,126
Write back of long-term payables	44,994	1,842
Others	70,435	73,771
Total	**194,576**	**186,279**

46 Non-operating expenses

	2008	2007
Charge of litigation provision	38,052	3,455
Loss on disposal of fixed assets	6,984	9,931
Loss on disposal of repossessed assets	4,660	339
Others	38,405	96,100
Total	**88,101**	**109,825**

47 Income tax expense

	2008	2007
Income tax for the year		
- Mainland China	1,613,068	1,587,303
- Macau, PRC	4,563	16,595
Sub-total	**1,617,631**	**1,603,898**
Deferred tax (Note 22)	(1,318,008)	702,445
Income tax expense	**299,623**	**2,306,343**

47 Income tax expense (continued)

Reconciliation between income tax expense and income tax calculated at statutory tax rate:

	2008	2007
Profit before tax	**3,083,631**	**4,988,008**
Expected income tax expense at statutory tax rate of 25% (2007:33%)	770,908	1,646,043
Non-deductible expenses (Note (i))	79,208	649,179
Income tax adjustment for non-taxable income (Note (ii))	(203,003)	(92,547)
Effect of different tax rate applicable to profit of particular location of operation (Note (iii))	(39,131)	(50,537)
Deferred tax released due to change in tax rate	-	322,483
Others (Note (v))	(308,359)	(168,278)
Income tax expense	**299,623**	**2,306,343**

(i) The amount for 2008 primarily represents non-deductible entertainment expenses and foreign exchange loss. The amount for 2007 primarily represents staff costs in excess of the statutory deductible threshold, entertainment expenses and depreciation charges which are not tax deductible. The Corporate Income Tax Law of the PRC has uplifted the threshold of tax deductible amounts on staff costs. The staff costs of the Bank incurred in 2008 are fully tax deductible.

(ii) These amounts primarily represent interest income from China government bonds.

(iii) According to tax legislations and detailed rules of implementation in the relevant operating location, income taxes on profits generated in different locations are payable at different tax rates and tax basis. The income tax rate for Shenzhen Special Economic Zone is 18% for the year (2007: 15%).

(iv) As at 31 December 2008, the Chinese State Administration of Taxation has not yet issued relevant implementation rules on the calculation of bad debt provisions applicable to financial institutions following the implementation of the Corporate Income Tax Law of PRC which has been effective since 1 January 2008. Accordingly, the Bank has provided for the income tax expense for 2008 based on the original tax rules applicable to domestic enterprises.

(v) Others mainly represented pre-restructuring asset losses approved for income tax deduction by tax bureau.

48 Notes to the cash flow statement

(a) *Reconciliation of net profit and cash flow from operating activities:*

	2008	2007
Net profit	2,784,008	2,681,665
Add:Provision for asset loss	6,865,318	967,538
Unwinding of discount on impairment allowance for impaired loans	(92,224)	(138,714)
Depreciation of fixed assets and amortisation of intangible assets and long-term deferred expenses	504,150	434,783
Net gain on disposal of fixed assets and other long-term assets	(23,538)	(55,425)
Interest income from debt securities	(2,705,404)	(1,680,504)
Investment income	(266,999)	(59,678)
Net (gain) / loss on fair value movement	(39,178)	141,048
Net (gain) / loss arising from foreign currency dealing	(102,024)	36,162
Dividend income from available-for-sale equity investment	(1,400)	(2,310)
Interest expenses on issuing subordinated bonds	105,163	-
Net (increase) / decrease of deferred tax asset	(1,318,008)	704,341
Increase in operating receivables	(100,276,419)	(69,759,361)
Increase in operating payables	99,020,428	60,959,819
Net cash flow from operating activities	**4,453,873**	**(5,770,636)**

(b) *Net (decrease)/increase in cash and cash equivalents:*

	2008	2007
Cash balance at the end of the year	2,249,273	2,116,919
Less:Cash balance at the beginning of the year	(2,116,919)	(1,699,082)
Add:Cash equivalents atthe end of the year	40,144,725	55,483,125
Less:Cash equivalents at the beginning of the year	(55,483,125)	(54,546,058)
Net (decrease)/increase in cash and cash equivalents	**(15,206,046)**	**1,354,904**

(c) *Analysis of cash and cash equivalents*

	2008	2007
Cash	2,249,273	2,116,919
With original maturity within 3 months:		
- Balances of surplus deposit reserve funds with central banks	14,633,002	17,128,901
- Balances with financial institutions	3,778,027	3,031,253
- Placements with financial institutions	3,562,909	8,215,028
- Balances under resale agreements of financial assets	18,170,787	27,107,943
Total	**42,393,998**	**57,600,044**

49 Commitments and contingent liabilities

(a) Credit commitment

Facilities, including unused loan facilities and unused overdraft limit of credit cards, committed by the Bank for designated customers may be drawn on request. For other customers, the unused credit limits are cancellable and the Bank does not bear the risk of credit limits being drawn upon. Therefore, such amount is not included in the table below.

Acceptances comprise undertakings by the Bank to pay bills of exchange to third parties drawn on customers. The Bank expects most acceptances to be settled simultaneously with the reimbursement from the customers.

The Bank provides financial guarantees and letters of credit to ensure customers fulfil their obligations to third parties.

The contractual amounts of commitments and contingent liabilities are set out in the following table by category. The amounts reflected in the table for commitments assume that facilities are fully utilised. The amounts reflected in the table for guarantees and letters of credit represent the maximum potential loss that would be recognised at balance sheet date if counterparties fail completely to perform as contracted. Before the commitments are fulfilled or expired, management would assess the contingent losses, and recognise the estimated liabilities where necessary. As the facilities may expire without being drawn upon, the total of the contractual amounts set out in the table below is not representative of expected future cash outflows.

	2008	2007
Loan commitments (with an original maturity of one year or over)	1,915,831	1,714,504
Credit card unused overdraft limit	26,150,805	29,086,918
Sub-total	**28,066,636**	**30,801,422**
Bank acceptances	89,604,814	69,493,613
Letters of credit issued	6,675,550	8,292,452
Financial guarantees issued	716,886	967,954
Non-financial guarantees issued	5,048,070	4,066,733
Sub-total	**102,045,320**	**82,820,752**
Total contract value	**130,111,956**	**113,622,174**

(b) Capital commitments

The Bank had the following authorised capital commitments for purchasing fixed assets and intangible assets and making leasehold improvements at the balance sheet date:

	2008	2007
Contracted for	295,978	343,917
Not contracted for	249,452	106,411
Total	**545,430**	**450,328**

49 Commitments and contingent liabilities (continued)

(c) Operating lease commitments

The Bank leases certain properties, vehicles and electronic equipment under operating lease, which typically run for an initial period of one to five years and may include an option to renew the lease when all terms are renegotiated. At the balance sheet date, the Bank's future minimum lease payments under non-cancellable operating leases for properties, vehicles and electronic equipment were as follows:

	2008	2007
Within one year	442,116	343,586
After one year but within two years	392,053	286,362
After two years but within three years	333,170	241,476
After three years but within five years	499,362	356,822
After five years	431,801	435,336
Total	**2,098,502**	**1,663,582**

(d) Litigations and disputes

Note (31) sets out the gross amount of claims on the bank and the related litigation provision at the balance sheet date arising from litigation whereby the Bank acted as defendant.

(e) Underwriting obligations

As at 31 December 2008, the Bank has no unexpired underwriting obligations of debt securities (2007: None).

(f) Redemption obligations

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

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

	2008	2007
Redemption obligations	5,770,309	7,600,777

Management expect the amount of redemption before the maturity date of these government bonds through the Bank to be insignificant.

