



**GUANGDONG
DEVELOPMENT BANK**
ANNUAL REPORT 2007

Important Notice

- The Board of Directors, Directors and Senior Management 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. Annual Report 2007 was reviewed and approved by the 5th meeting of the Fifth Board of Directors of the Bank. 17 Directors were required to be present at the meeting, and 13 Directors were in attendance. Director Wang Fenghua authorized Director Lin Jianjun in writing to exercise the right to vote on his behalf, Independent Director Lin Yixiang authorized Independent Director Phee Boon Kang in writing to exercise the right to vote on his behalf, Director Zhang Shengman authorized Director Robert Morse in writing to exercise the right to vote on his behalf, Director Pu Jian authorized Director Li Zimin in writing to exercise the right to vote on his behalf.
- KPMG Huazhen Accounting Firm has audited the Bank's 2007 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, Chief Financial Officer Edward Chou and Head of Financial & Accounting Department Sunfei ensure the authenticity and completeness of financial statements in 2007 annual report.

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| Chairman's Statement



The Board Chairman of Guangdong Development Bank: **Li Ruohong**

2007 is the first year for Guangdong Development Bank to push ahead full-scale reform in various fields after restructuring. During this year, evident progress has taken place in corporate governance and shareholders' enthusiasm for participation in our bank business is unprecedentedly high, which increasingly enhances the supervision and promotion to the Bank. The governance structure centered on the "Board of Directors, Board of Supervisors, CPC Committee and Senior Management" featuring mutual independence and mutual balance has been established where the Board of Directors plays a core role in the corporate governance. Procedural rules of decision-making for the Board and its five specialized committees have officially come into effect, while standard and efficient operation and scientific decision-making have been basically in place. All members of the Board carried out their duties and fulfilled their obligations assiduously and scrupulously. The diversified organizational composition brought extensive expertise and experience which ground well for the internationalization and the enhancement of corporate governance.

Through joint efforts across the Bank, a leap of quality has been attained in all operation and management indexes of the Bank in 2007. With the theme of "Stability and Development", our performance and profitability have been greatly enhanced and the development of all businesses has reached a new level. The Five-year Strategic Development Plan adopted by the Board of Directors and the General Meeting of Shareholders points out the targets and direction for future development of the Bank. We have taken substantial measures to further replenish the capital through issuing long-term subordinated bonds which will lay a solid capital foundation for the comprehensive business development of the Bank. Taking structural re-adjustment, flow redesign and technological upgrade as the turning point, and preceded by product innovation, business transformation of the Bank starts to take effect. Focusing on cultivation of reserve talents and taking reform of human resources as the breakthrough point, the Bank has been cultivating young managers and experts in all areas at all levels through various channels. A group of new-type talents team with good character, professional competence and great potential is taking shape, to serve as a good foundation for sustainable development for the Bank in the future.

On behalf of the Board, I'd like to take this opportunity to extend my sincere gratitude to shareholders and clients for their great support and full trust, and to express my heartfelt appreciation to all GDB staff for their arduous work, initiative and creativity.

2008 is the year for the Olympic Games, a new starting point for deeper reform in the economic and financial sector in China which has experienced thirty years' reform and opening up, also a year for GDB to tackle difficult situation, make vigorous efforts and bring about new brilliance after 20 years' striving for development. Following the trend of the times and aiming to realize the concerted growth of corporate value, return of shareholders and interests of employees, the Bank will proactively cope with the changes in macroeconomic and financial policies, take initiative to meet various challenges and tightly seize the opportunities. Meanwhile, the Bank will further reinforce and perfect the corporate governance, unswervingly enhance all kinds of internal synergy and reform, accelerate transform pace of operation and profitability mode, intensify business and product innovation force, strictly control and prevent all sorts of risks, with the aim to take a new leap, make new breakthrough, yield new achievements and stride forward to a leading bank.

Chairman Li Ruohong:



President's Statement



The President of Guangdong Development Bank : **Michael Zink**

2007 is a successful year for GDB. It is our first year after GDB accomplished restructuring and introduced strategic investors, and with the guidance of regulatory authorities and the full support of our shareholders, all of our GDB employees pulled together and strove for transformation and growth. By producing milestone progress in all of our major business areas, GDB has returned to profitability and achieved the best results in our twenty years of development. The marked performance was underpinned by an adherence to scientific development and our strong commitment to transform GDB into a first-class joint-stock commercial bank that is customer-centered, innovative and financially strong. All of these efforts have laid a solid foundation for sustainable growth.

In 2007, we formulated and implemented the Five-year Strategic Development Plan and redefined our strategic positioning and development objectives. We have proactively improved our operations and growth models, and the Bank has seen progresses made in business structure, revenue composition, channel expansion and customer segmentation. This has strengthened our competitiveness and brought us to a new height of operation capability.

For financial year ending 31 December 2007, Total Assets stood at RMB 437.52 billion, representing 17% growth against the same period in 2006. Total Liabilities were at RMB 422.1 billion, representing 17% yoy growth. Operating Profit was RMB 5.89 billion, and Net Profit grew to RMB 2.67 billion. Annual fee-based net income grew 17% yoy to RMB 1.11 billion.

In 2007, we performed a series of reform initiatives and strengthened our infrastructure. To improve our risk management capability, we implemented a vertical risk control system covering every aspect of our credit business. Processes have been optimized to enable a fundamental change in bank-wide risk management approach. We adopted a proactive approach towards the resolution of non-performing loans (NPLs) and achieved “double reductions” in NPLs and NPL ratio. In Audit, we led the industry by enacting a vertical management and oversight of the audit functions and strengthened our audit inspection and case prevention capability. To improve operational efficiency, we launched “Project Summit I” and “Project Summit II”, initiating the re-engineering of our current operations and business processes. To upgrade our core banking system and modernize IT infrastructure, we appointed IBM as our strategic IT consultant to assist in designing the IT architecture to support growth as envisioned in the Five-Year Plan. We also made steady progress in the network expansion and initiated Model Branch project to standardize and modernize our branding image at outlets. Human resources management was optimized to raise the overall quality of our employees.

Looking forward, we see the year 2008 as the year of high expectations, strong growth and active innovation. Our priority in 2008 is to build on the momentum achieved in 2007 and make the most of the implementation of our Five-year Plan to achieve stronger growth and maintain and fortify market leadership in key business areas. We shall continue transformation in corporate governance, organizational structure, risk management, internal control and innovation capabilities. We shall continue to focus on our customers, proactively grow our business through innovation, expand market share and control risks.

To achieve these goals, we shall continue to optimize business structure to pursue a balanced growth between corporate banking and consumer banking business. Market segmentations will be further refined and product and service innovation will be quickened to promote business transformations. Risk management of loans will be improved and recovery and

disposals of NPLs will be strengthened to resolve NPLs risks. Internal control and compliance will continue their upgrade, and audit and disciplinary functions will be further enhanced to increase their independence and effectiveness. We will leverage our enhanced innovation capabilities to develop and diversify our service portfolio. Now that GDB is going into full swing in 2008, we will expand our services and identify suitable locations in targeted cities to enlarge our national branch network. Initiatives in process redesign, talent training, technology, channels optimization shall run their reform courses as planned in 2007. At the same time, we will continue to forge closer cooperation with our shareholders to capture business opportunities and achieve mutual gains.

With the guidance and full support of regulators, shareholders and our team of energetic employees, the Management is fully committed to the continuous transformation of GDB into a first-class joint-stock commercial bank that is customer-centered, innovative and financially strong.

President: 

Directors, Supervisors, Senior Management

Chinese names listed according to strokes; English according to alphabetical order

Wang Fenghua

Director



Wang Xin

Executive Director, Chief
Synergy Officer (CSO)



Liu Lefei

Director



Liu Jiade

Director



Li Zimin

Director



Li Ruge

Director



Directors, Supervisors, Senior Management

Chinese names listed according to strokes; English according to alphabetical order

Li Ruohong

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



Chan Tai Loi

Independent Director



Lin Yixiang

Independent Director



Gai Yongguang

Director



Zhang Shengman

Director



Pu Jian

Director



Directors, Supervisors, Senior Management

Chinese names listed according to strokes; English according to alphabetical order

Michael Zink

Executive Director, President



Phee Boon Kang

Independent Director



R. Daniel Massey

Executive Director, Deputy
President, Director of Risk
Management



Raymond Lim

Executive Director, Director
of Consumer Banking



Robert Morse

Director



Wang Jianmin

Supervisor



Directors, Supervisors, Senior Management

Chinese names listed according to strokes; English according to alphabetical order

Deng Jianhua

Supervisor



Zhai Meiqing

Supervisor



Tan Jinsong

External Supervisor



Yu Jin

Director of HR



J.C. Goh

Director of Treasury



Yvonne Chan

Director of Corporate Affairs



Directors, Supervisors, Senior Management

Chinese names listed according to strokes; English according to alphabetical order

Edward Chou

Chief Financial Officer
(CFO)



Zheng Xiaolong

Secretary to Board of Directors



Zheng Lianming

Director of Strategy and Planning



Jin Haiteng

Deputy President



Eliza Ong

Director of Audit



David A. Moore

Director of Technology and
Operation



Directors, Supervisors, Senior Management

Chinese names listed according to strokes; English according to alphabetical order

Gaurang Hattangdi

Director of Corporate Banking



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

Established on September 8, 1988, the Bank was transformed into a single legal person joint stock limited commercial bank in 1995, and was registered as a joint stock company limited in 2003.

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 valuable 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 Board of Directors: Zheng Xiaolong

5. **Registered Office Address:** 83, Nonglinxia Road, Guangzhou, Guangdong Province, P.R. China
Postcode: 510080
Tel: (020)-87310888
Fax: (020)-87310779
Website: www.gdb.com.cn

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

7. **Engaged Domestic Accounting Firm:** KPMG Huazhen Certified Public Accountants
Office Address: 8th Floor, Tower E 2, Oriental Plaza, 1 East Chang An Avenue, Beijing, China

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

1. Major Profits and Losses Indicators

Unit: 1'000 RMB

Item	2007
Profit after allowance for assets impairment	4,992,015
Net profit	2,668,156
Operating profit	5,893,890
Investment income	1,754,956
Net non-operating income and expenses	76,454

2. Three-year Financial Summary

Unit: 1'000 RMB

Item	2007	2006	2005
Total operating income	22,106,032	13,462,519	12,592,731
Profit after allowance for assets impairment	4,992,015	(354,276)	(137,590)
Net profit	2,668,156	(540,693)	(691,752)
Total assets	437,523,325	373,908,069	345,444,570
Total liabilities	422,096,137	361,139,094	341,892,125
Balance of deposits	352,735,392	319,200,504	306,610,555
Balance of loans	248,386,345	216,991,381	165,478,184
Shareholders' equity	15,427,188	12,768,975	3,552,445
Cost earning ratio (%)	45	58	51
Earnings per share (RMB)	0.23	(0.14)	(0.19)
Net assets per share (RMB)	1.35	1.12	0.99
Net cash flows from operating activities	(5,770,636)	(42,129,577)	16,476,216
Net cash flows from operating activities per share (RMB)	(0.51)	(10.84)	4.60
Rate of return on net assets (%)	18.93	(6.63)	-

Note:1. Due to reforming and restructuring, financial indicators in 2005 are incomparable with those in 2006 and 2007. Same as below.

- In and before 2006, the exchange differences generated from ledgers under different currencies in GDB were all recorded as equity items on the balance sheet. To recognize the effect of the exchange rate fluctuations on GDB's financial position and operation results truly and fairly, GDB has changed the relevant accounting policy since 2007. The current accounting treatment for exchange differences generated from ledgers under different currencies will be recorded in profit/loss for the current year for the branches in mainland and in equity for Branches outside, such as Macau Branch. According to Accounting Regulations of Financial Enterprise, GDB has made retrospective adjustment for 2006.
- In 2007, the net increase of cash and cash equivalents (net cash flow) was RMB 1.355 billion, of which the cash flow from investing activities was RMB 7.511 billion, cash flow from financing activities was 0, and effect of foreign exchange rate changes on cash was RMB -386 million.
- Calculation formula: Cost earning ratio= Operating expense / (Operating income + Investment income-operating expenses); Net assets per share and Net cash flows from operating activities are calculated based on the weighted average value; Rate of return on net assets is calculated based on average value (the financial data of 2005 is not comparable with those of 2007, thus we didn't list it on the table)

3. Capital Composition and Alterations

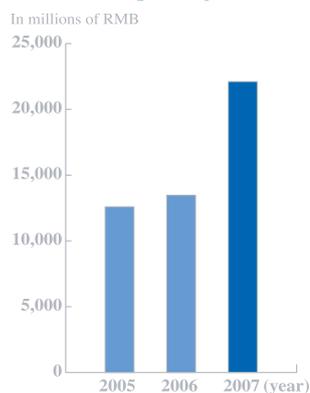
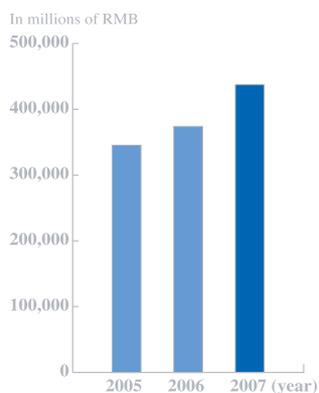
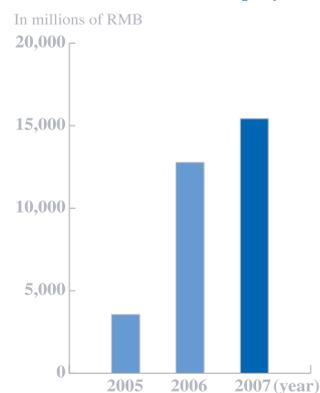
Unit: Million RMB

Item	2007 EoP	2006 EoP
Net capital	15,410	12,751
Including: Core capital	15,427	12,769
Supplementary Capital	0	83
Deductions	(17)	(101)
Net Balance of risk-weighted assets	215,841	190,315
Capital adequacy ratio (%)	7.14	6.70
Core capital adequacy ratio (%)	7.15	6.68

4. Changes in Shareholders' Equity

Unit: RMB 1'000

Item	2007 EoP	Increase of the period	Decrease of the period	2006 EoP
Share capital	11,408,423	0	0	11,408,423
Capital Reserve	(17,052)	0	(9,943)	(7,109)
Statutory general reserve	3,524,660	2,240,658	0	1,284,002
Surplus reserve	266,816	266,816	0	0
Retained earnings	244,341	2,668,156	(2,507,474)	83,659
Total shareholders' equity	15,427,188	5,175,630	(2,517,417)	12,768,975

Total operating income

Total assets

Shareholders' equity


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	58,304,123	0.51%	(1,518,406)	56,785,717	0.50%
State-owned Legal Person holdings	8,118,316,688	71.16%	(21,881,924)	8,096,434,764	70.97%
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	408,142,787	3.58%	23,400,330	431,543,117	3.78%
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 644 shareholders, holding 11,408,422,597 shares of the Bank.