50 Assets pledged as security and collateral accepted as security

(a) Financial assets pledged as security

	2008	2007
Government bonds	80,000	1,285,000
PBOC bills	5,812,000	4,971,900
Debt securities issued by policy banks	5,700,000	950,000
Debt securities issued by financial institutions	7,390,000	3,895,000
Discounted bills	24,988,838	9,029,428
Loans	300,223	1,434,850
Total	**44,271,061**	**21,566,178**

The related secured liabilities are recorded as balances under repurchase agreements of financial assets with approximately the same carrying values at the balance sheet date (Note 27). These transactions are conducted under usual and customary terms.

At the balance sheet date, the guarantee periods of the above collateral are within 12 months at 31 December 2008.

(b) Collateral accepted as security

At the balance sheet date, the Bank holds the following collateral under purchase and resale agreements (Note 10(a)):

	2008	2007
Government bonds	3,949,825	3,893,548
PBOC bills	8,248,018	8,290,600
Debt securities issued by policy banks	2,404,512	447,731
Debt securities issued by financial institutions	5,279,145	5,892,109
Discounted bills	44,669,978	30,802,824
Loans	300,000	1,159,179
Total	**64,851,478**	**50,485,991**

The fair value of the collaterals that can be sold or re-pledged in the absence of default by the owners of the collaterals under the purchase and resale agreements are as follows:

	2008	2007
Government bonds	52,110	746,407
PBOC bills	3,214,509	-
Debt securities issued by policy banks	1,381,110	338,756
Debt securities issued by financial institutions	2,359,872	941,998
Discounted bills	44,428,966	30,802,824
Total	**51,436,567**	**32,829,985**

50 Assets pledged as security and collateral accepted as security (continued)

(b) Collateral accepted as security (continued)

Among the above collaterals accepted as security, the Bank has re-pledged RMB 22.6 billion of discounted bills for repurchase agreements, which have been presented in Note 50(a). The Bank has the obligation to return the bills on maturity according to the resale agreements.

These transactions are conducted under usual and customary terms.

At the balance sheet date, the guarantee periods of the above collaterals are within 12 months.

51 Entrusted lending business

The Bank provides entrusted lending business services to government agencies and corporations. All entrusted loans are made under the instruction or at the direction of these entities and are funded by entrusted funds from them. Income related to these services is included in the income statement as fee income.

Entrust assets and the corresponding liabilities are not assets and liabilities of the Bank and are not recognised in the balance sheet. However, if the amount of the entrusted loan funds is greater than that of the entrusted loans, the relevant surplus funding is accounted for as deposits from customers.

At the balance sheet date, the entrusted assets and liabilities were as follows:

	2008	**2007**
Entrusted loans	14,079,727	11,606,237
Entrusted funds	(14,079,727)	(11,606,237)

52 Risk management

The Bank has exposure to the following risks from its use of financial instruments:

- credit risk
- Market risk
- liquidity risk
- operational risk

(a) Credit risk

Credit risk represents the potential loss that may arise from the failure of a debtor to meet its obligation or commitment to the Bank. It arises primarily from the Bank's credit asset portfolios.

The Bank classifies the loans into five categories based on their credit risk, which are pass, special mention, substandard, doubtful and loss; and loans in the substandard, doubtful and loss categories are considered as non-performing loans ("NPLs"). The definitions of these five categories are as follows:

Pass:	The debtors can honour their obligations under the loan contract. There is no reason to doubt their ability to repay the principal and interest in full on a timely basis.
Special mention:	The debtors are able to service their loans currently. However there are adverse factors by which repayment may be adversely affected.
Substandard:	The debtors' abilities to service their loans are in question, and they are unable to repay the principal and interest in full with the operating income generated from the normal course of business. Losses may incur even when the guarantees are invoked.
Doubtful:	The debtors cannot repay the principal and interest in full and significant losses will incur even when the guarantees are invoked.
Loss:	Only a small portion of or none of the principal and interest can be recovered even after taking all possible measures and exhausting all legal remedies.

52 Risk management (continued)

(a) Credit risk (continued)

To classify loans as NPLs, the following factors will generally be considered:

- The debtor experiences significant financial difficulties, such as material cash flow problems; lower-than-industry-average or substantial drop in key financial indicators, including a large increase in the receivables and an extension of the repayment duration, an increase in other receivables, a significant increase in long-term debt, a substantial reduction in the cash flow from financing, an adverse change in the business environment, for example a significant decline in demand for the debtor's major products, loss of significant customers, failure to repay the judgement debt or significant default in repayment of bank loans, etc.

- The debtor breaches the loan contract due to inability of repayment, including a default in repaying the principal or interest; the debtor intentionally and in bad faith breaches its undertaking made to the Bank, including a transfer of key assets and production and operating facilities, long delay or material change of scheduled projects that would significantly affect the loan repayment, misappropriation of the loan in projects in contrary to the laws and regulations as well as lending policies of the bank that causes a severe breach of the terms in the loan contract and there is no objective evidence of other sources of repayment of the loan, suspension or significant delay of the projects under property financing unless there is objective evidence that the borrower can sell the project before the contractual loan repayment date or has obtained committed alternative sources of funds which are sufficient to meet the loan repayment obligations.

- The debtor is likely to go out of business or undergo other forms of financial reorganisation. For example, the normal production of the debtor's major product has been seriously affected by a material negligence occurred in its production facilities; a debtors' production has been stopped or suspended thus the Bank has suspended accordingly its financing or loan granted for the project.

- The debtor's normal income from its business is insufficient for repaying loans and interest, and the proceeds from auction of collaterals or guarantees invoked are insufficient for repaying the principal, interest and the related expenses.

- The repayment date for loans or receivables has been adjusted or the loans or receivables have been restructured due to non-repayment of the overdue principal or interest by the borrower unless the term of facility extended to such borrower has been reasonably adjusted by the Bank and that no arrangement has been made for waiving the borrower's obligations of repaying the principal and interest and that the borrower's ability to repay the loan as restructured is not in question.

52 Risk management (continued)

(a) Credit risk (continued)

Concentration of credit risk: When a certain number of customers conduct the same operating activities, are situated in the same geographical location or their industries have similar economic characteristics, their ability to honor their contracts would be influenced by the same economic change. Concentration of credit risk reflects the sensitivity of the Bank's results to a specific industry or geographical location. The principal place of business of the Bank is the PRC. However, the PRC is large and the level of economic development differs among regions (e.g. some regions are designated by the central government as special economic zones to attract investment). As a result, the risks among regions differ.

To identify, evaluate, monitor and manage credit risk, the Bank designs reporting structure, credit policies and processes required for effective credit risk management and implements systematic control procedures. As approved by the Board of Directors, the Bank optimises its credit approval flow, in which both management and control of credit risks are reinforced while function and responsibilities of credit approval section are further specified. Chief Risk Officer is responsible for organizing all the operations regarding the Bank's risk management and planning, examining credit risk management strategy. The Credit Management Department ("the CMD") formulates credit policies and related regulations for a certain period in accordance with State's relevant laws and regulatory requirements and monetary policies, as well as the Bank's operation goals and objectives. The CMD then provides risk guideline on marketing strategy based on analysis of development of credit business and risk management status in consideration of statistical data of credit assets of the Bank. As a functional department of the head office's Credit Approval Committee, Credit Approval Department ("the CAD") reviews and approves credit project by authorization level. CAD in each tier branch is responsible for reviewing and approving all credit business within its annual authorization limit. To mitigate risk, the Bank may obtain collaterals and guarantees from customers where appropriate.

With respect to daily operations, the Credit Review Department is responsible for the management of risk controls for the overall credit policies, operation and management of lending businesses, establishment of credit system and authorisation to its subordinated units. Being a standing body of the Head Office's Credit Approval Committee, the Credit Approval Department reviews and approves various lending businesses reported to and filed with the department.

52 Risk management (continued)

(a) Credit risk (continued)

(i) Maximum exposure

Maximum exposure to credit risk at the balance sheet date without taking consideration of any collateral held or other credit enhancements is represented by the carrying amount of each financial assets in the balance sheet after deducting any impairment allowance. A summary of the maximum exposure is as follows:

	2008	2007
Balances with central banks	61,385,225	59,477,657
Deposits with financial institutions	3,785,583	3,515,749
Placement with financial institutions	16,412,333	12,972,244
Trading financial assets	2,999,080	3,133,945
Positive fair value of derivative instruments	156,376	26,778
Balances under resale agreements of financial assets	64,851,478	50,485,991
Interest receivables	2,612,876	1,547,521
Loans and advances to customers	298,338,237	240,544,962
Available-for-sale debt securities	39,803,998	41,619,192
Held-to-maturity debt securities	30,770,132	-
Receivables investments	6,377,428	6,827,360
Others	9,715,299	10,488,044
Sub-total	**537,208,045**	**430,639,443**
Loan commitments and other credit related Commitments	28,066,636	30,801,422
Financial guarantees and other credit related contingent liabilities	102,045,320	82,820,752
Sub-total	**130,111,956**	**113,622,174**
Maximum exposure to credit risk	**667,320,001**	**544,261,617**

52 Risk management (continued)

(a) Credit risk (continued)

(ii) Analysis of loans and advances to customers by credit quality:

	2008						
	Impaired loans and advances for which allowances for impairment are individually assessed	Impaired loans and advances for which allowances for impairment are collectively assessed	Overdue but not impaired: Less than 90 days	Overdue but not impaired: 90-180 days	Overdue but not impaired: over 180 days	Not overdue and not impaired	Total
Gross balances	7,727,021	1,142,701	4,732,972	783,774	826,784	296,485,254	311,698,506
Less: Allowances for impairment	(3,746,516)	(1,037,835)	(306,023)	(50,677)	(53,458)	(8,165,760)	(13,360,269)
Net balances	**3,980,505**	**104,866**	**4,426,949**	**733,097**	**773,326**	**288,319,494**	**298,338,237**

	2007						
	Impaired loans and advances for which allowances for impairment are individually assessed	Impaired loans and advances for which allowances for impairment are collectively assessed	Overdue but not impaired: Less than 90 days	Overdue but not impaired: 90-180 days	Overdue but not impaired: over 180 days	Not overdue and not impaired	Total
Gross balances	8,941,955	989,740	1,950,398	83,031	320,967	236,100,254	248,386,345
Less: Allowances for impairment	(3,941,641)	(894,145)	(90,989)	(3,874)	(14,973)	(2,895,761)	(7,841,383)
Net balances	**5,000,314**	**95,595**	**1,859,409**	**79,157**	**305,994**	**233,204,493**	**240,544,962**

The fair values of collaterals for impaired corporate loans, and overdue but not impaired corporate loans at the balance sheet date are as follows:

	2008	**2007**
Land, properties and buildings	3,276,955	3,849,834
Other assets	1,804,721	2,499,687
Total	**5,081,676**	**6,349,521**

The Bank obtained assets by taking possession of collateral held as security, revoking guarantees or other credit enhancements. Note 21 discloses the details of such assets held by the Bank at the balance sheet date.

52 Risk management (continued)

(a) *Credit risk (continued)*

(iii) Analysis of balances with financial institutions, placements with financial institutions and balances under resale agreements of financial assets by credit quality is as follows:

	2008				
	Impaired assets for which allowances for impairment are individually assessed	Not overdue and not impaired			
	Placements with financial institutions	Balances with financial institutions	Placements with financial institutions	Balances under resale agreements of financial assets	Total
Gross balances	10,685	3,785,583	16,412,333	64,851,478	85,060,079
Less: Allowance for impairment	(10,685)	-	-	-	(10,685)
Net balances	**-**	**3,785,583**	**16,412,333**	**64,851,478**	**85,049,394**

	2007				
	Impaired assets for which allowances for impairment are individually assessed	Not overdue and not impaired			
	Placements with financial institutions	Balances with financial institutions	Placements with financial institutions	Balances under resale agreements of financial assets	Total
Gross balances	10,685	3,515,749	12,972,244	50,485,991	66,984,669
Less: Allowance for impairment	(10,685)	-	-	-	(10,685)
Net balances	**-**	**3,515,749**	**12,972,244**	**50,485,991**	**66,973,984**

52 Risk management (continued)

(a) Credit risk (continued)

(iv) Credit quality of debt securities investment

The Bank adopts a credit rating approach to manage the risk of debt securities portfolio held by the operations in Mainland China. Debt securities are rated with reference to Bloomberg Composite, or major rating agencies where the issuers of the securities are located. The carrying amount of debt securities analysed by the rating agency designations at the balance sheet date are as follows:

	2008	2007
Bloomberg Composite		
- AAA	25,269	137,600
- AA- to AA+	74,930	306,017
- A- to A+	136,516	1,055,467
- Lower than A-	540,146	360,670
Sub-total	**776,861**	**1,859,754**
Agency ratings		
- AAA	79,073,440	49,681,710
- AA- to AA+	-	10,028
- A- to A+	100,337	29,005
Sub-total	**79,173,777**	**49,720,743**
Total	**79,950,638**	**51,580,497**

(b) Market risk

Market risk is the risk of potential financial loss for the Bank arising from movements in observable market risk factors such as interest rates, foreign exchange rates, equity price, credit spread and product price. The market risk of the Bank primarily arises from its participation in the market activities of various assets and liabilities related business and products.

The Bank has established a framework of market risk management in accordance with the Guidance on Market Risk Management of Commercial Banks promulgated by the CBRC. With the approval of the Board of Directors, the Bank has established a special Risk Management Committee, which is directly responsible for overall market risk management. Besides, specialised market risk management function has also been set up to manage market risks and report to Risk Management Committee independently. The Bank has drafted the core policy regarding market risk management, and will put it into practice as the basic criteria in this aspect.

52 Risk management (continued)

(b) Market risk (continued)

The Bank is gradually introducing procedures to identify market risks, quantify risk and monitor risk. By performing deliberation procedures on new products and complicated transactional business, the Bank will ensure that market risks of new business will be identified and assessed as early as possible. Also, the Bank has established framework of market risk limit management to ensure market risk factors of relevant products and business are properly measured and monitored. Such framework is responsible for market risk reporting for the purpose of daily monitor and control on market risk gap, as well as to ensure stress testing which identifies potential loss arising from extreme cases and scenario analysis will be carried out in accordance with the prudential requirement of market risk management sector. Currently, the Bank is developing and establishing the relevant IT system platform in order to measure and monitor risk gap of bank accounts and transaction accounts throughout at the Bank.

(i) Interest risk management

Interest rate risk is the likelihood of loss that may arise from movements in market interest rate. The Bank predicts interest rate risk exposure by studying future interest rate movements with various macro economic indicators, and predicts future funding movements and trends within the Bank by referring to the Bank's funding costs, capital adequacy ratios, growth of loans and deposits and other factors, so as to study the interest rate risk appetite of the Bank.

The Bank mainly manages interest rate risks with asset portfolio. Asset portfolio aims at diversifying risks and improves profitability with diversification of assets.