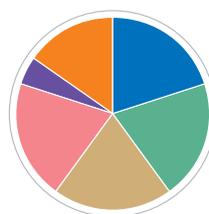
3. Profile of Top Ten Shareholders

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

2. On November 6th 2007, according to the "Approval of Renaming and Changes in Business Scope of CITIC Trust & Investment Co., Ltd." (Yinjianfu [2007] 240) by CBRC, the Bank completed renaming procedures for the said shareholder and changed its name from "CITIC Trust & Investment Co., Ltd." to "CITIC Trust Co., Ltd." on Nov 6, 2007.



Shareholders

■ Citigroup Inc.	20.000%
■ China Life Insurance Co., Ltd.	20.000%
■ State Grid Corporation of China	20.000%
■ CITIC Trust Co., Ltd.	20.000%
■ IBM Credit LLC	4.740%
■ Others	15.260%
Total	100.000%

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

1) *Citigroup Inc.*

Citigroup Inc. (Citi), a leading global financial services company, has some 200 million customer accounts and does business in more than 100 countries, providing 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. Citi's major brand names include Citibank, CitiFinancial, Primerica, Smith Barney, and Banamex. Citi first established an office in China in May 1902. With operations in more than 100 countries around the world, Citi is the most global of all international banks in China. Additional information may be found at www.citi.com.

2) *China Life Insurance Co., Ltd.*

China Life Insurance Co., Ltd. was registered in Beijing, China on June 30, 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 on December 17 and 18, 2003, respectively. And on January 9, 2007, the Company was listed on the Shanghai Stock Exchange. The Company is the largest life insurance company in mainland China ("China" refers to the People's Republic of China, but not including the Hong Kong Special Administrative Region, Macau Special Administrative Region, and Taiwan region). 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 China's largest insurance asset management company. Products and services of the Company include individual life insurance, group life insurance, accident and health insurance. The Company is 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, 2007, China Life has over 93 million individual and group life insurance policies and annuities, and long-term health insurance policies in force. The company also provides individual and group accident and short-term health insurance policies as well as 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 approved 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 and service area covering 26 provinces, autonomous regions and municipalities directly under the jurisdiction of the Central Government. 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. (CITIC Trust) is a national financial institute established with approval of state financial supervision authorities. Its predecessor, CITIC Development Co., Ltd., is a wholly-owned subsidiary of CITIC Group and was established on March 5, 1988. In 2002, the company successfully completed its reshuffle and renamed itself as CITIC Trust for re-registration. In 2006, the Company's registered capital was increased to RMB 1.2 billion. The two shareholders of the Company are China CITIC Group and CITIC East China (Group) Co., Ltd. respectively.

5. Connected transaction

In 2007, in accordance with the Administrative Measures for Connected Transactions between Commercial Banks and their Insiders or Shareholders promulgated by CBRC, The Bank formulated and enforced the Administrative Measures for the Connected Transactions in Guangdong Development Bank Co., Ltd., further reinforcing risk management and control of connected transactions, reasonably controlling the connected transactions limits, pro-actively adjusted the structure of connected transactions and gradually perfected the connected transactions management of the Bank.

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 persons, natural-persons or other organizations that directly, indirectly or jointly control or may have a significant influence on 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% of the shares are 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.

All connected transactions of the Bank were generated for the needs of normal operational activities and conducted in compliance with general commercial principles. The terms, interest rates, and payment methods all followed the normal business procedures of the Bank and were implemented not more favorable than those offered to non-connected parties with respect to similar transactions.

Up to the end of the reported period, main connected transaction include: The mid-term and long-term loan of RMB 203 million being performed by the connected party of shareholder State Grid Corporation of China is in sound condition and the Bank did not withdraw provision for possible loss; The deposit balance of Shareholder, China Life Insurance Co., Ltd. in the Bank was RMB 6.7 billion; the deposit balance of the connected party of State Grid Corporation of China in the Bank was RMB 423 million; The balance of FI accounts of the Bank opened in its connected party Citibank was RMB 139 million; According to Technical Cooperation and Assistance Agreement signed between the Bank and Citigroup, the Bank pre-withdrew technology assistance fee RMB 17 million within the reported period; The Bank kept holding USD 20 million capital notes named CENTAURI, managed by connected party Citigroup(Citibank International PLC.).

1. Directors, Supervisors and Senior Management

1) *Basic Information (Chinese names listed according to strokes; English according to alphabetical order)*

Name	Title	Gender	Birth	Appointment Date
Wang Fenghua	Director	Male	1953.06	2006/12/18
Wang Xin	Executive Director, Chief Synergy Officer (CSO)	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 Ruge	Director	Male	1963.08	2006/12/18
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
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
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, Director of Risk Management	Male	1942.11	2006/12/18
Raymond Lim	Executive Director, Director of Consumer Banking	Male	1949.10	2006/12/18
Robert Morse	Director	Male	1955.06	2006/12/18
Wang Jianmin	Supervisor	Male	1969.02	2007/06/26
Deng Jianhua	Supervisor	Male	1961.07	2007/06/26
Zhai Meiqing	Supervisor	Female	1964.04	2007/06/26
Tan Jinsong	External Supervisor	Male	1965.01	2007/06/26
Yu Jin	Director of HR	Male	1963.09	2007/01/30
J.C. Goh	Director of Treasury	Male	1960.06	2006/12/18
Yvonne Chan	Director of Corporate Affairs	Female	1969.09	2007/01/30
Edward Chou	Chief Financial Officer (CFO)	Male	1965.07	2006/12/18
Zheng Xiaolong	Secretary to Board of Directors	Male	1963.08	2006/12/18
Zheng Lianming	Director of Strategy and Planning	Male	1960.06	2007/01/30
Jin Haiteng	Deputy President	Male	1951.10	2006/12/18
Eliza Ong	Director of Audit	Female	1955.11	2006/12/18
David A. Moore	Director of Technology and Operation	Male	1952.05	2006/12/18
Gaurang Hattangdi	Director of Corporate Banking	Male	1963.01	2007/01/30

- Note: 1. In accordance with regulatory requirements, job qualification of the GDB Senior Managers to be appointed needs approval by regulatory authorities.
2. "Appointment Date" refers to the date when Directors and Supervisors were elected in the General Meeting of Shareholders, and the date when Senior Management was appointed by the Board of Directors.
- 2) Main Working Experience and Incumbency in the Shareholding Companies or Other Organizations of Directors, Supervisors and Senior Managers

Name	Main Working Experience	Incumbency in the shareholding companies or other organizations
Wang Fenghua	Master's degree, Senior Economist. Prior to his current position, he has served as Vice Director and Director of De Zhou Electric Power Bureau; Head of Finance Department of Shandong Electric Power Bureau; GM of Yingda International Trust and Investment Co.,Ltd.; Chief Economist of Shandong Electric Power Group; Chairman of Weishen Securities Co.,Ltd.. He has been successively appointed as Party Secretary of the CPC Committee and Vice President of State Grid Power Development Co.,Ltd.; Vice Chairman of the Board, GM and Party Secretary of the CPC Committee of China Power Finance Co.,Ltd..	Deputy Chief Economist and Head of Financial Asset Management Department of State Grid Corporation of China; General Manager of State Grid Asset Management Co.,Ltd.
Wang Xin	Bachelor's degree, Senior Economist. He has served as Vice Section Chief, Section Chief, Deputy Department Director, Department Director, Vice President and a Member of the CPC Committee in Bank of China, Sinkiang Branch; Vice President and a Member and Commissioner of the CPC Committee of Guangdong Development Bank.	
Liu Lefei	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.	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

Name	Main Working Experience	Incumbency in the shareholding companies or other organizations
Liu Jiade	Bachelor's degree. Mr. Liu had served as Vice 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 Vice 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.	Vice President of China Life Insurance Company Limited in 2003, Director of China Life Insurance Asset Management Company Limited, Director of China life Franklin Asset Management Company
Li Zimin	MBA and Senior Economist. 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; Director of Phoenix Medical Investment and Management (Beijing) Company Limited; Director of western Mining Group Co., Ltd.; Senior Manager of Enterprise Annuity Dept, Head of Comprehensive Financial Service Group, and Company Expert of CITIC Trust and Investment Co., Ltd..	General Manager of Investment Banking Department I of CITIC Trust Co., Ltd.
Li Ruge	EMBA of Nankai University, Senior Accountant. He served as Vice Chief Economic Manager of Shandong Zhan Hua Power Plant; Vice Plant Manager, Plant Manager, CPC Committee Commissioner of Shandong Heze Power Plant; General Manager and CPC Committee Commissioner of Shandong Electric Power Fuel Group; Vice Chief Accountant, Chief Accountant, Vice General Manager of Shan dong Electric Power Group; Director of Bank of Communications; Director and Vice Chairman of the Board of Directors of Hua Xia Bank; Vice Chairman of the Board of Directors of Xiangcai Securities Corp.; Vice Chief Accountant of China Guodian Corporation; Vice Chief Accountant, Head of finance department and head of Funds Administration Center of State Grid; Chairman of the Board of Directors of Ying Da International Trust Co.,Ltd..	Chief Accountant of State Grid Corporation of China

Name	Main Working Experience	Incumbency in the shareholding companies or other organizations
Li Ruohong	Bachelor's degree, Senior Economist. He has served in Bank of China Harbin Branch as Vice Section Chief, Section Chief of the Department of Trust and Investment, International Business, 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, Vice President, Member and Deputy Party Secretary of the CPC Committee, Chairman of Board of Directors, President and Party Secretary of the CPC Committee of GDB.	
Chan Tai Loi	Bachelor of Business Administration. He has served as stockbroker of Nomura Securities; Assistant Vice 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 Vice 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
Lin Yixiang	Doctor's degree, Financial Analyst. He has served as a Stock Investment Analyst at equity department of Reserves and Trust Bank 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; Vice President of Hua Xia Securities Company Limited; Consultant of Investment Fund Law Draft Unit; Securities Law revision consultant; Listed Companies M&A Management Rule amendment specialist. He was the Independent Director of the Board of Directors of Beijing Tong Ren Tang Corp.; China Yangtze Power Co.,Ltd..	Chairman of the Board of Directors and General Manager of Tian Xiang Investment Consultant Company; Vice 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

Name	Main Working Experience	Incumbency in the shareholding companies or other organizations
Lin Yixiang		Recognition Committee of Ministry of Labor and Social Security of China; Gold Investment Analyst Qualification Assessment Committee Member; Independent Director of the Board of Directors of Stainless Steel Corp, based in Taiyuan, Shanxi Province; Taikang Asset Management Co., Ltd.; Tebon Securities Co.,Ltd.
Gai Yongguang	Master's degree, Senior Engineer. He has served as Program Manager, Vice Director of the Machinery Office, Assistant of Institute Head, Director of Multi-operation Office, Vice Institute Head and CPC Committee Commissioner in Shandong Electric Power Research Institute; Vice General Manager of Shandong Electric Power Materials Co.; General Manager of Shandong Electric Power International Trade Co.; Deputy President and CPC Committee Secretary of Shandong Electric Power Research Institute; Deputy President of Shandong Electric Power College; Vice General Manager, Vice Chairman of the Board of Directors and General Manager of Ying Da International Trust Co.,Ltd..	General Manager of Ying Da International Trust Co.,Ltd.
Zhang Shengman	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. At present, he is Vice Chairman of Citi Global Banking and Chief Operating Officer of Markets & Banking Asia Pacific, member of Citi Management Committee.	Independent Director of Fosun International; Independent Director of Cabot Company

Name	Main Working Experience	Incumbency in the shareholding companies or other organizations
Pu Jian	MBA, Senior Economist. 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; Vice-Chairman of Board of Directors and Secretary of CPC at Citic Sea Helicopter Limited; General Manager and Secretary of CPC at Citic Sea Helicopter Limited.	Managing Director and Chairman of the Executive Committee of CITIC Trust Co., Ltd.; Director of China CITIC Group; Director of CITIC-Prudential Life Insurance Co., Ltd.; Director of TaiKang Life Insurance Co., Ltd.; Director of Citic Sea Helicopter Limited
Michael Zink	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 Vice 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	Master of Science. Mr. Kang served as Editor and Business Manager of MIT Sloan Management Review; System Analyst of the Operating Group at Citibank N. A. in New York; Operation Manager of Rakyat First Merchant Bankers in a Citicorp affiliate (Kuala Lumpur); Area Head of Corporate Banking & Treasury Operations of International Banking Group of Citibank; Head of Consumer Services Group (CSG) successively in Citibank Malaysia, Philippines and Japan; Executive Vice President & Director of Individual Banking in CityTrust Banking Corporation (Manila); Retail Banking Business Manager of Citibank Taiwan; GM of Operation and Risk Management in Citibank Taiwan; Senior Vice President & Retail Country Manager in Bank of America Taiwan;	Founder & President of Boon Allard L.L.C.; Co-founder & President of The Allard Institute, Asia Pacific; Independent Director of ezTravel Co., Ltd.

Name	Main Working Experience	Incumbency in the shareholding companies or other organizations
Phee Boon Kang	Senior Vice President & Area Manager for Taiwan and The Philippines (based in Taipei) of American Express; Chairman and President of American Express International (Taiwan) Inc.; Chairman of Amex Life Insurance Agency Inc.; Chairman of Amex General Insurance Agency Inc.; GM of American Express Bank Ltd. Taiwan Branch, Director of American Express Bank Philippines (A Savings Bank), Inc..	
R. Daniel Massey	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. Before rejoining Citibank in 1996, Mr. Massey was Executive Vice President of Fleet Bank, based in Albany, New York (now Bank of America). He has served as President and Chief Operating Officer of AMBAC, a financial guaranty insurance firm listed on the New York Stock Exchange.	
Raymond Lim	Bachelor of Business Administration. Mr. Lim was the Vice President and Regional Business Director for Citibank China Consumer Banking. He has served as Chief Executive Officer (CEO) for the Global Consumer Banking 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.	
Robert Morse	MBA, Master of Law. Prior to his current position, He has served as Head of Global Investment Banking. Earlier, he held a variety of investment banking management positions. During the period 1997 - 1998, He worked as Chief Executive Officer of Salomon Smith Barney Asia-Pacific. Mr. Morse joined Salomon in 1985 as a Vice President, was appointed Director in 1989 and Managing Director in 1992. Prior to joining Salomon, Mr. Morse worked briefly at Richard Ellis, Inc., a real	Managing Director and CEO of Asia Pacific Markets & Banking. He serves as a member of the Citi Operating Committee, Management Committee, and the CMB Planning Group. Mr. Morse also serves as a member of the SSB Capital Partners and CVC Asia Pacific Investment Committees,

Name	Main Working Experience	Incumbency in the shareholding companies or other organizations
Robert Morse	estate management firm, and at Lehman Brothers. Mr. Morse is a 1977 graduate of Yale College, and a 1981 graduate of the Harvard Graduate School of Business Administration and the Harvard Law School. He also serves on a variety of charitable organization boards.	and the Citi International Advisory Board
Wang Jianmin	PhD of Management Science & Engineer. He has served as Deputy General Manager of Investment & Development Dept. of Zhejiang Zhongda Group Co., Ltd. and Deputy General Manager of Zhejiang Zhongda Group Investment Company Co., Ltd.. He is now General Manager of Investment & Development Dept. of Zhejiang Zhongda Group Co., Ltd., and Chairman of the Board of Zhejiang Zhongda Group Investment Co., Ltd..	General Manager of Investment & Development Dept of Zhejiang Zhongda Group Co., Ltd., Supervisor of Zhejiang Zhongda Group Co., Ltd., Chairman of Zhejiang Zhongda Group Investment Co., Ltd. and Vice Chairman of Zhejiang Zhongda Futures & Broker company.
Deng Jianhua	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..	GM of Guangdong Finance Investment Company Limited; Deputy General Manager of Guangdong Finance Asset Management Company Ltd., GM of ZhuHai Providence Real Estate Development Co., Ltd., Director of Guangdong Fenghua Advanced Technology (Holding) Co., Ltd..