52 Risk management (continued)

(b) Market risk (continued)

(i) Interest risk management (continued)

At present the RMB interest rate risk mainly represents risk arising from interest rate policy fluctuations and interest sensitive assets and liabilities mismatch. Interest rate risk control focuses on treasury business. The Bank's main RMB interest rate risk management are: (1) Interest rate trend expectation. The Bank closely reviews the interest rate policies to identify the interest rate risks to order to justify interest risk limit and the control of risk exposure. (2) Constraint of investment trade by risk benchmark. This is followed by regular reassessment. (3) Modification of investment portfolio and financing structure on the market expectation. (4) Establishment of authorisation limit on Renminbin deposit and loan interest rate system. (5) Establishment of assets and liabilities management and internal transfer pricing system and control interest rate risk exposure by various financial tools. In the respect of foreign currency, the funding rate has been basically market oriented, with various tools of interest rate risk management. The interest rate risk management of the Bank mainly includes: (1) Interest rate risk measurement. Currently, the Bank has realized the precise measurement of interest rate risk for Head Office treasury and investment. The independent middle process of market risk management has commenced timely monitoring on open interest rate risk. The interest risk management system for deposit and loans accounts, i.e. Asset-Liability Management System is in progress. (2) Ascertaining the interest rate risk quota, i.e. adopting the appropriate open interest rate according to the transaction development and affordability of the Bank. (3) The banking staffs' judgment of the trend of interest rate of international major currencies are reflected in Head Office's investment portfolio. The long term foreign currency loan balance of the Bank is small. The increased foreign currency loan business mainly consists of trade finance, and the terms do not exceed 1 year, which is nearly equivalent with the period of foreign currency capital. Based on the prudent overseas investment strategy, the Bank has already reduced the balance of foreign currency debt investment to less than USD 50 million. The surplus foreign currency fund was mainly used for domestic trade financing and money market. The average net duration of foreign currency assets and liabilities is less than 1 year.

52 Risk management (continued)

(b) Market risk (continued)

(i) Interest risk management (continued)

The following tables indicate the effective interest rates for the Bank's assets and liabilities for the year and the expected next repricing dates (or maturity dates whichever are earlier) for the assets and liabilities at the balance sheet date:

	2008						
	(Note (i)) Effective interest rate	Total	Non-interest bearing	Within 3 months	Between 3 months and 1 year	Between 1 year and 5 years	More than 5 years
Assets							
Cash and balances with central banks cash at bank	1.75%	63,634,498	2,416,946	61,217,552	-	-	-
Balances with financial institutions	4.13%	85,049,394	881,165	75,466,980	8,701,249	-	-
Loans and advances to customers	7.91%	298,338,237	-	120,344,519	177,978,562	406	14,750
Investments	4.47%	80,032,347	81,709	12,941,483	30,354,276	32,682,035	3,972,844
Others	2.68%	18,960,873	10,097,454	70,112	63,000	8,730,307	-
Total assets		**546,015,349**	**13,477,274**	**270,040,646**	**217,097,087**	**41,412,748**	**3,987,594**
Liabilities							
Deposits from financial institutions	3.59%	(107,188,429)	-	(82,928,429)	(10,460,000)	(13,800,000)	-
Deposits from customers	2.32%	(404,654,710)	(421,253)	(266,538,779)	(97,622,535)	(39,568,936)	(503,207)
Tax payables	N/A	(1,604,350)	(1,604,350)	-	-	-	-
Subordinated bonds issued	6.11%	(5,000,000)	-	-	(700,000)	(4,300,000)	-
Others	N/A	(7,966,145)	(7,966,145)	-	-	-	-
Total liabilities		**(526,413,634)**	**(9,991,748)**	**(349,467,208)**	**(108,782,535)**	**(57,668,936)**	**(503,207)**
Liquidity gap		**19,601,715**	**3,485,526**	**(79,426,562)**	**108,314,552**	**(16,256,188)**	**3,484,387**

52 Risk management (continued)

(b) Market risk (continued)

(i) Interest risk management (continued)

	2007						
	(Note (i)) Effective interest rate	Total	Non-interest bearing	Within 3 months	Between 3 months and 1 year	Between 1 year and 5 years	More than 5 years
Assets							
Cash and balances with central banks	1.65%	61,594,576	2,208,863	59,385,713	-	-	-
Balances with financial institutions	4.30%	66,973,984	-	54,069,210	12,768,257	132,870	3,647
Loans and advances to customers	6.34%	240,544,962	-	96,947,076	142,202,186	602,622	793,078
Investments	3.43%	51,724,384	143,887	3,446,928	11,191,435	32,031,964	4,910,170
Others	2.68%	16,888,839	6,681,920	20,000	186,919	10,000,000	-
Total assets		**437,726,745**	**9,034,670**	**213,868,927**	**166,348,797**	**42,767,456**	**5,706,895**
Liabilities							
Deposits from financial institutions	2.34%	(61,187,929)	-	(54,331,218)	(6,856,711)	-	-
Deposits from customers	1.88%	(352,735,392)	(497,780)	(229,574,058)	(77,795,301)	(35,690,146)	(9,178,107)
Tax payables	N/A	(2,095,162)	(2,095,162)	-	-	-	-
Others	N/A	(6,077,654)	(5,835,546)	-	(242,108)	-	-
Total liabilities		**(422,096,137)**	**(8,428,488)**	**(283,905,276)**	**(84,894,120)**	**(35,690,146)**	**(9,178,107)**
Liquidity gap		**15,630,608**	**606,182**	**(70,036,349)**	**81,454,677**	**7,077,310**	**(3,471,212)**

(i) Effective interest rate represents the ratio of interest income / expense to average interest bearing assets / liabilities.

The Bank uses sensitivity analysis to measure the potential effect of changes in interest rates on the Bank's net interest income. The following table sets forth, as at balance sheet date, the results of the Bank's interest rate sensitivity analysis on the assets and liabilities at the same date.

	2008		2007	
	Change in interest rate *(basis point)*		Change in interest rate *(basis point)*	
	+100	*-100*	*+100*	*-100*
Increase / (decrease) in annualized net interest income	28,000	(28,000)	(348,000)	348,000

52 Risk management (continued)

(b) Market risk (continued)

(i) Interest risk management (continued)

This sensitivity analysis is based on a static interest rate risk profile of assets and liabilities. The analysis measures only the impact of changes in the interest rates within a year, as reflected by the repricing of the Bank's assets and liabilities within a year, on annualised interest income. The analysis is based on the following assumptions:

(1) All assets and liabilities that reprice or are due within three months and in more than three months but within one year reprice or are due at the beginning of the respective periods (i. e., all the assets and liabilities that reprice or are due within three months reprice or are due immediately, and all the assets and liabilities that reprice or are due in more than three months but within one year reprice or are due in three months);

(2) There is a parallel shift in the yield curve and in interest rates; and

(3) There are no other changes to the portfolio.

Actual changes in the Bank's net interest income resulting from increase or decrease in interest rates may differ from the results of this sensitivity analysis.

(ii) Foreign exchange risk concentration analysis

The Bank's reporting currency is the Renminbi. The Bank's currency risk comprises exposures that arise from foreign currency portfolio originated from daily treasury business and structured currency risk originated from foreign currency paid-in capital.

The currency risks of the trading book include the risks arising from foreign currency transactions on behalf of the customers and the corresponding squared transactions, as well as proprietary short term foreign exchange transactions. The Bank manages the currency risk mainly by imposing quota on the transaction (including the quota on the exposure and stop loss). The quota is decided strictly: except the special reasons like the pegged exchange rate system of HK dollar, or SAFE imposing the quota on the exposure, the gross exchange exposure should not exceed 1% of capital when exchanging the other currencies to US dollar. The retail foreign exchange businesses are operated on an automated trading system. The Bank can monitor the exposure timely. Domestic branches rarely maintain foreign currency exposure. The transaction dealing and risk management system of Head office can measure and monitor the exchange exposure which is raised by the transactions timely.