Name	Main Working Experience	Incumbency in the shareholding companies or other organizations
Zhai Meiqing	Master of Management. From 1990, she used to serve as President of Heungkong Group, Chairman of Kinhom Group and the President of Heungkong Southern Group. Since 2003, she has been holding position as the Chairman of Heungkong Holding.	Member of the Standing Committee of All-China Women's Federation, Chairman of Heungkong Social Assistance Fund, Deputy President of China Association for the Promotion of Industry Development, President of Chamber of Woman Entrepreneur under the All-China Association of Industry & Commerce, 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, Honorary Chairman of Guangdong Association of Women Entrepreneurs.
Tan Jinsong	PhD. of Management (Economy). He has served as Principal Director of Accounting Department in School of Business of SUN YAT-SEN University. He is now the Associate Dean, 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.	
Yu Jin	MBA, Bachelor of Arts. He has served as an English Teacher in Zhejiang Paper-Making Technical School; Deputy Division Head of Protocol of the Foreign Affairs Office of Ningbo Municipality; Management Associate, HR Officer, Manager and Assistant Vice President of Citigroup China Shanghai Branch and Country Human Resources Director, Vice President, and Director of Citigroup China.	

Name	Main Working Experience	Incumbency in the shareholding companies or other organizations
J.C. Goh	Bachelor and Master of International Finance, University of Chicago. He has served as the Senior Economist of Monetary Authority of Singapore; FX dealer in Chase Manhattan; Asia Pacific Consumer Balance Sheet Manager, Foreign Currency Business Director and Treasury Manager of Asia Pacific Consumer Bank Treasury in Citigroup; Assistant General Manager Sales & Structuring of Saudi American Bank, Saudi Arabia and Treasury Director of Asia Pacific Consumer Bank Treasury in Citibank, based in Singapore.	
Yvonne Chan	Master of Finance, Bachelor in Communication. With 15 years of experience, she was previously the Head of Corporate Communications for Citigroup Investment Research Asia Pacific based in Hong Kong. She has served as Vice President and Country Corporate Affairs Head of Citigroup Malaysia; Assistant Vice President of Corporate Banking; Credit Analyst and Manager of Corporate Communications in Citigroup Malaysia. Before joining Citigroup, Ms. Chan was a Consultant with TQPR (Malaysia) and a Senior Accounts Executive with Daniel J. Edelman public relations agency.	
Edward Chou	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.	

Name	Main Working Experience	Incumbency in the shareholding companies or other organizations
Zheng Xiaolong	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 the Vice 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 BOD Office.	Independent Director of Guangdong Shenglu Telecommunication Tech. Co., Ltd.
Zheng Lianming	Master degree, Senior Economist. 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 concurrently as President of Foshan Branch, President Assistant of Head Office and concurrently as General Manager of the HO General Office, Vice President and member of CPC Committee of the Bank.	
Jin Haiteng	Associate degree. Senior Economist. He has served as the Director General of Ningbo Commodities Price Bureau; Deputy Director of Ningbo Finance & Trade Office; Director General of Ningbo Commercial Bureau, Head of Yinxian County, Deputy General Manager in Zhong Yin Trust and Investment Corporation Ltd. and was in charge of oversea business. He was responsible for establishing Guangdong Development Bank Hangzhou Branch, and remained as the President, Secretary of CPC Committee of Hangzhou Branch. He also has served as Vice President of the Head Office and member of Party Committee of Guangdong Development Bank.	

Name	Main Working Experience	Incumbency in the shareholding companies or other organizations
Eliza Ong	MBA. With over 33 years in Citigroup, Ms. Ong was previously the Head of Audit & Risk Review in Citibank Korea Inc. She used to serve as Auditor for Citigroup Asia Pacific Audit & Risk Review, Head of Citigroup Asia Pacific Processing Center for Cash Management and Asia Pacific Head of Planning and Financials for Global Transaction Services Business based in Citigroup Singapore.	
David A. Moore	MBA, Bachelor of Arts. He has served in the Citibank as an Inspector for the International Inspection Division; Country Manager of Netherlands Antilles Branch, Senior Country Operations Officer and Financial Controller for Citibank Dominican Republic; Service Management Group Head and Financial Controller for Citibank Ecuador; Senior Country Operations Officer of Citibank in Poland, Russia, Taiwan and Hong Kong; Director of Operations and Technology at Citigroup for the Greater China Region, and Head of Citigroup's Asia Global Markets Operations.	
Gaurang Hattangdi	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.	

3) *Shares held by Directors, Supervisors and Senior Managers*

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

4) *Annual Remuneration and Incentive Measures*

To boost the improvement of corporate governance structure of the Bank, reduce the post-holding risks of Directors, Supervisors and Senior Managers, ensure the efficient and steady operation of the Bank, the Bank has purchased Liability Insurance for Directors, Supervisors and Senior Managers after the approval of the General Meeting of Shareholders according to laws and regulations as well as peers' practice.

With the approval of the Board, the Bank has engaged consulting firms to assist in the research and formulation of compensation scheme of Directors, Supervisors and Senior Managers. The 2006 General Meeting of Shareholders deliberated and approved "GDB Compensation Policy of Non-executive Directors and Supervisors". The compensation scheme for senior managers is in progress.

5) *Changes of Directors, Supervisors and Senior Managers*

On June 26, 2007, the 2006 General Meeting of Shareholders elected Mr. Li Zimin as Director of the fifth Board of Directors (BOD) of the Bank.

On September 20, 2007, the First Extraordinary General Meeting of Shareholders in 2007 approved Mr. Richard Stanley's resignation from the position of Director of the fifth BOD for personal reasons, and approved Mr. Y.S. Wong's resignation from the position of Independent Director of the fifth BOD for personal reasons. The meeting also elected Mr. Zhang Shengman and Mr. Phee Boon Kang respectively to be Director and Independent Director of the fifth BOD. The employment is the same with the term of the fifth BOD.

On November 13, 2007, the Fourth meeting of the Fifth Board of Directors reviewed and passed the Proposal on Director Replacement Suggested by State Grid Corporation of China and the Proposal on Electing Mr. Lin Jianjun to the Fifth Board of Directors of GDB. The Board agreed the suggestion of State Grid Corporation of China on Director Replacement, and accepted Mr. Lin Jianjun in place of Mr. Li Ruge as director with the same tenure as the Fifth Board. According to relevant regulations of AOA, the above-mentioned two proposals need to be submitted to General Meeting of Shareholders for review and approval.

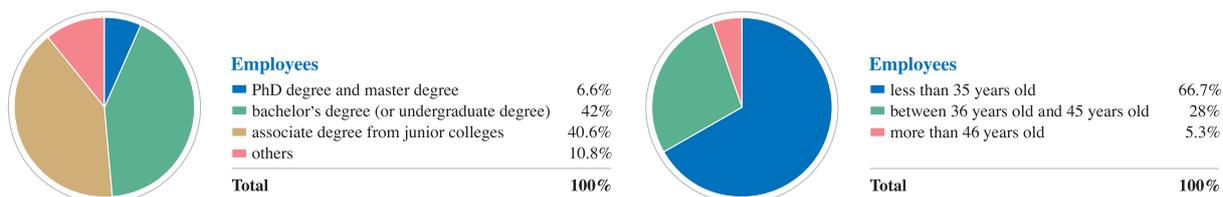
On June 26, 2007, the 2006 General Meeting of Shareholders reelected the Board of Supervisors (hereinafter as "BOS"). The meeting elected Mr. Wang Jianmin, Mr. Deng Jianhua, Ms. Zhai Meiqing as Supervisors of the Fourth BOS of the Bank, elected Mr. Tan Jinsong as External Supervisor of the Fourth BOS of the Bank. The Supervisors of the Third BOS Mr. Sun Hui, Mr. Zhang Wei, Mr. Fu Fengyun left their posts upon the expiration of office terms.

On January 30, 2007, the Second Meeting of the Fifth BOD deliberated and approved the engagement of the following senior managers: Human Resources Director Mr. Yu Jin, Director of Corporate Affairs Ms. Yvonne Chan, Strategic Planning Director Mr. Zheng Lianming, Corporate Banking Director Mr. Gaurang Hattangdi, and Personal Banking Director Mr. Raymond Lim.

On November 13, 2007, the fourth Meeting of the Fifth BOD approved Miss Vita Liu to resign the post of Compliance Director for personal reasons.

2. Employees

As of the end of 2007, the Bank had 12,731 employees, an increase of 288 persons from the end of 2006. With respect to academic achievement, 6.6% of all employees have received PhD degree or master degree; 42% of all employees have bachelor's degree (or undergraduate degree), and 40.6% with associate degree from junior colleges. In terms of age structure, 66.7% of all employees are less than 35 years old; 28% of all employees are between 36 years old and 45 years old; 5.3% of all employees are more than 46 years old. By the end of the reporting period, the bank has 366 retired employees.



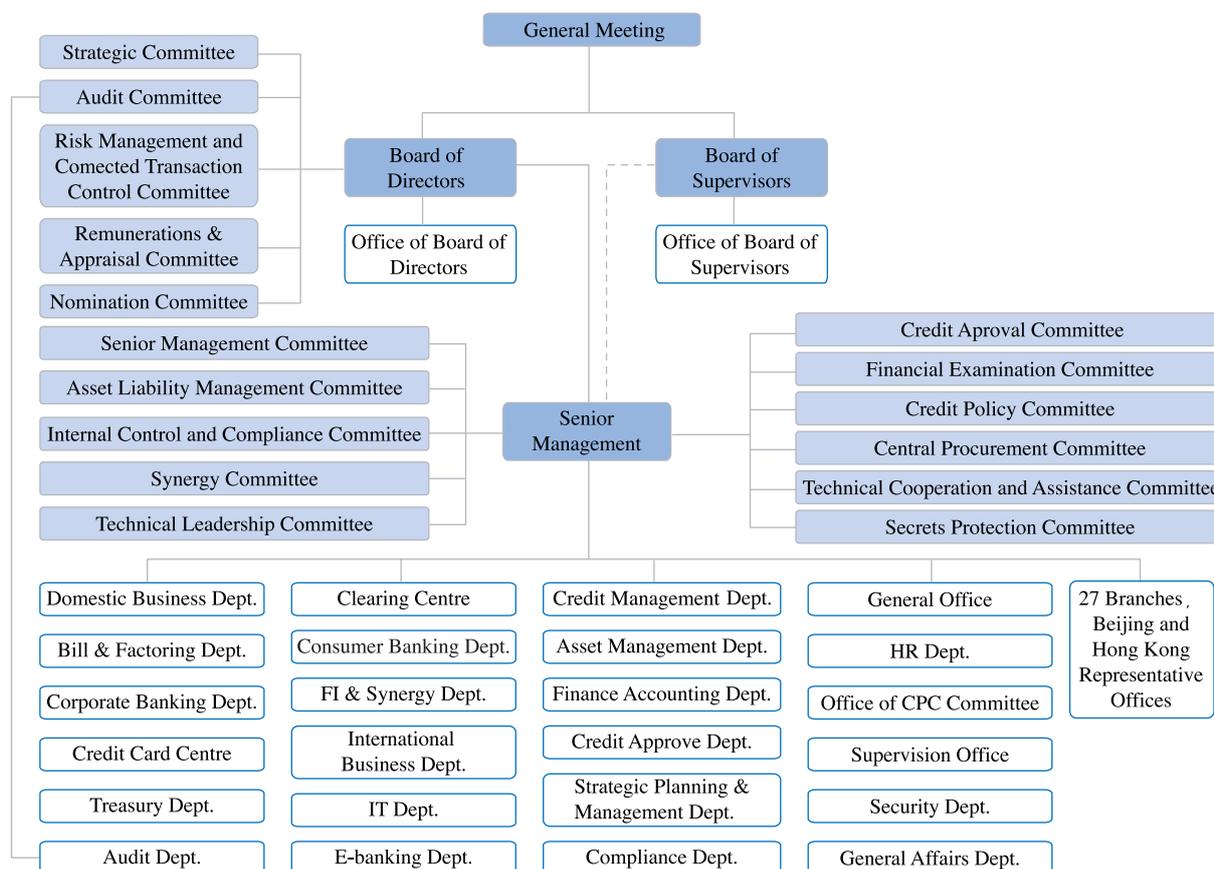
The improvement of corporate governance serves as the intrinsic requirement for the stable and sustainable development of commercial banks. Given the increasingly tightening supervision and continuously upgraded and particularized requirements by banks' reform and development, not only stipulated criteria by regulatory authorities shall be fulfilled, but also the actual operational skills in corporate governance shall be kept forging ahead to achieve integration of form and spirit and consolidate the groundwork for the sound development of the Bank. The newly-elected Board of Directors of the Bank is fully aware of the importance, arduousness and the long standing of corporate governance and is determined to actively press forward each undertaking of corporate governance.

First of all, the Bank established the border of responsibility for the main body of corporate governance and improved relevant procedural rules according to regulatory requirements and Articles of Association. Five specialized committees were established under the Board of Directors, namely, the Strategic Committee, Audit Committee, Risk Management and Connected Transaction Control Committee, Remuneration and Appraisal Committee and Nomination Committee. Procedural rules for the Board of Directors and its specialized committees have been framed to provide institutional guarantee to the regularity and effective operation of the Board of Directors and its specialized committees. The Board of Directors has reviewed and passed the Rules of President Meetings and work responsibilities of President and Senior Managers nominated by the President, regulating procedural rules for Presidential Meetings and further specifying the responsibilities of Senior Management. Furthermore, the approval of regulations by the Board of Directors such as the Working Rules for Office of Board of Directors and Board of Supervisors of Guangdong Development Bank Co., Ltd. and Administrative Rules for Connected Transactions of Guangdong Development Bank Co., Ltd. helps to advance the standardized operation and effective fulfillment of responsibilities by the Office of Board of Directors and Board of Supervisors as well as the standardized operation and administration of connected transactions.

Secondly, the function of core decision-making by Board of Directors in corporate governance has been further enhanced by attaching great importance to key issues and development orientation. The collective Board of Directors has been diligent and dutiful in attendance to Board meetings and fulfillment of responsibilities, putting forward numerous valuable suggestions not only helpful for the advancement of the Bank's operation and management but also the consistent improvement of the operational institutions and efficiency of the Board of Directors itself. In 2007, a total of six meetings were convened and 65 proposals were reviewed by the Board of Directors, with topics on various areas ranging from strategic planning, capital replenishment, internal control, remuneration distribution mechanism and election of Directors to employment of senior managers, compliance policies, business plan and budget, organizational structure, connected transactions and asset disposal, in particular the approval and implementation of the Five-Year Strategic Development Plan, which will to a great extent boost the strategic transformation of the Bank.

Thirdly, the remuneration distribution mechanism was reformed and the incentive and restraint mechanism got improved, integrating the interests of the Bank, shareholders and employees to promote the sustainable and harmonious development of the Bank. In line with common practice and as approved by General Meeting of Shareholders, the liability insurance was purchased by the Bank for Directors, Supervisors and Senior Managers. As approved by the Board of Directors, the Bank hired intermediary agency to assist in research and constitution of remuneration plan for Directors and Supervisors. The framing of remuneration plan for Senior Managers was geared up and the reform on remuneration and welfare plan for employees also kicked off. The reform on remuneration distribution mechanism will press ahead the sustainable and healthy development of the Bank.

1. Organizational Structure



The supreme organ of the Bank is the General Meeting of Shareholders. The Board of Directors serves as the enforcement organ of the General Meeting, to which it shall be accountable; The Board of Supervisors 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 to be made to 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.

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. In Audit Committee, Risk Management and Connected Transaction Control Committee and Nomination Committee, up to or more than 50% of members are Independent Directors and the positions of committee head are held by Independent Directors.

Since the establishment of specialized committees under the Board of Directors in 2007, 15 committees meetings were convened, providing professional supports for the scientific decision-making of the Board and taking further steps to improve corporate governance of the Bank.

Strategic Committee

- Head: Chairman Li Ruohong
- Members: Director Wang Xin, Director Liu Jiade, Director Li Ruge, 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 plan.

Audit Committee

- Head: Independent Director Lin Yixiang
- Members: Independent Director Phee Boon Kang, Director Robert Morse
- 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 effectiveness and procedures of the internal examination department; review the financial information of the Bank and the disclosure of the same; check and examine the connected transactions of the Bank; manage the connected transactions of the Bank and controlling the risks of connected transactions.

Remuneration and Appraisal Committee

- Head: Director Wang Fenghua and Director Robert Morse
- Members: Director Liu Lefei, Director Gai Yongguang, Director Zhang Shengman, Director Pu Jian
- Main Responsibilities: To study, evaluate and make suggestions to the standards and indexes of the appraisal system for Directors and Senior Management; design remuneration plans for Directors, Supervisors, President and other members of Senior Management; give suggestions to the Board of Directors in this regard; and supervise the implementation of the plans.

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 job 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 June 26, 2007, the Bank's 2006 Annual General Meeting of Shareholders was convened in Guangzhou, and presided over by Chairman Li Ruohong.

The meeting was attended by 85 shareholders and proxies of shareholders, representing 10,124,000,000 shares and accounting for 88.74% of the Bank's total shares.

The meeting deliberated each proposal and approved the following proposals by open ballot: 2006 Working Report and 2007 Working Plan of the Board of Directors of Guangdong Development Bank Co., Ltd., 2006 Working Report and 2007 Working Plan of the Board of Supervisors of Guangdong Development Bank Co., Ltd., Report on the 2006 Final Financial Accounts of Guangdong Development Bank Co., Ltd., 2006 Year End Preliminary Plan for Making up the Accumulated Losses of Guangdong Development Bank Co., Ltd., 2007 Financial Budget Report of Guangdong Development Bank Co., Ltd., Proposal on Co-opting Mr. Li Zimin onto the Fifth Board of Directors of GDB; Proposal on Electing Shareholder Supervisors and External Supervisors of the 4th Board of Supervisors of Guangdong Development Co., Ltd., Proposal Regarding the Outline of the Five-Year (2007-2011) Strategic Development Plan of Guangdong Development Bank Co., Ltd., Proposal on the Remuneration Plan for Non-Executive Directors and Supervisors of Guangdong Development Bank Co., Ltd., Proposal on Purchasing Liability Insurance for Directors, Supervisors and Senior Managers. Relevant resolutions were reached at the meeting.

King & Wood Lawyer's Office provided on-site witness for and released legal opinions on the legality and validity 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 September 20, 2007, the First Extraordinary General Meeting of Shareholders in 2007 was convened in Guangzhou, and presided over by Chairman Li Ruohong.

The meeting was attended by 82 shareholders and proxies of shareholders, representing 10,497,000,000 shares and accounting for 92.01% of the Bank's total shares.

The meeting deliberated each proposal and approved the following proposals by open ballot: Proposal on the Approval of the Resignation of Mr. Richard Stanley and Mr. Y.S. Wong from the Fifth Board of Directors of GDB; Proposal on Electing Mr. Shengman Zhang and Mr. Phee Boon Kang to the Fifth Board of Directors of GDB; Proposal on Granting 1.5 Billion Repurchased Credit Assets Transfer Limit to China Power Finance Company; Proposal on Deposit Connected Transaction with CITI Group and Its Affiliated Companies; Proposal on Deposit Connected Transaction with China Life Insurance Corporation; Proposal on Deposit Connected Transaction with the State Grid Corporation of China and Its Affiliated Companies; Proposal on the Deposit Connected Transaction with CITIC Trust and Investment Co., Ltd. and Its Affiliated Companies; Proposal on the Connected Transaction of ISL not more than 5 billion RMB with CITIC Trust and Investment 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 and validity 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

In 2007, faced with stricter macro control by the Central Government and a bullish capital market, under the leadership of the Board of Directors, the Bank took concept of scientific development as the guide and 5-year strategic plan as the orientation. Meanwhile, equal importance was attached to reform and development, to risk control and profit generation, and great efforts were placed on market expansion, asset liability management, asset portfolio improvement, risk control and provision increment, laying a solid foundation for a faster and stronger growth in the future. In 2007, the financial performance had been improved significantly. Details are as below:

- Steady Growth of Scale

In 2007 year-end, total assets stood at RMB 437.523 billion, up 17%; total liabilities stood at RMB 422.096 billion, up 16.88%; the balance of deposits in home and foreign currencies stood at RMB 352.735 billion, up RMB 33.535 billion or 10.51% from the year-start; the balance of loans stood at RMB 248.386 billion, up RMB 31.395 billion or 14.47% from the year-start.

- Significant Improvement of Operating Earnings

Operating profit totaled RMB 5.89 billion, while after-tax profits reached RMB 2.67 billion. Fee-based income increased continuously, of which revenue of commission increased 89% year-on-year.

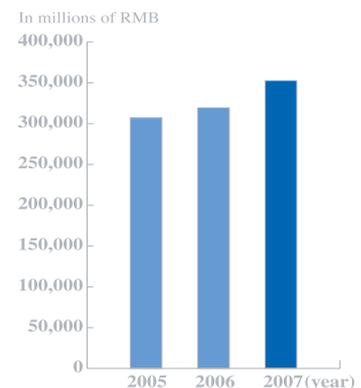
- Effective Control on Operation Risk

Based on five grade system of loan classification, the balance of NPL was RMB 9.93 billion, down RMB 2.75 billion from the year-start; NPL ratio was 4%, down 1.8% from the year-start; Loan Loss Reserves stood at RMB 7.84 billion, and the provision coverage ratio reached 79%, up by 20 percentage point compared with last year. By the end of 2007, based on 1% of end-of-period risk assets, RMB 3.525 billion of statutory general reserves was withdrawn after tax, which reached the regulatory standard of Ministry of Finance in advance.

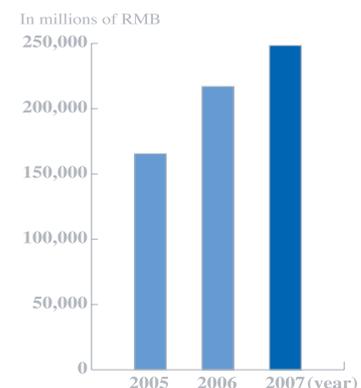
At the end of reporting period, Core CAR was 7.15%, and CAR reached 7.14%. The Bank plans to issue subordinated bonds to replenish capital and further raise the CAR.

2007 is the first year after the Bank's restructuring. Based on the sufficient research on internal and external business environment, combined with operation features of the Bank and requirements for the future development, the Bank drew up the strategic development plan for the upcoming five years (2007-2011) and established its development goals, strategic positioning, major strategic measures and support and assurance systems for decision making, so as to build up development direction and decision-making guidance for the next 5 years, including special programs for 15 major business fields and regional five-year strategic plans for 27 branches. In 2007, oriented by five-year Strategic Development Planning, aiming to the fulfillment of annual business plan, the

Balance of deposits



Balance of loans



Bank strived for the market expansion and conducted businesses in down-to-earth manner, and thus achieved steady growth in different business sections.

- Proactive Efforts Made to Enhance Product and Sales Innovation, Accelerate the establishment of Good Foundation for Business, and Achieve Significant Improvement of Personal Banking.

The Bank strengthened the product innovation, newly developed bancassurance and “Salary + Salary” series product, diversifying retail banking services for customers. Meanwhile, it placed emphasis on brand building. “Salary + Salary” series product and online regular investment fund were respectively awarded “Outstanding Innovation Prize of Top Financing Products” and “Excellent Financial Product Prize in 2007”. Furthermore, quite great progress in personal service assessment strength, relationship manager team building, retail pilot branch and key business breakthrough and so on were achieved and the overall marketing capability has been enhanced. By the end of 2007, the balance of personal loan (excluding credit card) increased by RMB 11.9 billion, with the growth rate of 51.73%. The fee-based income from personal wealth management had increased by RMB 237 million. The number of VIP customers increased by 27700, with the growth rate of 78.69%.

- High Growth and Leading Position In Credit Card Business.

The Bank strived to develop market segments, identify potential consumer needs, promote products innovation and add new functions to credit cards. Last year, 1.706 million new credit cards were issued, up 50% year-on-year, with the total number of credit cards issued breaking the 5 million mark. The operation revenue stood at RMB1.18 billion, of which the EBIT was RMB 90 million. Also the Bank obtained the ISO quality system certification and received a number of honors, including the title of “China’s 10 Most Trustworthy Bank Cards for 2007”, “China’s Best Customer Service”, “China’s Best Manager of Customer Service” and “The Best Customer Service Center in Asian- Pacific Area”, etc.

- Customer Segmentation and Market Expansion of Corporate Banking

The Bank improved marketing model for corporate business, formed a professional marketing team for large and medium-sized corporate credit clients, offered more professional and diversified services, and consolidated and grew quality client groups. Also it formed a SME task force, developed credit policy that fit SMEs, drafted and improved pilot schemes for SME credit business, launched pilot SME credit business program at the Dongguan Branch, which enable the Bank to obtain valuable experience for developing SME business and expanding customer group.

- Great Efforts Made to Strengthen the Strategic Cooperation with Shareholders, at the Same Time to Deepen Business Cooperation with FI.

The Bank further strengthened the strategic cooperation with Citigroup, China Life Insurance, State Grid and CITIC Trust, reinforced the coordination effectiveness, expanded business field and earning source, and improved the integrated service capability. The Bank signed a strategic partnership agreement with China Life and CITIC Trust. In addition, the all-rounded cooperation with State Grid and Citibank is under active progress.

Focusing on the cooperation with FI, the Bank made proactive efforts to push forward third party custody business and further widened the cooperation with security companies and fund companies. In 2007, the Bank totally brought in 11 fund companies and 59 fund products, and achieved 11.4 times of Bank-Mutualfund-System fee-based income compared with 2006. The Bank actively guided branches to launch trust business and the effect has been initially achieved. The Bank also initiated preparations for applying for fund trust business qualifications, and formally established Asset-Backed Securitization Working Group.

- More Emphasis Placed to Product Innovation, Steady Growth in Foreign Exchange Business

The Bank timely developed and launched series of innovative products, such as international trade remittance financing, credit insurance bill purchases, optimized loans for export tax refund and so on. Specially, it built up green channel for international financing to expand international settlement volume and trade financing business by a big margin. International settlements of the Bank totaled USD 32.147 billion in 2007, up 18% year-on-year. Trading financing balance stood at RMB 6.547 billion, up 79% year-on-year. The foreign exchange settlements and sales maintained steady growth, totaling USD 21.93 billion, up 16.7% year-on-year. In addition, the Bank achieved stronger asset-liability management on foreign currency so as to appropriately manage liquidity and reserve enough foreign exchange position. The exchange rate risk and interest rate risk are effectively evaded; meanwhile, we strive for profit from exchange and spread. Besides, the Bank has acquired license of derivative products, which stands for a fully new era of the foreign currency business.

- Good Performance in Bill Business, Steady Growth in Factoring Business.

The Bank strengthened inter-bank communication, closely monitored market changes, improved negotiation capabilities, effectively evaded risks from interest fluctuation, and achieved good performance in factoring business. In 2007, the bill discount business (including interbank discount) has amounted to RMB485.9 billion, with a rise of 61% year-on-year. System building and team formation was completed in factoring business. A HO-branch joint marketing system for factoring business has already been initiated. As a result, domestic factoring business volume of the Bank has been growing steadily.

- Reinforcement of Asset-liability Management, Improvement of Efficiency of Fund Operation.

The Bank has established a new Asset/Liability Management Committee (ALCO). Regular ALCO meetings are held on a monthly basis, thus ensured that the Bank's strategic goal such as risk capital situation and asset liability target structure were met by effective allocation of asset and liability, constant monitoring and reviewing on liquidity situation and coordinating all the business lines. Under the circumstance of increased macroeconomic control by the government, the Bank has adopted a series of measures in such areas as asset-liability structure, credit scale, capital allocation within the bank, reserve ratio management, and monetary market financing management. A reasonable allocation of resources and capital has exploited potentialities of earning abilities, and laid a solid foundation for the Bank to make a record high of profit. Meanwhile, daily average excess reserve ratio of the whole year is kept at a reasonable level. Liquidity ratio of RMB and FX has reached the regulatory requirements, thus ensured liquidity and smooth development of all businesses.

On the basis of ensuring liquidity, the Bank grasped the market trend, optimized investing structure, broadened business and enriched trading product, achieving total revenue of RMB 1.66 billion on bond investment, increased by RMB 250 million over the same period last year. The Bank has also proactively promoted the development of short-term bill business, leading 3 underwriting projects and participating in 22 underwriting projects, with an accumulative business volume of RMB 3.6 billion.

In order to maintain sustainable and sound operation, the Bank further strengthened capital management in 2007. It improved the capital replenishment mechanism, optimized the capital structure and met the demand of capital by business. Furthermore, it also established a concept of capital constraint, allocated asset reasonably, and improved capital operating efficiency. In addition, the Bank introduced into capital efficiency appraisal, managed the branches' expanding pattern. Efforts were made to enhance risk management system, reduce the use of capital on risk capital assets and formed an advanced enterprise culture and standard of behaviors including maximizing shareholder' value and capital covering risk.