52 Risk management (continued)

(b) Market risk (continued)

(ii) Foreign exchange risk concentration analysis (continued)

The Bank's currency exposure at the balance sheet date was as follows:

	2008				
	RMB	USD (RMB equivalent)	HKD (RMB equivalent)	Others (RMB equivalent)	Total
Assets					
Cash and balances with central banks	62,769,883	543,828	236,534	84,253	63,634,498
Balances with financial institutions	76,775,964	5,858,506	1,572,919	842,005	85,049,394
Loans and advances to customers	292,446,275	4,438,137	1,386,641	67,184	298,338,237
Investments	78,828,253	774,216	2,646	427,232	80,032,347
Others	18,800,393	75,243	14,797	70,440	18,960,873
Total assets	**529,620,768**	**11,689,930**	**3,213,537**	**1,491,114**	**546,015,349**
Liabilities					
Deposits from financial institutions	(106,600,933)	(357,460)	(152,831)	(77,205)	(107,188,429)
Deposits from customers	(391,847,500)	(7,890,470)	(3,684,138)	(1,232,602)	(404,654,710)
Tax payables	(1,599,350)	-	-	(5,000)	(1,604,350)
Subordinated bonds issued	(5,000,000)	-	-	-	(5,000,000)
Others	(7,563,818)	(181,574)	(158,061)	(62,692)	(7,966,145)
Total liabilities	**(512,611,601)**	**(8,429,504)**	**(3,995,030)**	**(1,377,499)**	**(526,413,634)**
Net position of assets / (liabilities)	**17,009,167**	**3,260,426**	**(781,493)**	**113,615**	**19,601,715**

	2007				
	RMB	USD (RMB equivalent)	HKD (RMB equivalent)	Others (RMB equivalent)	Total
Assets					
Cash and balances with central banks	60,779,037	409,727	257,739	148,073	61,594,576
Balances with financial institutions	57,075,505	5,460,285	3,989,182	449,012	66,973,984
Loans and advances to customers	232,459,902	6,464,459	1,454,102	166,499	240,544,962
Investments	49,605,057	1,503,425	188,499	427,403	51,724,384
Others	16,688,139	33,140	108,974	58,586	16,888,839
Total assets	**416,607,640**	**13,871,036**	**5,998,496**	**1,249,573**	**437,726,745**
Liabilities					
Deposits from financial institutions	(60,216,834)	(763,077)	(200,802)	(7,216)	(61,187,929)
Deposits from customers	(338,547,072)	(7,843,215)	(5,404,432)	(940,673)	(352,735,392)
Tax payables	(2,077,984)	-	-	(17,178)	(2,095,162)
Others	(4,144,338)	(1,558,093)	(163,521)	(211,702)	(6,077,654)
Total liabilities	**(404,986,228)**	**(10,164,385)**	**(5,768,755)**	**(1,176,769)**	**(422,096,137)**
Net position of assets	**11,621,412**	**3,706,651**	**229,741**	**72,804**	**15,630,608**

52 Risk management (continued)

(b) Market risk (continued)

(ii) Foreign exchange risk concentration analysis (continued)

The Bank uses sensitivity analysis to measure the potential effect of changes in foreign currency exchange rates on the Bank's net profit and loss. The following table sets forth, as at balance sheet date, the results of the Bank's interest rate sensitivity analysis on the assets and liabilities at the same date.

	2008		2007	
	Change in foreign currency exchange rate *(basis point)*		**Change in foreign currency exchange rate** *(basis point)*	
	+100	*-100*	*+100*	*-100*
Increase / (decrease) in annualized net profit	26,000	(26,000)	40,000	(40,000)

This sensitivity analysis is based on a static foreign exchange exposure profile of assets and liabilities. The analysis is based on the following assumptions:

(1) the foreign exchange sensitivity is the gain and loss recognised as a result of 100 basis point fluctuation in the foreign currency exchange rates against RMB;

(2) the exchange rates against RMB for all foreign currencies change in the same direction simultaneously; and

(3) the foreign exchange exposures calculated include both spot foreign exchange exposures, forward foreign exchange exposures and options.

(c) Liquidity risk

Liquidity risk arises when there is unavailability of adequate funds at reasonable cost to ensure the normal operation of the Bank. The Bank carries out the juridical person management principle on liquidity risk management. The Head Office supervises the liquidity risk of the whole bank, and the management is carried out from top down and on a hierarchy management sequence. At the Head Office level, liquidity is managed and coordinated through the ALCO. The ALCO is responsible for formulation of liquidity policies in accordance with the regulatory requirements and monthly supervision of the liquidity risk ratio. It authorizes the Treasury Department and International Business Department to manage the liquidity of RMB and foreign currency in order to ensure the efficient management of liquidity. The liquidity policies for the Bank include: projecting the fund in-flow and out-flows according to the market to maintain adequacy of the fund; supervising the liquidity ratio such as the proportion of fund and the changed structure of cash and other interest generating assets to fulfill the need of future liquidity requirement; establishing the multi-layer liquidity barrier; establishing sound foundation of liability business, increasing the proportion of core deposit to maintain the good financing ability; building sound credit risk management; establishing the liquidity risk warning system and emergency plan.

52 Risk management (continued)

(c) Liquidity risk (continued)

The following tables provide an analysis of the assets and liabilities of the Bank based on the remaining period at the balance sheet date to the contractual maturity date:

	2008						
	Overdue/ repayable on demand	Within 3 months	Between 3 months and 1 year	Between 1 and 5 years	More than 5 years	Undated	Total
Assets							
Cash and balances with central bank	16,882,275	-	-	-	-	46,752,223	63,634,498
Balances with financial institutions	3,368,212	72,979,933	8,701,249	-	-	-	85,049,394
Loan and advances to customers	18,374,935	58,920,727	158,123,077	28,375,040	34,544,458	-	298,338,237
Investments	-	3,753,643	14,250,992	53,869,772	8,076,231	81,709	80,032,347
Others	297,814	1,400,275	1,174,617	8,901,245	1,442	7,185,480	18,960,873
Total assets	**38,923,236**	**137,054,578**	**182,249,935**	**91,146,057**	**42,622,131**	**54,019,412**	**546,015,349**
Liabilities							
Deposits from financial institutions	(29,649,132)	(53,279,297)	(10,460,000)	(13,800,000)	-	-	(107,188,429)
Deposits from customers	(200,457,471)	(66,502,561)	(97,622,535)	(39,568,936)	(503,207)	-	(404,654,710)
Tax payables	-	(594,215)	(1,010,135)	-	-	-	(1,604,350)
Subordinated bonds issued	-	-	-	(5,000,000)	-	-	(5,000,000)
Others	(698,056)	(3,818,814)	(2,150,529)	(514,324)	-	(784,422)	(7,966,145)
Total liabilities	**(230,804,659)**	**(124,194,887)**	**(111,243,199)**	**(58,883,260)**	**(503,207)**	**(784,422)**	**(526,413,634)**
Liquidity gap	**(191,881,423)**	**12,859,691**	**71,006,736**	**32,262,797**	**42,118,924**	**53,234,990**	**19,601,715**

	2007						
	Overdue/ repayable on demand	Within 3 months	Between 3 months and 1 year	Between 1 and 5 years	More than 5 years	Undated	Total
Assets							
Cash and balances with central banks	19,245,820	-	-	-	-	42,348,756	61,594,576
Balances with financial institutions	2,572,268	54,031,587	10,233,612	132,870	3,647	-	66,973,984
Loan and advances to customers	11,515,980	50,672,803	120,866,258	28,010,381	29,479,540	-	240,544,962
Investments	-	2,943,905	11,238,279	32,203,154	5,195,159	143,887	51,724,384
Others	1,820	843,165	3,331,342	7,846,249	12,986	4,853,277	16,888,839
Total assets	**33,335,888**	**108,491,460**	**145,669,491**	**68,192,654**	**34,691,332**	**47,345,920**	**437,726,745**
Liabilities							
Deposits from financial institutions	(34,712,053)	(19,619,165)	(2,656,711)	(4,200,000)	-	-	(61,187,929)
Deposits from customers	(184,357,287)	(45,714,551)	(77,795,301)	(35,690,146)	(9,178,107)	-	(352,735,392)
Tax payables	-	(476,942)	(1,618,220)	-	-	-	(2,095,162)
Others	(1,857,140)	(1,967,859)	(1,596,220)	(342,594)	(2,506)	(311,335)	(6,077,654)
Total liabilities	**(220,926,480)**	**(67,778,517)**	**(83,666,452)**	**(40,232,740)**	**(9,180,613)**	**(311,335)**	**(422,096,137)**
Liquidity gap	**(187,590,592)**	**40,712,943**	**62,003,039**	**27,959,914**	**25,510,719**	**47,034,585**	**15,630,608**

52 Risk management (continued)

(c) Liquidity risk (continued)

The following tables provide an analysis of the residual contractual maturities of non-derivative financial liabilities of the bank at the balance sheet date.

	2008							
	Carrying amount	Gross cash outflow	Repayable on demand	Less than three months	Between three months and 1 year	Between 1 year and 5 years	Over 5 years	Undated
Non-derivative financial liabilities								
Deposit from financial institutions	(107,188,429)	(109,526,701)	(29,649,132)	(53,499,996)	(11,134,731)	(15,242,842)	-	-
Deposits from customers	(404,654,710)	(409,109,595)	(200,457,471)	(66,930,440)	(98,815,936)	(42,343,939)	(561,809)	-
Tax payable	(1,604,350)	(1,604,350)	-	(594,215)	(1,010,135)	-	-	-
Subordinated bonds issued	(5,000,000)	(6,508,650)	-	-	(301,730)	(6,206,920)	-	-
Others	(7,815,807)	(7,815,807)	(698,056)	(3,818,814)	(2,150,529)	(514,324)	-	(634,084)
Total	**(526,263,296)**	**(534,565,103)**	**(230,804,659)**	**(124,843,465)**	**(113,413,061)**	**(64,308,025)**	**(561,809)**	**(634,084)**

	2007							
	Carrying amount	Gross cash outflow	Repayable on demand	Less than three months	Between three months and 1 year	Between 1 year and 5 years	Over 5 years	Undated
Non-derivative financial liabilities								
Deposits from financial institutions	(61,187,929)	(62,585,078)	(34,712,053)	(19,846,212)	(2,717,003)	(5,309,810)	-	-
Deposits from customers	(352,735,392)	(356,898,840)	(184,357,287)	(45,968,774)	(78,617,295)	(37,853,544)	(10,101,940)	-
Tax payable	(2,095,162)	(2,095,162)	-	(476,942)	(1,618,220)	-	-	-
Others	(6,046,901)	(5,740,360)	(1,826,387)	(1,967,859)	(1,289,679)	(342,594)	(2,506)	(311,335)
Total	**(422,065,384)**	**(427,319,440)**	**(220,895,727)**	**(68,259,787)**	**(84,242,197)**	**(43,505,948)**	**(10,104,446)**	**(311,335)**

The above tables show the undiscounted cash flows on the Bank's financial liabilities on the basis of their earliest possible contractual maturity. The Bank's expected cash flows on these instruments vary significantly from this analysis. For example, demand deposits from customers are expected to maintain a stable or increasing balance.

52 Risk management (continued)

(d) Use of derivatives

Derivatives are off-balance sheet financial instruments which include forward and swap transactions undertaken by the Bank in the foreign exchange and interest rate markets. The Bank classifies its derivative transactions into trading account and banking account base on investment intention. The two accounts are under strict risk management. Customer-driven derivative transactions are recorded into trading account and the open positions are actively managed through entering into offsetting deals with third parties to ensure that the Bank's net exposures are within acceptable risk levels. Since the Bank's risk awareness for derivatives is always prudential, no significant positions were maintained for proprietary business by the Bank at the balance sheet date.

The notional amounts and the corresponding fair values of derivatives held by the Bank are listed below. The notional amounts of the derivatives only indicate the volume of transactions outstanding at the balance sheet date; they do not represent amounts at risk.

	2008						
	Notional amounts with remaining life of					Fair values	
	Less than three months	Between three months and one year	Between one and five years	More than five years	Total	Assets	Liabilities
Renminbi interest rate swaps	**20,000**	**80,000**	**-**	**-**	**100,000**	**94**	**(201)**
Foreign currency contracts							
- Foreign currency contracts forwards	320,319	464,865	-	-	785,184	26,169	(30,494)
- Foreign currency contracts swaps	1,687,810	683,568	-	-	2,371,378	22,265	(14,722)
- Forward currency transactions	1,600,223	2,590,684	-	-	4,190,907	104,910	(103,974)
- Renminbi contracts swaps	519,730	877,324	-	-	1,397,054	2,938	(947)
Sub-total	**4,128,082**	**4,616,441**	**-**	**-**	**8,744,523**	**156,282**	**(150,137)**
Total	**4,148,082**	**4,696,441**	**-**	**-**	**8,844,523**	**156,376**	**(150,338)**

	2007						
	Notional amounts with remaining life of					Fair values	
	Less than three months	Between three months and one year	Between one and five years	More than five years	Total	Assets	Liabilities
Interest rate swaps	**-**	**601,377**	**289,141**	**130,563**	**1,021,081**	**22,817**	**(24,422)**
Foreign currency contracts:							
- Forwards	44,429	41,778	-	-	86,207	1,403	(1,389)
- Swaps	814,838	36,470	-	-	851,308	2,558	(4,942)
Sub-total	**859,267**	**78,248**	**-**	**-**	**937,515**	**3,961**	**(6,331)**
Total	**859,267**	**679,625**	**289,141**	**130,563**	**1,958,596**	**26,778**	**(30,753)**

52 Risk management (continued)

(d) Use of derivatives (continued)

The credit risk weighted amounts in respect of these derivatives are as follows:

	2008	2007
Foreign currency forwards	34,021	2,264
Foreign currency swaps	45,979	11,061
Renminbi forwards	146,819	-
Renminbi swaps	16,909	-
Renminbi interest rate swaps	1,094	-
Foreign currency interest rates swaps	-	23,255
Total	**244,822**	**36,580**

The credit risk weighted amounts refer to the amounts as computed in accordance with the rules set out by the CBRC and depend on the status of the counterparties and the maturity characteristics. The effects of bilateral netting arrangements have been taken into account in calculating the credit risk weighted amounts.

(e) Operational risk

Operational risk includes the risk of direct or indirect loss due to an event or action causing failure of technology, processes, infrastructure and personnel, and other risks having an operational impact.

The Bank manages this risk through an internal control-based environment by establishing a framework of policies and procedures in order to identify, assess, control, manage and report risks. The framework covers all business functions ranging from finance, credit, accounting, settlement, savings, treasury, intermediary business, computer system applications and management, safeguarding of assets and legal affairs. The Bank relies on the above to identify and monitor the operational risk inherent in all key products, activities, processes and systems.

(f) Fair value information

(i) Financial assets

The Bank's financial assets mainly include cash, balances with central banks, balances with financial institutions, placements with financial institutions, balances under resale agreements of financial assets, loans and advances to customers, positive fair value of derivatives, debt securities investments and non-long-term equity investments.

52 Risk management (continued)

(f) Fair value information (continued)

(i) Financial assets (continued)

Balances with central banks, balances with financial institutions, placements with financial institutions, and balances under resale agreements of financial assets

Balances with central banks, balances with financial institutions, placements with financial institutions, and balances under resale agreements of financial assets are mainly priced at market interest rates and due within one year. Accordingly, the carrying values approximate the fair values.

Loans and advances to customers

Loans and advances to customers are mostly priced at floating rates close to the PBOC rates. Accordingly, their carrying values approximate the fair values.

Positive fair value of derivatives, debt securities investments and non-long-term equity investments

Positive fair value of derivatives, available-for-sale investments and trading financial assets are stated at fair value. The fair values of the Bank's held-to-maturity investments and receivable investments at the balance sheet date are disclosed in Note 14 and Note 15 respectively. The fair values of held-to-maturity investments are determined with reference to the available market value. The Bank adopts discounted cash flow method or other valuation methods to determine the fair value of receivables investments.