- Optimization of Financial Management, Consolidation of Financial Foundation

The Bank implemented public and scientific financial management, to optimize resource allocation and promote the improvement of earning level throughout the Bank. The writing off of bad debt was enhanced to further increase the provision coverage ratio and consolidate financial foundation. Financial Statements were compiled according to New Chinese Accounting Standards, International Financial Reporting Standards and US General Accepted Accounting Principles, timely providing financial information to meet with requirement of regulatory authorities and shareholders on information disclosure. Work related to accounting system shift was started up to ensure the smooth transition from old enterprise accounting standards to the new one.

- Sound Risk Management System, Upgrading Risk Control Capabilities

With the core of risk management and quality management, the Bank established and advanced the whole process of risk control and overall risk management system to effectively promote the risk control capabilities.

The Bank adopted series of measures to optimize and adjust the credit structure, enhance the management of credit assets combination, and promote the stable and healthy development of credit business. Meanwhile the Bank pushed forward the risk quantification and appraisal management, revised credit rating methodologies, strengthened the management of customers who belong to connected parties in the same group, and improved the management capability of customer credit risk.

The Bank perfected the NPA management system and enhanced the recovery and disposal of NPA. Throughout 2007, RMB 5.59 billion worth of NPA was recovered or disposed of, including RMB 4.57 billion from NPL, RMB 3.54 billion from cash reclaim for NPA, achieving the cash reclaim ratio of 63.36%.

The Bank formulated and perfected the connected party transaction management system, standardized the connected transaction, controlled the connected transaction risk and guarded the interest of Bank, shareholders, clients, and other stakeholders.

The Bank strengthened compliance, established framework of compliance risk management, and improved the management system to form a unified standard in the process of confirmation, evaluation, control, monitoring and report on compliance risk.

The Bank pressed ahead with vertical audit system innovation and strengthened audits and inspections, and disclosed and continuously monitored all kinds of risks. The Bank conducted overall internal control appraisal and operation risk prevention and inspection, endeavored to implement the relevant regulatory requirements to further advance case rectification.

- Strengthened IT Construction, Improved Operation Foundation and Better Capability of Support and Guarantee

The Bank strengthened IT and operation foundation and achieved significant progress in important project construction including disaster recovery center, teller system, and new data center, etc. to provide reliable guarantee for consistency of banking business. It also started up the IT planning consultant project, enhanced core banking system, IT framework planning and IT governance to establish the consolidated foundation on strategic development of banking IT. Through the implementation of process analysis and reform plan, the groundwork for the Bank's business process renovation was pushed forward.

- Optimization of Human Resources, Steady Advancement of Outlet Building

The Bank has strengthened the employee training and further improved the educational attainment, age structure and overall quality of employees. With the help of the professional Consultant Company, based on "professional, procedural and scientific" principle, the Bank made adjustment and reform on the existing organization structure, position setting, remuneration management and performance appraisal to establish the foundation of scientific and rational HR management for sustainable development.

In 2007, significant headway was made in branch management and outlet building. Five sub-branches were opened in home city, 56 grassroots outlets were relocated and adjusted, and the outlet network was optimized. Significant headway was also made in outlet upgrading - Shenyang and Ningbo Sub-branches and Maoming Office were upgraded to branches with the approval of CBRC. The self-service network channel is expanded and 531 sets of self-service equipment have been put in place. In addition, the Bank researched the uniform premises standard and pushed forward the construction of model branch.

The Bank's Prospect in Future

In terms of the external macro environment, in 2008 the Bank will not only encounter the sustainable development of Chinese economy and opportunity from constant growth of national finance demands, but also face the challenges from various fields including the stricter macro-control, tightened control on loan growth and change of international economic situation.

In terms of banking industry development, banking institutions accelerate their business transformation and financial innovation focuses on clients and market. Banking institutions have become increasingly client-centered

and market-oriented, further adjusted and optimized development strategies to constantly improve the specialized and comprehensive serving capability.

2008 is a vital year for the Bank to comprehensively implement the five-year strategic development plan. Considering the uncertainty over the structural adjustment of the macro economy and the strong growth momentum of the peers, the Bank will focus on customers, keep abreast of the time, be alert to market changes, seize opportunities, create favorable conditions, overcome all difficulties, take on challenges, press ahead with transformation, speed up development,, take strict precaution against risks, enhance internal control and identify a path forward that fits the Bank.

The guidelines and ideas for work in 2008 are to: adhere to the five-year strategic development plan, follow the orientation of strategic transformation, stay focusing on customers, seek active growth, adjust structure, strengthen innovation, expand market shares, guard against risks, perfect internal control, and optimize allocation of resources, with a view to ensuring better and faster growth in all businesses. Hereby the 2008 operation strategies are as follows:

- ◎ **Focus on customers and improve service comprehensively.** Customer-focused principle should be strengthened to improve service and upgrade customer satisfaction and trust.
- ◎ **Ensure sustained growth for liability business, continuously optimize the liability structure.** On the basis of stabilizing deposits, the Bank will strive to increase deposits; maintain existing clients and identify new potential high-quality clients. Measures will be adopted to continuously optimize the liability structure and effectively reduce liability cost.
- ◎ **Refine positioning, seek proactive growth, accelerate innovation, and facilitate business transformation.** The Bank will optimize the business structure and ensure a balanced development among corporate, consumer and treasury businesses. The innovation will be taken as the engine of growth, striving for a substantial improvement of core innovativeness in all business fields, and making sure that product innovation perfectly fits market needs and client requirements. The Bank will adhere to the customer-focused principle, consolidate existing banking products, and cope with customers' various financial needs.
- ◎ **Improve and perfect credit risk management system and further boost risk prevention and control capabilities.** The Bank will strengthen credit risk control and comprehensively perfect risk management. Great importance will be attached to improve the credit management system and adjust credit management policies. Focusing on credit quality management, the Bank will strive to enhance various management approaches and capabilities, strengthen the recovery and disposition of existing NPA and dissolve NPA risk practically.
- ◎ **Perfect internal control system and further enhance the Bank's self-control standard.** The Bank will establish and strengthen the compliance management structure and system, press ahead with the reform of the internal audit management system and improve the independence and effectiveness of audit supervision, so as to ensure a full functional role for disciplinary inspection and supervision, reinforce the accountability system and build a "five-in-one" disciplinary inspection and supervision system that incorporates prevention, inspection, supervision, disciplinary action, and education.

- ◎ **Further refine business process and enhance operation and management efficiency.** The Bank will enhance and improve the asset and liability management and treasury management efficiency. Emphasis will be placed to standardize financial management, strengthen accounting supervision, and improve the efficiency of resource allocation. The Bank will reinforce strategy execution ability and implement effective strategic control to make sure the successful implementation of each plan, push forward “Project Summit II” and optimize business management process.
- ◎ **Give high priority to the cultivation of basic resources and ensure their supporting role.** The Bank will intensify human resources management, reform compensation and appraisal system and strengthen team building. The IT system should be further strengthened for the purpose of pushing forward strategic planning of technology and substantially boosting technological support capability. Besides, the Bank will optimize the outlet network, perform innovation of service channels, and effectively improve service capability. The Bank will accelerate capital replenishment and kick off IPO preparations as soon as possible.

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

MAJOR INDICATORS (%)		SUPERVISORY INDICATORS (%)	END OF 2007 (%)	END OF 2006 (%)	END OF 2005 (%)
Capital adequacy ratio		≥ 8	7.14	6.7	inapplicable
Non-performing loan rate		≤ 5	4	5.8	4.5
Loan/deposit ratio	RMB	≤ 75	68.66	68.15	53.29
	FX	≤ 85	56.98	24.82	37.76
	Converted into RMB	≤ 75	68.19	65.65	52.21
Ratio of assets liquidity	RMB	≥ 25	36.46	50.71	47.64
	FX	≥ 60	168.18	158	112.28
Proportion of Call loans	Called-in RMB	≤ 4	0.04	0.03	0.04
	Called-out RMB	≤ 8	1.37	0.38	0.36
Proportion of loans to the top single borrower		≤ 10	9.11	11.76	inapplicable
Proportion of loans to the top 10 borrowers			64.84	69.47	inapplicable

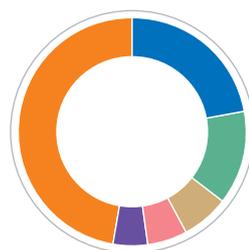
2. Risk Management

1) Distribution of Loans by Industry

The top five industries borrowing from the Bank as of the end of 2007 were:

Unit: RMB 1,000

INDUSTRY	BALANCE	% OF TOTAL
Manufacturing	54,955,096	22.12
Retailing & wholesale(Domestic/ International Trading)	33,002,398	13.29
Real estate	16,720,616	6.73
Transportation	14,065,187	5.66
Energy, Raw Materials	12,161,130	4.90
TOTAL	130,904,427	52.70



Distribution of Loans by Industry

Manufacturing	22.12%
Retailing & wholesale	13.29%
Real estate	6.73%
Transportation	5.66%
Energy, Raw Materials	4.90%
Others	47.30%
Total	100%

2) Regional Distribution of Loans

Unit: RMB 1,000

REGION	BALANCE	% OF TOTAL
Guangzhou	37,167,714	14.96
Hangzhou	36,602,426	14.74
Beijing	26,285,144	10.58
Nanjing	20,737,958	8.35
Dongguan	17,534,926	7.06
Zhengzhou	16,975,227	6.83
Shenzhen	15,276,781	6.15
Shanghai	14,600,506	5.88
Foshan	9,461,109	3.81
Kunming	7,321,233	2.95
Dalian	5,570,441	2.24
Others	40,852,880	16.45
TOTAL	248,386,345	100.00

3) *Top 10 Borrowers*
Unit: RMB 1,000

NUM.	NAME	BALANCE	% OF NET CAPITAL (%)	% OF TOTAL BALANCE (%)
1	Highway Administration Bureau of Henan's Traffic Department	1,400,000	9.11	0.56
2	Shougang Group	1,116,420	7.26	0.45
3	Xiangtan Urban Construction, Investment & Operation Co., Ltd.	1,068,000	6.95	0.43
4	Railway Department of PRC	1,000,000	6.5	0.40
5	Guangdong Meihe Express Highway Co., Ltd.	999,400	6.5	0.40
6	Changsha Urban Construction, Investment & Development Co., Ltd.	965,000	6.28	0.39
7	Shenzhen Ping An Land Investment Co., Ltd.	890,000	5.79	0.36
8	Shenyang Hongyuan Group Co., Ltd.	880,000	5.72	0.35
9	Highway Administration Bureau of Guangxi Zhuang Autonomous Region	850,000	5.53	0.34
10	China Power Investment Corporation	800,000	5.2	0.32
TOTAL		9,968,820	64.84	4.00

 4) *Five Categories of Loans and Loan Loss Provision*

 a) *Five-tier Loan Grading Result and Loan Loss Provision*
Unit: RMB 1,000

ITEM	END OF 2007	% OF TOTAL	LOAN LOSS PROVISION (%)
Pass	226,152,115	91.05	0.96
Special-mentioned	12,302,535	4.95	6.77
Sub-standard	4,386,482	1.77	22.22
Doubtful	4,450,983	1.79	62.17
Loss	1,094,230	0.44	100.00
TOTAL	248,386,345	100.00	3.16

by 2007 year-end, the total provision for impairment is RMB 7.841 billion, Coverage Rate of Loan Loss Provision (Total Loan Loss Provision/ NPL) is 78.95 %.

b. Changes to the Bank's Non-Performing Loans within the reported period

Unit: RMB 1,000

ITEM	END OF 2007		CHANGE WITHIN THE PERIOD		END OF 2006	
	AMOUNT	% OF TOTAL	AMOUNT	% OF TOTAL	AMOUNT	% OF TOTAL
Sub-standard	4,386,482	1.77	(2,842,075)	-1.56	7,228,557	3.33
Doubtful	4,450,983	1.79	(222,964)	-0.36	4,673,947	2.15
Loss	1,094,230	0.44	318,876	0.08	775,354	0.36
TOTAL	9,931,695	4.00	(2,746,163)	-1.84	12,677,858	5.84

5) Loan Loss Provision in 2007

Unit: RMB 1,000

ITEM	LOAN LOSS PROVISION
Opening Balance	(7,427,049)
Reserve for the year	(861,149)
(transfer-out)/ transfer-in for the year	(12,719)
write-offs for the year	459,534
CLOSING BALANCE	(7,841,383)

6) Risk Management of Group Client Credit Business

Sticking to the principles of unified credit, volume control, risk-warning and classified management, the Bank makes full use of credit management system and improves recognition and management capability of group clients. With respect to credit approval, the Bank reviews the admittance and credit of group client strictly and controls the credit scale. Meanwhile, it makes trials of "major control unit" model to coordinate management, reinforce risk supervision and early warning. Furthermore, it strengthens the instructions and management of those group clients with large amount, aiming to prevent and control the risks of group clients credit business.

7) Provision for lower-of-cost and market value, and impairment provision for investment

Provision for lower-of-cost and market value, and impairment provision for investment was RMB 82.05 million and RMB 97.08 million respectively as of the end of 2007, and impairment provision amounts to RMB 8.7 million at the beginning of 2007.

8) 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 DPC was RMB 86.25 million as of the end of 2007, compared with RMB 149.72 million at the beginning of the year. The Bank's DPC provision at the end of 2007 was RMB 59.87 million, against RMB 93.51 million at the beginning of the year.

9) External Investments and Bank-owned Enterprises and Entities

The Bank's external equity investments as of the end of 2007 included: RMB 42.21 million in China Unipay Co., Ltd.; RMB 4.1 million in Guangdong GDB International Financial Consultation Co., Ltd.; and RMB 3.64 million in MasterCard International Organization. The Bank has no self-run enterprise or entity.

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

Unit: RMB 1,000

ITEM	END OF 2007	END OF 2006	END OF 2005
Off-balance sheet interest receivables	967,881	595,434	586,121
Loan commitments	30,801,422	13,774,049	8,781,475
Bank acceptances	69,493,613	72,426,987	79,880,893
Providing letter of guarantees	5,034,687	6,341,897	9,700,331
Providing letters of credit	8,292,452	3,754,409	4,493,093
Derivative financial instruments	1,958,596	3,575,113	6,222,647

 11) *Major Policies, Measures and Effects of Non-Performing Assets management*

The Bank intensified NPA management and achieved “double reductions” in NPLs and NPL ratio through the control of new NPA and disposition of existing NPA. Measures were adopted as follows: Firstly, to proactively implement macro control measures, strengthen policies instruction, further optimize asset structure, reinforce the risk management of key fields for the sound business growth and prevent the new NPLs at its source. Secondly, to redesign risk management process, establish the approval process with the combination of authority and responsibility, strengthen each process of credit management and formulate the approval system before credit releasing. Thirdly, to refine risk-warning system, upgrade off-site monitoring capability, build up reporting and emergency solving mechanism for material risk cases and timely implement measures on potential NPL by HO and branches. Fourthly, focused on large amount NPLs and branches with large amount NPL, joint-effort was made by HO and those branches to dissolve NPA by means of direct collection, lawsuit, NPL compromise, NPL restructuring, writing off bad debts and so on. Fifthly, to strengthen NPA management appraisal system, including but not limited to collection premium, superaddition to flexible fee, full reserves for new NPLs, awarding the diligent and punishing the lazy in order to facilitate the recovery of NPA. Sixthly, to attach more importance to internal management and foundational work, optimize information system of NPA management and enhance the teambuilding and risk culture education.

 12) *The completeness, rationality and effectiveness of the internal control systems*

Abiding by Commercial Bank Law of the People’s Republic of China and other relevant financial rules and regulations of CBRC strictly, the Bank takes further steps to improve corporate governance structure. Audit Committee and Risk Management and Connected Transaction Control Committee are set under the Board of Directors, and different professional committees are set under the senior management committee, such as Credit Examination Committee, Finance Examination Committee, Internal Control and Compliance Committee. All these committees have provided organization prerequisite for effective internal control. The Bank sets up internal organs and departments in accordance with the principle of mutual restraint, clarifies the responsibilities between departments, positions, Superiors and Subordinates, proactively promotes the vertical management reform of audit system, formulates new compliance policies and sets up Compliance Department, which has established segregation of duties system with vertically and horizontally mutual inspection and restraint. Moreover, the Bank reinforces the recognition and control of all kinds of risks, formulates internal control regulations and business operation rules which have penetrated into all business and each operation procedures, covering all departments and positions. The regulations and rules will be constantly renewed and improved along with the business development. Furthermore, the Bank proactively implements CBRC’s working requirement on specialized case rectification and operational risk review, adopts various internal control measures to strengthen management, effectively improve the overall internal control

through special review on each business line, implementation of independent audit inspection and appraisal, timely rectification and strict adherence to accountability system.

The Bank has set up a comparatively integrated, reasonable and effective internal control system which will get constantly improved in practice.

3. Risks encountered by the Bank and the countermeasures

Risks encountered by the Bank mainly include the credit risk, liquidity risk, market risk and operational risk. Since 2007, the Bank has made further efforts to build up the overall, independent, and relatively centralized risk management system and has adjusted and improved the risk management organization, risk management procedures and risk management mechanism.

The Bank established Risk Management and Connected Transaction Control Committee under the Board, meanwhile appointed Risk Management Director to assist the President in supervision and decision-making on bank-wide risk management, strengthened functions of all internal management committees, preliminary formulated management strategies on credit risk, liquidity risk, market risk and operational risk, and urged each department to enhance relating risk control. Departments of credit management, credit approval, and risk assets management guided credit business of branches and sub-branches through formulating Annual Risk Management Guidance and measures on risk management of each specified sort of credit business, and carrying out business indicators appraisal.

1) Credit Risk

Credit risk refers to default risks resulting from the inability of the borrower or the transaction counterparties to timely and fully fulfill the debts payment obligations due to various reasons.

In 2007, the risk management of the Bank focused on the construction of “one framework, three mechanisms”, namely to establish an overall and independent risk management framework covering corporation credit, personal credit, FI credit, and market and liquidity risks, and meanwhile to strengthen structure adjustment of credit business to improve client access and withdrawal mechanism, optimize the approval procedures to improve the approval quality and established the after-loan annual approval mechanism, reinforce the identification of bad credit assets and risk control to perfect the objective measurement and reasonable compensatory mechanism of credit assets risk. The bank-wide credit risk management departments from all levels conducted all-rounded risk control by means of management of credit granting procedures, customer credit level rating, credit monitor and on-site inspection, credit management system maintenance, credit project review, NPL disposal, litigation management of debt assets and debt collection.

The Bank's credit risk management mainly focused on the following aspects: Firstly, carefully study on macro economy and policies and guidance on state industries, formulate and implement prudent credit policy, improve and complete regulations and systems of operation and management, optimize the management procedures and adjust customer structure combining with the features of the Bank's customer group and business scope. Secondly, strengthen the management of projects review and approval by branches and sub-branches and constantly improve the working procedure under the premise of the independence and efficiency of loan approval to build a more professional and independent credit review and approval team and create an approval mode with industry and business segmentation. Thirdly, strengthen pre-disbursement approval and supervision on

credit capital flow to avoid embezzlement of credit capital and ensure the safety of credit capital. Fourthly, enhance the management of risk pre-warning and loan quality, instruct branches and sub-branches to proactively discover hidden risks through credit asset risk review and collection of large amount NPL, and thus make prompt solutions. Fifthly, strengthen the management of group clients and loan concentration, and supplement the relationship network of group clients through collection of information of connected parties of existing customers, thus to enhance the integrated credit management of group clients, concentrate on sustaining tracking and monitoring the group clients with large credit amount, and effectively prevent the risk of credit centralization. Sixthly, further segment and improve the credit rating system for corporate and personal banking customers, constantly promote the capability and level of quantifying risk. Seventhly, improve the guarantee management mechanism, embark on establishment of value appraisal management system of collaterals, and make further improvement on management of credit risk dilution. Eighthly, according to requirements of CBRC and its overall deployment on cases prevention, continue to synergize and optimize system and procedures, constantly promote the risk control consciousness and risk management capability from all levels, and establish persisting tracing and checking system for dubiety and weakness.

2) *Liquidity Risks*

Liquidity risk refers to risks caused by the inability to obtain sufficient cash with reasonable cost to ensure the normal operation of the businesses.

The Bank adopts single legal person system and exercises liquidity management from up to down. At the HO level, Asset Liability Management Committee is mainly responsible for liquidity management of the Bank. It decides liquidity management policies, monitors liquidity risk index monthly, and authorizes Treasury Department and the International Business Department to respectively manage liquidity of RMB and FCY, so as to ensure effective liquidity management. Major measures adopted by the Bank in liquidity management include: keep a close eye on the market, calculate the position every day, and maintain adequate provision in the Bank; consistently monitor liquidity indicators such as provision ratio in both HO and Branches and the structural change of cash assets and other interest-bearing assets to meet future liquidity needs; establish multi-level liquidity barriers; consolidate debts business foundation, raise core deposits ratio, and maintain a good market financing capability; complete the credit risk management; establish pre-warning system and emergency response plan for liquidity risks.

Due to the impact of market on the banking system, in particular the return of red chips to the capital market, the liquidity situation of the Bank in 2007 took on the characteristics of co-existence of relaxation on the whole and tension in some phases. Owing to the implementation of effective measures, the Bank has not only successfully withstood 4 big liquidity shocks of the market, but also maintained a good situation in all liquidity management indexes in 2007. In the end of December, L/D ratio of RMB and FCY was respectively 68.66%, and 56.98%; the liquidity ratio of RMB and FCY was respectively 36.46% and 168.18%; excess provision ratio of RMB was 6.31%; proportions for RMB called-in and called-out were respectively 0.04% and 1.37%, both of which conform to regulatory standards.

3) *Market Risks*

Market risk refers to risk of loss in the on-sheet or off-sheet items in the Bank caused by adverse fluctuation of market prices (interest rates, foreign exchange rates, stock prices, commodity prices, etc.).

According to the Management Guidelines of Commercial Banking Market Risk, promulgated by CBRC and other policy guidelines, the Bank has established market risk management system including: direct leadership from the highest level, emphasis on system and rules construction, independent risk control and audit institution, quantified risk limits and authorization management, timely risk report and information disclosure, etc. In terms of market risk management system construction, the Bank established a specialized market risk management division which is responsible for managing and monitoring market risks; set a new framework for market risk limits and risk reporting format; selected new information system of assets and liabilities management through inviting public bidding, so as to carry out market risk comprehensive management for items of assets and liabilities including bank accounts and transactions accounts.

In 2007, the Bank maintained stable development of all businesses and effectively controlled the market risks through close following to the macroeconomic policies, interest rates trend of inter-bank bonds and timely risk counter-measures. The duration of RMB bonds portfolio declined further, the credit assets portfolio continues to be optimized, while a number of qualifications of innovative products have been gained such as leading underwriters of short-term financing bonds, bilateral quotation qualification of RMB bonds.

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 exposure of the interest rates of all currencies against US dollar should not exceed 1% of the FCY capital, except Hong Kong dollar which has linked exchange rate system and RMB whose currency exchange exposure is limited by State Administration of Foreign Exchange (SAFE).

Personal FCY transaction is operated on auto trade platform and its trade exposure can be monitored instantaneously. The trade processing and risk management system in HO can measure and monitor the interest rate exposure formed by all kinds of transactions instantaneously. An automatic trade system which can generate exchange rate trade batches based on front desk business and collect total exchange rate exposure is under development.

b. Interest rate risk management

RMB interest rate risk is manifested mainly in the interest rate policy change and the risks brought by interest rate sensitive Asset/Liability mismatch. The key point of interest rate risk control is treasury transaction business. The key measures for RMB interest rate risk management include: accurately estimate the trend of interest rate change, pay close attention to policy changes and identify interest rate risks at full-scale so as to provide basis for decision making on the confirmation of interest rate risk quota and risk exposure adjustment; Set up risk index to restrain investment and assess regularly; Adjust investment portfolio or financing structure according to market expectation; Set up RMB interest rate authorization system; Develop system for Asset/Liability management and inner funds transfer pricing and utilize all kinds of tools to adjust interest rate risk exposure.

On foreign exchange, the interest rate is marketized and there are a lot of tools for interest rate risk management. The key measures for interest rate risk management mainly include three aspects: firstly, the quantification of interest rate risk. At present, the Bank has realized correct quantification of interest

rate risk for HO treasury and investment; an independent market risk management middle counter can realize real-time monitoring for interest rate exposure; Asset/Liability Management System (that is interest risk management system for deposit and loan banking accounts) is under development; Secondly, define the interest rate risk quota, i.e. define the interest rate risk exposure appropriately according to the Bank's capability and business development requirement; thirdly, business operators should have relatively accuracy in the estimation of the trend of the interest rate of major currencies. This is manifested mainly in HO treasury and investment behaviors. The Bank's long-term FCY loan balance is of small scale. New FCY loan business mainly concentrates on trade financing area and the terms rarely exceed 1 year, which match the term of FCY fund source. Based on the investment strategy of FCY fixed interest market, the Bank has decreased self-run FCY bond investment scale down to less than USD100 million, among which the self-run FCY fixed interest rate bond scale down to less than USD30 million. The surplus FCY fund is mainly used for local trade financing and currency market. The weighted average of net duration for FCY Asset/Liability items does not exceed 1 year.

c. Derivative Products

The Bank has held a conservative attitude towards the risk investment of derivative products, for which, the Bank's market risk exposure is relatively small. From 2002 to 2004, due to the low interest rate of main international currencies, many people operated self-run interest rate structured product for the increase of short-term benefit. However, the Bank only has self-run structured product totaling USD 13.20 million and HKD 90.00 million in nominal value, hence successfully avoided the loss caused by the periodical ascending of interest rate of international major currencies since 2004. At present, the VAR of interest rate exposure of derivatives is less than USD 2 million (99% confidence level, within 2 weeks).

4) Operational Risk

Operational risk refers to the risk of loss resulting from inadequate or failed internal processes, employees and systems, or from external events.

In 2007, the Bank continuously improved the organization structure of operational risk management, established the "Internal Control and Compliance Committee" on the basis structure of former Internal Control Committee to coordinate and make overall planning on the operational risk management. Besides, Compliance and Legal Department and E-Banking Department were established to reinforce risk control and management function.

The main measures adopted by the Bank are as follows:

- a. Strengthen the formulation of rules and system and specify operation procedural rules for businesses. Focusing on risk management, the Bank optimize procedures of management and businesses, push forward the division process of the front, middle and back counter, and strengthen the mutual supervisory and restriction amongst different positions. In addition, efforts were made to increase the level of automated and paper-free operation aiming to lowering down the operational risk.
- b. Place emphasis on case rectification, seriously investigate behaviors and cases in violation of laws and regulations, and play an active role to advance the accountability mechanism. Self-examination and self-rectification were actively carried out. Meanwhile, the Bank focuses on the monitoring of weakness and management of staff behavior, and is thus effectively prevented from operational risk.

- c. Invest more in our IT platform for continuous and IT innovation. Several key initiatives were launched in 2007, including Disaster Recovery Center, General Controlling Center, new Data Center Project, various new information systems for controlling operational risks. Key IT projects were uniformly researched and developed by HO. The information submission of anti-money laundering has been systematized through the establishment of regulatory reporting platform for RMB and FCY transaction, large amount transactions and suspicious transactions as well. In addition, the efforts in implementing IT risk assessment and rectification has been persisted.
- d. Push forward the reform of vertical internal audit system in a proactive manner to improve the effectiveness of auditing supervision. A variety of examinations, including normal audit and specialized audit, etc. were strengthened. The internal audit appraisal had been consecutively made towards branches for 5 years and thus the Bank achieved 100% examination coverage ratio on branches, almost involving all businesses.
- e. Constantly reinforce staff post training, including compliance education, career ethics, and compliance culture cultivation, etc.

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 January 30, 2007, the Bank convened the Second Meeting of the Fifth Board of Directors, which reviewed the following proposals: Proposal on the Procedural Rules of the Board of Directors of Guangdong Development Bank Co., Ltd., Proposal on the Establishment of Specialized Committees of the Board, Proposal on the Detailed Working Rules of Specialized Committees of the Board (trial), Proposal on the Initial Business Plan of Guangdong Development Bank Co., Ltd., Proposal on the Business Plan and Budget of GDB in 2007, Proposal on the Revised Internal Committee Structure of GDB, Proposal on the Appointment of Senior Management Personnel of GDB, Proposal on the Appointment of Two Members to the Technical Cooperation and Assistance (TCA) Committee of GDB, Proposal on the Engagement of Accounting Firm of GDB. Relevant resolutions were reached at the meeting.

On April 12 2007, the Bank convened the First Extraordinary Meeting in 2007 of the Fifth Board of Directors, which reviewed the following proposals: Proposal on GDB 2006 Audit Report; Proposal on Capital Plan for Raising Tier II Capital; Proposal on Co-opting Mr. Li Zimin onto the Fifth Board of Directors of GDB; Proposal on the Guangdong Development Bank Compliance Policy; Proposal on the GDB Internal Audit Reorganization Plan. Relevant resolutions were reached at the meeting.