(ii) Financial liabilities

The Bank's financial liabilities mainly include deposits from financial institutions, takings from financial institutions, balances under repurchase agreements of financial assets, deposits from customers, negative fair value of derivatives and subordinated bonds issued.

Deposits from financial institutions, takings from financial institutions, and balances under repurchase agreements of financial assets

Deposits from financial institutions, takings from financial institutions, and balances under repurchase agreements of financial assets are mostly priced at market rates and due within one year. Accordingly, the carrying values approximate the fair value.

Deposits from customers

Deposits from customers are mostly priced at floating rates approximating PBOC rates and due within one year. Accordingly, the carrying values approximate the fair values.

52 Risk management (continued)

(f) Fair value information (continued)

(ii) Financial liabilities (continued)

Negative fair value of derivatives

Negative fair value of derivatives is stated at fair value.

Subordinated bonds issued

The fair value of subordinated bonds issued is disclosed in Note 32. The fair values of subordinated bonds issued are determined with reference to the available market value.

(g) Capital management

The Bank's capital management aims to optimise the shareholder's equity through structuring the proper asset management system, and it includes optimisation of asset structure and asset allocation between different business lines, which can be further specified as: (1) Developing schemes for asset supplement and optimising asset structure in order to fulfill the funding needs of different business; (2) Building up concept of asset constraint and allocating assets appropriately in order to enhance operating efficiency of assets; (3) Introducing review system with respect to asset efficiency to constrain the expanding ambition of the branches; (4) Improving risk management system in order to reduce the fund occupancy by risk-bearing assets; (5) Building up advanced enterprise culture and code of conduct including "Optimisation of Shareholder's Equity" and "Risk Covered by Fund".

The Bank calculates capital adequacy ratio in accordance with the guidelines issued by the CBRC. The capital of the Bank is analysed into core capital and supplementary capital. The core capital mainly includes paid-up share capital, capital reserve, surplus reserve and retained earnings, after the deductions of dividend declared after the balance sheet date and 50% of unconsolidated equity investments. Supplementary capital includes collectively assessed impairment allowance for loans and long-term subordinated bonds. According to a notice issued by the CBRC (Amendment to "Regulation Governing Capital Adequacy of Commercial Banks") on 3 July 2007, supplementary capital should include reserves arising from changes in the fair value of available-for-sale debt securities

The CBRC requires that the capital adequacy ratio and core capital adequacy ratio for commercial banks shall not fall below 8% and 4% respectively. For commercial banks, supplementary capital shall not exceed 100% of core capital while long-term subordinated liabilities included in the supplementary capital shall not exceed 50% of the core capital. At present, the Bank is fully compliant with legal and regulatory requirements.

52 Risk management (continued)

(g) *Capital management (continued)*

Capital adequacy ratio management is a core issue of capital management. The capital adequacy ratio reflects the Bank's sound operations and risk management capability. The Bank's capital adequacy ratio management objectives are to meet the legal and regulatory requirements and to prudently determine the capital adequacy ratio under realistic exposures with reference to the capital adequacy ratio levels of leading banks in the market and the Bank's operating situations.

The Bank predicts, plans, and manages the capital adequacy ratio by using scenario models and stress tests based on its strategic development plans, business expansion needs, and risk exposure trends.

53 Related parties and transactions

(a) *Terms of transactions*

The management consider that all significant transactions (including payment method and terms) between the Bank and related parties are conducted on an arm's length basis.

(b) *Shareholders*

Since the Bank does not have controlling shareholders, the following shareholding companies refer to shareholders having 5% or more of the Bank's equity:

	2008 and 2007	
	No. of shares held	%
CITIGROUP INC.	2,281,685	20.00%
Chinalife Insurance Company Ltd.	2,281,685	20.00%
State Grid Corporation of China	2,281,685	20.00%
CITIC Trust Co., Ltd.	2,281,685	20.00%

	2008	2007
Balances with financial institutions	272,350	138,655
Loans and advances to customers (Note (i))	182,402	205,953
Trading debt securities investment	-	75,274
Deposits from customers	7,379,139	7,123,037
Interest payable	113,964	131,996
Other liabilities	9,620	17,000

53 Related parties and transactions (continued)

(b) Shareholders (continued)

	2008	2007
Interest income	14,679	15,783
Interest expense	398,093	149,052
Fees and commission income	37,218	6,547
loss arising from changes in fair value (Note (ii))	66,086	70,606
Operating and administrative expenses (Note (iii))	14,616	17,000

(i) No allowance for impairment was made on loans to shareholders related parties.

(ii) Fair value loss is recognised due to the decline in value of a bond held by the Bank, which was issued by a fund under supervision of Citibank International PLC., one of CITIGROUP INC.'s subsidiary.

(iii) The operating and administrative expenses represented the accrued technical assistance fee payable to CITIGROUP INC..

(c) Entities controlled by the directors and supervisors

	2008	2007
Loan and advances to customers (Note (i))	34,000	37,500

	2008	2007
Interest income	2,554	2,500

(i) No provision for loan losses was made on the loans and advances to entities controlled by the directors and supervisors.

(d) Investment entities controlled or commonly controlled by the Bank but which are not consolidated

The following transaction balances and volume with investment entities include only balances and volume with Guangdong Guangfa International Finance & Consulting Co., Ltd..

	2008	2007
Deposits from customers	6,745	7,412
Other payables	35,490	26,564

	2008	2007
Interest expense	58	62
Operating and administrative expenses (Note (i))	217,107	135,210

(i) The operating and administrative expenses represented the outsourcing expense paid to Guangdong Guangfa International Finance & Consulting Co., Ltd..

53 Related parties and transactions (continued)

(e) Key management personnel

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including Directors, Supervisors and Executive Officers.

The Bank's management is of the opinion that the transactions with key management personnel, their close relatives and the enterprises that they have any control or significant influence over are conducted in the normal course of business, at relevant market rates at the time of transactions and in accordance with normal business procedures. In addition, other than the aggregate emoluments for the key management personnel disclosed in Note 43(i), as they are insignificant, the Bank has not disclosed the details of other transactions.

54 Post balance sheet events

In accordance with the 2008 profit appropriation proposal as approved during the meeting of Board of Directors on 17 March 2009 ("the 2008 profit appropriation proposal"), the Bank has appropriated 10% of its current year net profit to the statutory surplus reserve amounting to RMB 0.278 billion (2007: RMB 0.268 billion) (Note 36), and made appropriation to the regulatory general risk reserve of RMB 0.708 billion (2007: RMB 3.525 billion) (Note 37) such that the reserve balance is equivalent to 1% of the Bank's aggregate amount of risk-bearing assets as at 31 December 2008.

According to the 2008 profit appropriation proposal, the Bank will distribute both cash and share dividends to all shareholders, including cash dividend of RMB 0.244 per 10 shares, amounting to RMB 0.278 billion (2007: Nil), and share dividend of 0.5 share per 10 shares with par value of RMB 1 each, amounting to RMB 0.57 billion (2007: Nil). In accordance with the Bank's Charter, after the approval of the 2008 profit appropriation proposal in the meeting of shareholders, the Board must complete dividend distribution within two months. The dividends as approved for distribution after the balance sheet date have not been recognized as liabilities as at the balance sheet date.

55 Comparative figures

The Bank adopted CAS (2006) on 1 January 2008. Adjustments for comparative figures are summarised in Note 4. Besides, certain comparatives figures have been adjusted to conform with changes in disclosures in the current year. Further details of these adjustments are disclosed in 9 (i).