On May 25, 2007, the Bank convened the Third Meeting of the Fifth Board of Directors, which reviewed the following proposals: Proposal on the Report on the 2006 Final Financial Accounts of Guangdong Development Bank Co., Ltd.; Proposal on the 2006 Year End Preliminary Plan for Making up the Accumulated Losses of Guangdong Development Bank Co., Ltd.; Proposal on the 2006 Annual Report of Guangdong Development Bank Co., Ltd.; Proposal on the 2007 Annual Business Plan of Guangdong Development Bank Co., Ltd.; Proposal on the 2007 Financial Budget Report of Guangdong Development Bank Co., Ltd.; Proposal on the 2006 Working

Report and 2007 Working Plan of the Board of Directors of Guangdong Development Bank Co., Ltd.; Proposal on the Working Rules of the Office of Board of Directors and the Office of Board of Supervisors of Guangdong Development Bank Co., Ltd.; Proposal on the Administrative Rules for Connected Transactions of Guangdong Development Bank Co., Ltd.; Proposal Regarding the Outline of the Five-Year (2007-2011) Strategic Development Plan of Guangdong Development Bank Co., Ltd.; Proposal on the 2007-2008 Network Expansion Plan of Guangdong Development Bank Co., Ltd.; Proposal on the Hiring of a Consulting Company to Formulate Remuneration Plan for Directors, Supervisors and Senior Management; Proposal on the Remuneration Plan for Non-Executive Directors and Supervisors of Guangdong Development Bank Co., Ltd.; Proposal on the Engagement of an External Organization to Formulate Liability Insurance Plan for Directors, Supervisors and Senior Management (D&O Insurance); Proposal on Electing Employee Directors and Revising Articles of Association at the Request of Labor Union of Guangdong Development Bank Co., Ltd.; Proposal on the Convening of the 2006 General Meeting of Shareholders of Guangdong Development Bank Co., Ltd.. Relevant resolutions were reached at the meeting.

On August 24, 2007, the Bank convened the Second Extraordinary Meeting in 2007 of the Fifth Board of Directors, which reviewed the following proposals: Proposal on the Approval of the Resignation of Mr. Richard Stanley and Mr. Y.S.Wong from the Fifth Board of Directors of GDB; Proposal on Electing Mr. Zhang Shengman and Mr. Phee Boon Kang to the Fifth Board of Directors of GDB; Proposal on Liability Insurance Plan for Directors, Supervisors and Senior Managers (D&O Insurance); Proposal on Guidance on Performance Assessment of Senior Management of GDB in the 1st Half of 2007; Proposal on Rules of President Meetings (Revised Version) and Work Responsibilities of Senior Management of GDB; Proposal on Delegation to Senior Management for NPA Recovery at Discount; Proposal on Adjustment for Credit Approval Procedures and Organization and Working Mechanism of the Credit Approval Committee (“CAC”); Proposal on the Establishment of Independent Market Risk Management Unit; Proposal on granting JingWei Textile Machinery Co., Ltd. RMB300 Million Account Receivable Financing with Full Recourse to JingWei; Proposal on Granting RMB 1.5 Billion Repurchased Credit Assets Transfer Limit to China Power Finance Company; Proposal on Deposit Connected Transaction with CITI Group and its affiliated companies; Proposal on Deposit Connected Transaction with China Life Insurance Corporation and its affiliated companies; Proposal on Deposit Connected Transaction with the State Grid Corporation of China and its affiliated companies; Proposal on the Deposit Connected Transaction with CITIC Trust and Investment Co., Ltd. and its affiliated companies; Proposal on the Connected Transaction of ISL not more than 5 billion RMB with CITIC Trust and Investment Co., Ltd.; Proposal on the Launch of Asset Securitization Business in GDB; Proposal on the 2006 Audit Fee of GDB; Proposal on the Engagement of Accounting Firm in 2007; Proposal on GDB 2006 Auditor’s Report on Financial Statements in Conformity with U.S. GAAP; Proposal on Convening the First Extraordinary General Meeting in 2007 of Guangdong Development Bank Co., Ltd. Relevant resolutions were reached at the meeting.

On November 13, 2007, the Bank convened the Fourth Meeting of the Fifth Board of Directors, which reviewed the following proposals: Proposal on Director Replacement Suggested by State Grid Corporation of China; Proposal on Electing Mr. Lin Jianjun to the Fifth Board of Directors of GDB; Proposal on the Member Adjustment for Relevant Specialized Board Committees; Proposal on the Approval of the Resignation of Ms. Vita Liu from the Director of Compliance of GDB; Proposal on the Executive Compensation Plan of Guangdong Development Bank; Proposal to Approve the Methodology and Process of Senior Management Cost Reimbursement by GDB; Proposal on the Management Measures of GDB House Property Disposal Proposal on Setting up Assets Custody Department; Proposal on Salary Amount Increase of 2007; Proposal on the Approval of Nominated Chief Member for Risk Management and Connected Transaction Control Committee; Proposal on Performance Assessment of Senior Management of GDB in the 1st Half of 2007; Proposal to Issue RMB1.5 Billion Subordinated Bonds and

RMB6.25 Billion Convertible Bonds; Provisional Proposal to Issue No Less than RMB 3 Billion Subordinated Bonds; Provisional Proposal to Initiate IPO Project as Soon as Possible and Issue Convertible Bonds. Relevant resolutions were reached at the meeting.

On December 6, 2007, the Bank convened the Third Extraordinary Meeting in 2007 of the Fifth Board of Directors, which reviewed the following proposals: Proposal on Standardization and Adjustment on Off-Site Supervisory G03 Report Items Including Asset Loss and Impairment Provisions; Proposal on the Amicable Settlement Scheme for the Guarantee Dispute with Finance Bureau of Jiangmen and Hong Kong Huifeng Co., Ltd. Relevant resolutions were reached at the meeting.

2. Execution of the Resolutions of Shareholders General Meeting by Board of Directors

During the reporting period, the Board of Directors of GDB executed the resolutions by General Meeting of Shareholders in a responsible manner, promoting each issue of the Bank abiding by laws and regulations.

3. Responsibility Fulfillment by Independent Directors

There are three Independent Directors in the Board of Directors of the Bank, 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, Independent Director Y. S. Wong resigned due to personal reasons and Mr. Kang Phee Boon was elected to succeed him, as approved in the Second Extraordinary Meeting in 2007 of the Fifth Board of Directors and the 2007 First Extraordinary General Meeting of Shareholders dating August 24, 2007 and September 20, 2007 respectively. During the reporting period, Independent Directors had attended meetings of Board of Directors and each specialized committee in a responsible manner and actively rendered their opinions and attached great importance to the interests of medium and small shareholders. They had also for numerous times conducted study into the Bank's operation and management, performing their duties and rights diligently.

During the reporting period, the attendance by the Bank's Independent Directors to Board of Directors meetings is as follows:

NAME OF INDEPENDENT DIRECTORS	REQUIRED ATTENDANCE TIMES	ATTENDANCE IN PERSON (TIMES)	ATTENDANCE BY ENTRUSTING REPRESENTATIVE(TIMES)	ABSENCE	REMARKS
Chan Tai Loi	6	6	0	0	/
Lin Yixiang	6	6	0	0	/
Y. S. Wong	4	3	1	0	Authorized Independent Director Mr. Chan Tai Loi to Vote on his behalf in the Second Extraordinary Meeting in 2007 of the Fifth Board of Directors
Kang Phee Boon	2	2	0	0	/

4. 2007 Profit Distribution Plan

KPMG Huazhen appointed by the Bank has issued standard unqualified Auditor's Report. The audited net profit of the year 2007 is RMB 2,668,156,032.00. Considering the positive effect brought by the accounting policy change which adds the retained earnings by RMB 83,659,404.00, distributable profit of the year 2007 is RMB 2,751,815,436.00 in total. The profit distribution plan of the year 2007 based on the Financial Regulation for Finance Enterprise [MOF (Ministry of Finance) Decree No.42] is as follows:

Firstly, based on Article No.44 of the Financial Regulation for Finance Enterprise, legal surplus should be withdrawn by 10% of realizable net profit for the current year and not necessary to withdraw until accumulative legal surplus is up to 50% of the registered capital. As the balance for legal surplus in 2006 is 0, the withdrawal for the legal surplus in 2007 may be RMB 266,815,603.00 based on 10% of the audited net profit.

Secondly, based on Article No.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 the financial institutions after synthetically considering all the risk status it confronts. In principle, the balance for general provision should be accrued on not less than 1% of the balance of risk assets of the period end. In 2007, the Bank accrued general provision less than 1% of the period-end balance of risk assets. Consequently, the general provision for 2007, RMB 2,240,657,301.13 is accrued as general provision based on the discrepancy to 1% of the period-end balance of the risk assets of 2007.

Thirdly, audited distributable profit to shareholders of the Bank is RMB 244,342,531.87. Based on relevant regulations of the Financial Regulation for Finance Enterprise and Measures for the Administration for the Capital Adequacy Ratio of Commercial Bank, the Bank does not distribute the net profit to shareholders.

The above profit distribution plan will be submitted to the General Meeting of Shareholders for review and approval.

The tenure of the 3rd Board of Supervisors expired in 2007. According to Company Law and Articles of Association, the reelection of the Bank's Board of Supervisors was organized. According to the resolutions by the 2006 Annual General Meeting of Shareholders, the 4th Board of Supervisors consists of 9 Supervisors, including four Employee Representative Supervisors, three Shareholder Supervisors and two External Supervisors. Meanwhile, the meeting elected three Shareholder Supervisors and one External Supervisor. According to Articles of Association and other relevant regulations, Employee Representatives Supervisors will be democratically elected by Employee Representative Meeting.

The Bank will complete the reelection of Board of Supervisors as soon as possible to improve the operational institutions of the Board of Supervisors and ensure the institutionalization and regularity of the Board of Supervisors. The Bank's Supervisors earnestly, diligently and prudently performed their duties strictly in line with stipulations of Company Law and of Articles of Association. They attended General Meeting of Shareholders and Board of Supervisors meetings, sit in on Board of Directors meetings, supervised the legality and compliance of the convention of General Meeting of Shareholders and Board of Directors meetings and voting procedures, and supervised over the Bank's operational status, financial activities, duty performance of Directors and Senior Managers by means of reviewing proposals and listening to report by Senior Management.

1. Increase or Decrease of Registered Capital

On December 29 2007, based on “Approval by China Banking Regulatory Commission Concerning the Changes of Registered Capital of Guangdong Development Bank” (Yin Jian Fu [2007] No. 624), it’s agreed that the Bank’s registered capital be changed from RMB 3,585,658,600 to RMB 11,408,422,597 .

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

During the year of 2007, the Bank had sold debt assets with amount of RMB 73.54 million through open auctions.

3. Vital litigations, arbitrations and cases

As of the end of the reporting period, there are pending litigation cases and disputes with the Bank as the defendant with a total claim of about RMB 170 million. Based on opinions of internal and external lawyers, the Bank has 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 2007, there were no such material events such 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 as approved by CBRC.

2). *Material Guarantees*

In 2007 there were no material guarantee events, apart from the financial guarantee business conducted by the Bank as approved by CBRC.

3). *Material Entrustment of Asset Management*

In 2007 there were no material events concerning entrusted asset management.

5. 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.

6. Engagement and Disengagement of Public Accounting Agencies

According to the resolution by the 2nd Extraordinary Meeting in 2007 of the 5th Board of Directors, the Bank engaged the KPMG accounting firm to audit the Bank’s 2007 annual financial statements compiled in line with the International Financial Reporting Standards (IFRS) and engaged KPMG-Huazhen to audit the Bank’s 2007 annual financial statements compiled in line with the 2001-issued Accounting Standards for Financial Enterprises. The engagement with each firm lasts for one year.

7. Other Important Events

March 19 GDB signed Agreement on Long-term Comprehensive Strategic Cooperation with China Life Insurance Co., Ltd..

April 13 Entitlement to act as leading underwriter for short-term financial bonds as approved by PBOC (document Yin FA [2007] No. 570).

July 21 During the Fourth International Summit on China Customer Service and the 2006-2007 Appraisal on China's Best Customer Service, GDB won awards of "China's Best Business Hall", "Best Customer Service", "Best Customer Service Center" and "the Most Outstanding Customer Service Administrator".

August 1 Shenyang Sub-Branch was upgraded to be Branch as approved by CBRC (document Yin Jian Fu [2007] No. 0328).

September 11 Kick-off Ceremony for the issuance of over 5 million credit cards and Guangfa Card Public Well-Being Plan.

September 12-13 The 2007 Presidents Joint Conference of National Joint Stock Commercial Bank was jointly held by GDB and Liaoning Provincial People's Government in Shenyang.

September 20 The trial operation of the first CRS under the 1100-set of ATM/CRS Program was successfully launched in Beijing Branch.

September 24 The Maoming Office was upgraded to be Branch as approved by CBRC (document Yin Jian Fu [2007] No. 0415).

October 10 GDB signed the Comprehensive Cooperative Agreement with CITIC Trust Co., Ltd..

December 3 The Ningbo Sub-Branch was upgraded to be Branch as approved by CBRC (document Yin Jian Fu [2007] No. 0541).

December 12 GDB engaged IBM to serve as the consultant for IT planning project to assist with IT system integration and IT strategic orientation.

December 14 GDB acquired the license to engage in derivative product transaction according to the Approval by CBRC.

December 18 GDB held the Press Conference in Beijing on Cherishing the First Times of Chinese—The Issuance of VISA Olympics Card by Guangdong Development Bank.

December 28 The grand 2007 Award Ceremony for Financial and Economic Top Notch by the World Finance Lab was held in Hong Kong, during which Guangfa Card was titled as the 2007 Top 10 Most Reliable Bankcard in China.

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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 125, which comprise the balance sheet as at 31 December 2007, the income statement, statement of changes in shareholders’ equity and cash flow statement for the year ended 2007, 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 Accounting Standards for Business Enterprises (hereinafter represents Accounting Standards for Business Enterprise : Basic Standard issued in 2006 and specific accounting standards issued before 2006) and the Accounting Regulations for Financial Enterprises 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 Professional Auditing Standards for China’s 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 Bank’s internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

3. *Opinion*

In our opinion, the Bank's financial statements comply with the requirements of the Accounting Standards for Business Enterprises and the Accounting Regulations for Financial Enterprises 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 2007, and the results of operations and cash flows of the Bank for the year ended 2007.

KPMG Huazhen

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China

He Shan

18 March 2008

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 2007

(Expressed in thousands of Renminbi unless otherwise stated)

	Note	2007	2006
Assets			
Current assets			
Cash		2,116,919	1,699,082
Balances with central banks	6	59,477,657	47,400,971
Balances with banks and other financial institutions	7	3,363,253	15,090,333
Placements with banks and other financial institutions	8	12,972,244	11,736,357
Short-term loans	9	102,390,138	106,383,722
Trade finance	10	7,206,854	4,172,507
Interest receivable	11	1,253,310	935,365
Other receivables	12	10,514,818	11,326,527
Discounted bills	13	38,972,754	52,058,229
Short-term investments	14	13,882,403	28,420,440
Balances under resale agreements	15	50,485,991	12,354,096
Long-term debt investments maturing within one year	16	5,834,002	6,101,679
Total current assets		308,470,343	297,679,308

The notes on pages 83 to 125 form part of these financial statements.

Guangdong Development Bank Co., Ltd.