Directory of Branches and Sub-branches

Guangdong Development Bank Head Office
Address: Guangdong Development Bank Building, No.83 Nonglinxia Road, Guangzhou, Guangdong
Telephone: 020-95508
Facsimile: 020-87310779
Postcode: 510080

Beijing Branch
Address: No.2 Dahua Road, Dongcheng District, Beijing
Telephone: 010-65269966
Facsimile: 010-65266728
Postcode: 100005

Shanghai Branch
Address: No.555 Xujiahui Road, Shanghai
Telephone: 021-63022233
Facsimile: 021-63901929
Postcode: 200023

Dalian Branch
Address: No.3 Zhongshan Plaza, Zhongshan District, Dalian, Liaoning
Telephone: 0411-82553000
Facsimile: 0411-82553258
Postcode: 116001

Daqing Sub-branch
Address: Ranghulu District, Daqing, Heilongjiang
Telephone: 0459-6139188
Facsimile: 0459-6139012
Postcode: 163453

Zhengzhou Branch
Address: No.19 East Weisi Road, Zhengzhou, Henan
Telephone: 0371-65618315
Facsimile: 0371-65618202
Postcode: 450008

Xinxiang Sub-branch
Address: No.276 Shengli Road, Xinxiang, Henan
Telephone: 0373-2048670
Facsimile: 0373-2048686
Postcode: 453000

Anyang Sub-branch
Address: West Ren Min Avenue, Beiguan District, Anyang, Henan
Telephone: 0372-5937777
Facsimile: 0372-5933951
Postcode: 455000

Nanjing Branch
Address: Yunhu Building, No.47 Hunan Road, Gulou District, Nanjing, Jiangsu
Telephone: 025-83305888
Facsimile: 025-83321515
Postcode: 210009

Wuxi Sub-branch
Address: No.79 Wu'ai Road, Wuxi, Jiangsu
Telephone: 0510-82793999
Facsimile: 0510-82730202
Postcode: 214031

Hangzhou Branch
Address: No.516 Yan'an Road, Hangzhou, Zhejiang
Telephone: 0571-87019888
Facsimile: 0571-87917852
Postcode: 310006

Ningbo Branch
Address: No.473 Lingqiao Road, Ningbo, Zhejiang
Telephone: 0574-87289888
Facsimile: 0574-87191000
Postcode: 315000

Wenzhou Branch
Address: 1/F Yinhe Building, No.12 Renmindong Road, Wenzhou, Zhejiang
Telephone: 0577-88829588
Facsimile: 0577-88891105
Postcode: 325003

Kunming Branch
Address: No.2 Dianchi Road, Kunming, Yunnan
Telephone: 0871-4192153
Facsimile: 0871-4177444
Postcode: 650034

Yuxi Sub-branch
Address: No.1 Dongfengnan Road, Yuxi, Yunnan
Telephone: 0877-2064659
Facsimile: 0877-2064667
Postcode: 653100

Qujing Sub-branch
Address: No.1-3 Jianshe Road, Qujing, Yunnan
Telephone: 0874-3130891
Facsimile: 0874-3130865
Postcode: 655000

Wuhan Branch
Address: Sanxiahanban Building, No.8 Xinhuaxia Road, Jianghan District, Wuhan, Hubei
Telephone: 027-85354567
Facsimile: 027-85354848
Postcode: 430015

Shenyang Branch
Address: No.227 Qingnian Street, Shenhe District, Shenyang, Liaoning
Telephone: 024-23985789
Facsimile: 024-31303301
Postcode: 110016

Guangzhou Branch
Address: No.3 Lujing Road, Guangzhou, Guangdong
Telephone: 020-83573188
Facsimile: 020-83503050
Postcode: 510091

Shenzhen Branch
Address: 19-21/F West Block, Shopping Plaza, No. 123 Shennan Rd East, Shenzhen, Guangdong
Telephone:0755-82380048 82380005 82380009
Facsimile: 0755-82380002
Postcode: 518001

Zhuhai Branch
Address: No. 68 Jingshan Road, Zhuhai, Guangdong
Telephone: 0756-3250900
Facsimile: 0756-3250700
Postcode: 519015

Shantou Branch
Address: Chaoshanxinghe Building, Jinhuan Road, Shantou, Guangdong
Telephone: 0754-8262689
Facsimile: 0754-8262489
Postcode: 515041

Chaozhou Branch
Address: the First Floor of Fengxin Building, Chaozhou Avenue, Chaozhou, Guangdong
Telephone: 0768-2264199
Facsimile: 0768-2290056
Postcode: 521000

Jieyang Sub-branch
Address: South Huangqishan Avenue,Dongshan District , Jieyang, Guangdong
Telephone: 0663-8232716
Facsimile: 0663-8232716
Postcode: 522031

Meizhou Branch
Address: No.41 Jiaying Road, Meizhou, Guangdong
Telephone: 0753-2242068 2242273 2247501
Facsimile: 0753-2243595
Postcode: 514021

Huizhou Branch
Address: No.19 Xiapu Avenue, Huizhou, Guangdong
Telephone: 0752-2119898
Facsimile: 0752-2119888
Postcode: 516001

Qingyuan Branch
Address: Guangfa Building, Beijiangsan Road, Zone 3 Xinchengxi, Qingyuan, Guangdong
Telephone: 0763-3855009
Facsimile: 0763-3855010
Postcode: 511515

Zhongshan Branch
Address: No.55 Huabai Road, Shiqi, Zhongshan, Guangdong
Telephone: 0760- 8861998
Facsimile: 0760-8861968
Postcode: 528403

Directory of Branches and Sub-branches

Shaoguan Branch
Address: Block 41, Huiminnan Road, Shaoguan, Guangdong
Telephone: 0751-8177989
Facsimile: 0751-8763208
Postcode: 512025

Dongguan Branch
Address: No.6 Dongcheng Xi Road, Dongguan, Guangdong
Telephone: 0769-22477888 (Operator)
Facsimile: 0769-22456654
Postcode: 523008

Foshan Branch
Address: Guangfa Building, No.29 Jihua 5th Road, Foshan, Guangdong
Telephone: 0757-83358832
Facsimile: 0757-83359356
Postcode: 528000

Jiangmen Branch
Address: Block 5, No.49 Jianshe Road, Jiangmen, Guangdong
Telephone: 0750-3288388
Facsimile: 0750-3354276
Postcode: 529000

Zhaoqing Branch
Address: No.75 Tianningbei Road, Zhaoqing, Guangdong
Telephone: 0758-2313023
Facsimile: 0758-2313013
Postcode: 526040

Yunfu Sub-branch
Address: No.71 Chengnan Road, Yunfu, Guangdong
Telephone: 0766-8816522
Facsimile: 0758-8830600
Postcode: 527300

Yangjiang Branch
Address: No.38 Jinghu Garden, Dongfengsan Road, Yangjiang, Guangdong
Telephone: 0662-3367737
Facsimile: 0662-3367627
Postcode: 529500

Zhanjiang Branch
Address: No.22 Zhongshanyi Road, Chikan, Zhanjian, Guangdong
Telephone: 0759-3366558
Facsimile: 0759-3313285
Postcode: 524032

Maoming Branch
Address: No.159 Yingbin Road, Maoming, Guangdong
Telephone: 0668-2916688
Facsimile: 0668-2286313
Postcode: 525000

Heyuan Branch
Address: No.19 Youli Building, West Jianshe Avenue, Heyuan, Guangdong
Telephone: 0762-3168600
Facsimile: 0762-3168604
Postcode: 517000

Macau Branch
Address: Alameda Dr.Carlos D' Assumpcao, nos 181 a 187 Centro Comercial do Grupo Brilhantismo, 180 Andar
Telephone: 00853-28750328
Facsimile: 00853-28750728

Hong Kong Representative Office
Address: Room 3002, 9 Queen's Road, Central, Hong Kong
Telephone: 00852-28101213
Facsimile: 00852-25300123

Beijing Representative Office
Address: No.2 Dahua Road, Dongcheng District, Beijing
Telephone: 010-65266741
Facsimile: 010-65266742
Postcode: 100005