Balance sheet as at 31 December 2007 (continued)

(Expressed in thousands of Renminbi unless otherwise stated)

	Note	2007	2006
Assets (continued)			
Long-term assets			
Medium and long-term loans	17	91,451,194	46,029,705
Non-accrual loans	18	8,365,405	8,347,218
Less:provisions for loan loss	19	(7,841,383)	(7,427,049)
Long-term debt investments	20	32,138,727	23,624,332
Long-term equity investments	21	53,444	53,864
Fixed assets, at cost		5,880,138	5,660,158
Less:accumulated depreciation		(2,742,348)	(2,491,740)
Less:provisions for impairment		(305,389)	(310,614)
Fixed assets, at net book value	22	2,832,401	2,857,804
Construction in progress	23	347,621	261,210
Total long-term assets		127,347,409	73,747,084
Intangible assets and other assets			
Intangible assets	24	139,984	183,034
Long-term deferred expenses	25	84,065	72,998
Repossessed assets	26	26,371	56,215
Total intangible assets and other assets		250,420	312,247
Deferred tax			
Deferred tax assets	27	1,455,153	2,169,430
Total assets		437,523,325	373,908,069

The notes on pages 83 to 125 form part of these financial statements.

Guangdong Development Bank Co., Ltd.

Balance sheet as at 31 December 2007 (continued)

(Expressed in thousands of Renminbi unless otherwise stated)

	Note	2007	2006
Liabilities and shareholders' equity			
Current liabilities			
Short-term deposits	28	166,998,838	183,651,852
Short-term savings deposits	29	50,395,233	51,429,704
Fiscal deposits		8,962,224	5,934,609
Short-term pledged deposits	30	53,844,355	51,317,960
Deposits from banks and other financial institutions	31	39,188,991	31,888,340
Takings from banks and other financial institutions	32	432,760	508,479
Balances under repurchase agreements	33	21,566,178	2,708,760
Outward remittances		78,006	134,088
Inward remittances		419,774	687,018
Interest payable	34	2,454,075	1,801,232
Salaries payable		555,661	134,050
Accrued welfare expenses		55,505	66,127
Tax payables	35	2,095,162	1,619,885
Other liabilities	36	3,012,413	3,211,717
Total current liabilities		350,059,175	335,093,821
Long-term liabilities			
Long-term deposits		66,226,896	19,553,522
Long-term savings deposits		5,521,986	6,452,636
Long-term pledged deposits	30	288,080	39,115
Total long-term liabilities		72,036,962	26,045,273
Total liabilities		422,096,137	361,139,094

The notes on pages 83 to 125 form part of these financial statements.

Guangdong Development Bank Co., Ltd.

Balance sheet as at 31 December 2007 (continued)

(Expressed in thousands of Renminbi unless otherwise stated)

	Note	2007	2006
Liabilities and shareholders' equity (continued)			
Shareholders' equity			
Share capital	37	11,408,423	11,408,423
Capital reserve	38	(17,052)	(7,109)
Surplus reserve	39	266,816	-
Regulatory general reserve	40	3,524,660	1,284,002
Retained earnings		244,341	83,659
Total shareholders' equity		15,427,188	12,768,975
Total Liabilities and shareholders' equity		437,523,325	373,908,069

These financial statements have been approved by the Board of Directors of the Bank on 18 March 2008.

Li Ruohong
 Authorised representative
 (Signature and stamp)

Michael Zink
 President
 (Signature and stamp)

Edward Chou
 Chief Financial Officer
 (Signature and stamp)

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

Guangdong Development
 Bank Co., Ltd.
 (Company chop)

The notes on pages 83 to 125 form part of these financial statements.

Guangdong Development Bank Co., Ltd.
 Income statement for the year ended 31 December 2007
 (Expressed in thousands of Renminbi unless otherwise stated)

	Note	2007	2006
Operating income			
Interest income	41	14,612,478	10,587,700
Interest income on balances and placements with financial institutions	42	5,998,730	1,682,942
Fee and commission income		1,516,920	801,519
Foreign exchange (loss)/gain		(36,162)	373,200
Other operating income		14,066	17,158
Total operating income		22,106,032	13,462,519
Operating expenses			
Interest expense	43	(5,949,354)	(5,044,958)
Interest expense on deposit and takings from financial institutions	44	(5,158,197)	(1,985,295)
Fee and commission expense		(370,646)	(222,120)
Other operating expense		(5,828)	(3,125)
Total operating expenses		(11,484,025)	(7,255,498)
Operating cost	45	(5,589,001)	(4,437,365)
Investment income	46	1,754,956	1,465,157
Business taxes and surcharges		(894,072)	(648,442)
Operating profit		5,893,890	2,586,371

The notes on pages 83 to 125 form part of these financial statements.

Guangdong Development Bank Co., Ltd.

Income statement for the year ended 31 December 2007 (continued)

(Expressed in thousands of Renminbi unless otherwise stated)

	Note	2007	2006
Operating profit		5,893,890	2,586,371
Add:Non-operating income	47	186,279	182,857
Less:Non-operating expenses	48	(109,825)	(256,850)
Profit before allowance for assets impairment		5,970,344	2,512,378
Less:allowance for assets impairment	49	(978,329)	(2,866,654)
Profit / (Loss) after allowance for assets impairment		4,992,015	(354,276)
Less:Income tax	50	(2,323,859)	(186,417)
Netprofit/(loss)		2,668,156	(540,693)

These financial statements have been approved by the Board of Directors of the Bank on 18 March 2008.

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 (Company chop)

The notes on pages 83 to 125 form part of these financial statements.

Guangdong Development Bank Co., Ltd.

Statement of changes in shareholders' equity for the year ended 31 December 2007

(Expressed in thousands of Renminbi unless otherwise stated)

	Note	Share Capital	Capital Reserve	Statutory Surplus Reserve	Regulatory General Reserve	(Accumulated Losses) /Retained Earnings	Total
At 1 January 2007		11,408,423	(7,109)	-	1,284,002	83,659	12,768,975
Net profit for the year		-	-	-	-	2,668,156	2,668,156
Appropriation to statutory surplus reserve	39	-	-	266,816	-	(266,816)	-
Appropriation to regulatory general reserve	40	-	-	-	2,240,658	(2,240,658)	-
Differences arising from translation of foreign currency		-	(9,943)	-	-	-	(9,943)
At 31 December 2007		11,408,423	(17,052)	266,816	3,524,660	244,341	15,427,188
At 1 January 2006		3,585,659	-	-	-	(33,214)	3,552,445
Net loss (After retrospective adjustment)	3(b)	-	-	-	-	(540,693)	(540,693)
Increase in share capital		9,764,332	-	-	-	-	9,764,332
Capital reduction		(1,941,568)	-	-	1,284,002	657,566	-
Differences arising from translation of foreign currency		-	76,550	-	-	-	76,550
- before retrospective adjustment		-	76,550	-	-	-	76,550
- change in accounting policy	3(b)	-	(83,659)	-	-	-	(83,659)
- after retrospective adjustment		-	(7,109)	-	-	-	(7,109)
At 31 December 2006		11,408,423	(7,109)	-	1,284,002	83,659	12,768,975

These financial statements have been approved by the Board of Directors of the Bank on 18 March 2008.

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The notes on pages 83 to 125 form part of these financial statements.

Guangdong Development Bank Co., Ltd.

Cash flow statement for the year ended 31 December 2007

(Expressed in thousands of Renminbi unless otherwise stated)

	Note to the cashflow statement	2007	2006
Cash flow from operating activities			
Interest, fees and commission received		21,870,797	13,064,399
Net balances with banks and other financial institutions		2,153,118	-
Net amount of short-term loans and trade finance drawn		1,838,783	-
Net balances under discounted bills		13,085,475	-
Net amount of current deposits taken		15,484,521	13,931,574
Net amount of other deposit other than current deposits taken		18,050,367	-
Net cash received from banks and other financial institutions		7,300,651	7,959,133
Net balances under repurchase agreements		18,857,418	56,566
Net takings from banks and other financial institutions		-	229,356
Recoveries of the loans written off in prior year		-	27,696
Net cash received from other operating activities		48,899	986,000
Sub-total of cash inflows		98,690,029	36,254,724
Interest, fees and commission paid		(10,825,354)	(7,088,416)
Statutory deposit reserve funds with central bank		(17,784,717)	(5,629,106)
Net placements with banks and other financial institutions		(3,381,885)	(924,890)
Net balances under resale agreements		(19,727,837)	(3,051,696)
Medium and long-term loan drawn		(45,986,252)	(16,859,016)
Net takings from banks and other financial institutions		(75,719)	-
Cash paid to and for employees		(2,184,582)	(2,452,257)
Cash paid for all types of taxes		(2,022,693)	(2,149,487)
Net balances with banks and other financial institutions		-	(858,888)
Net balances under discounted bills		-	(30,602,799)
Net amount of short-term loans and trade finance drawn		-	(4,932,048)
Withdrawal of non-current deposits		-	(1,583,173)
Net cash paid for other operating activities		(2,471,626)	(2,252,525)
Sub-total of cash outflows		(104,460,665)	(78,384,301)
Net cash flow from operating activities	(i)	(5,770,636)	(42,129,577)

The notes on pages 83 to 125 form part of these financial statements.

Guangdong Development Bank Co., Ltd.

Cash flow statement for the year ended 31 December 2007 (continued)

(Expressed in thousands of Renminbi unless otherwise stated)

	Note to the cashflow statement	2007	2006
Cash flow from investing activities			
Cash received from disposal of investments		130,981,142	91,240,538
Cash received from interest on debt securities		1,309,069	1,451,992
Cash received from interest on dividend income		2,310	-
Cash received from disposal of fixed assets and other long-term assets		141,113	91,892
Sub-total of cash inflows		132,433,634	92,784,422
Cash paid for purchase of investments		(124,482,424)	(90,204,723)
Cash paid for purchase of fixed assets and other long-term assets		(439,863)	(447,295)
Sub-total of cash outflows		(124,922,287)	(90,652,018)
Net cash flow from investing activities		7,511,347	2,132,404
Cash flow from financing activities			
Cash received from investors		-	9,764,332
Cash received from GFIHL		-	47,142,382
Net cash flow from financing activities		-	56,906,714
Effect of foreign exchange rate changes on cash		(385,807)	(8,183)
Net increase in cash and cash equivalents	(ii)	1,354,904	16,901,358

The notes on pages 83 to 125 form part of these financial statements.

Guangdong Development Bank Co., Ltd.

Cash flow statement for the year ended 31 December 2007 (continued)

(Expressed in thousands of Renminbi unless otherwise stated)

Notes to the cash flow statement

	2007	2006
(i) Reconciliation of net profit/(loss) to cash flows from operating activities:		
Net profit / (loss)	2,668,156	(540,693)
Add: Provision for loan loss	861,149	2,948,096
Other provisions / (write back of provisions) for impairment on assets	117,180	(81,442)
Depreciation of fixed assets and amortisation of intangible assets and long-term deferred expenses	434,783	471,239
Net gain on disposal of fixed assets and other long-term assets	(55,425)	(460)
Investment income	(1,754,956)	(1,465,157)
Increase in operating receivables	(69,001,342)	(63,446,301)
Increase in operating payables	60,959,819	19,985,141
Net cash flow from operating activities	(5,770,636)	(42,129,577)
(ii) Net increase in cash and cash equivalents:		
Cash and cash equivalents at the end of the year	57,600,044	56,245,140
Less: Cash and cash equivalents at the beginning of the year	(56,245,140)	(39,343,782)
Net increase in cash and cash equivalents	1,354,904	16,901,358

The notes on pages 83 to 125 form part of these financial statements.

Guangdong Development Bank Co., Ltd.

Cash flow statement for the year ended 31 December 2007 (continued)

(Expressed in thousands of Renminbi unless otherwise stated)

Notes to the cash flow statement (continued)

	2007	2006
(iii) Cash and cash equivalents at the end of the year		
Cash	2,116,919	1,699,082
Cash equivalents		
- Balances with central bank	17,128,901	22,836,932
- Balances with banks and other financial institutions	3,031,253	12,605,215
- Placements with banks and other financial institutions	8,215,028	10,361,026
- Balances under resale agreements	27,107,943	8,742,885
Total cash equivalents	55,483,125	54,546,058
Total cash and cash equivalents	57,600,044	56,245,140

These financial statements have been approved by the Board of Directors of the Bank on 18 March 2008.

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Guangdong Development
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 (Company chop)

The notes on pages 83 to 125 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 (“PBOC”).

As at 31 December 2007, apart from the Head Office, the Bank has set up 27 branches and sub-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 China Banking Regulatory Commission.

2 BASIS OF PREPARATION

These financial statements have been prepared in accordance with the Accounting Standards for Business Enterprises (hereinafter represents Accounting Standards for Business Enterprise: Basic Standard issued in 2006 and specific accounting standards issued before 2006) and the Accounting Regulations for Financial Enterprises (issued in 2001) issued by the Ministry of Finance (“MOF”) as well as other relevant requirements.

3 CHANGES IN ACCOUNTING POLICIES

(a) Changes in accounting policies and its effects

Prior to 1 January 2007, exchange differences arising from translation of multi-currency ledgers of the Bank were separately presented under shareholders’ equity in the balance sheet. In order to more truly reflect the effect of foreign currency exchange rate on the Bank’s financial position and results of operation, the Bank changes its accounting policy such that exchange differences arising from translation of multi-currency ledgers are recognised in the income statement (see note 4(e)). Note 3(b) discloses the effects of this change in accounting policy on the Bank’s financial statement captions for the year 2006.

3 CHANGES IN ACCOUNTING POLICIES (CONTINUED)

(b) *Effects of retrospective adjustment due to the above change in accounting policy on capital reserve, net loss and retained earnings (including surplus reserve and undistributed profits) of 2006 and prior years are summarised as follows:*

	2006	2006	2006	2006
	Capital Reserve	(Netlosses)	Closing retained earnings	Opening (accumulated losses)
Capital reserve, net losses and unplenished losses before adjustments	76,550	(624,352)	-	(33,214)
Changes in accounting policies				
- Recognition of current year exchange differences in capita reserve	(83,659)	-	-	-
- Recognition of current year exchange differences in profit or loss	-	83,659	83,659	-
Capitalreserve,netlosses,accumulated losses/retainedearningsafteradjustments	(7,109)	(540,693)	83,659	(33,214)

4 SIGNIFICANT ACCOUNTING POLICIES

(a) *Accounting year*

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

(b) *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.

In respect of subsidiaries which have assets and operating results of a smaller proportion and do not have a significant impact on the financial statements of the Bank, they are not consolidated but are carried as long-term equity investments using the equity method.

(c) *Basis of preparation and measurement basis*

The financial statements of the Bank have been prepared on an accrual basis. Unless otherwise stated, the measurement basis used is historical cost.

(d) *Reporting currency*

The Bank's reporting currency is the Renminbi.

4 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Translation of foreign currencies

The Bank's foreign currency transactions are recorded in multi-currency ledgers. The Bank's business operations denominated in different currencies are recorded in separate accounts according to the original currency and are translated into RMB equivalents at the balance sheet date. For the purpose of preparing financial statements in RMB at the balance sheet date, foreign currency transactions are translated into RMB, and combined with relevant balances in RMB.

All balance sheet items denominated in foreign currencies other than shareholders' equity, are translated into RMB at the exchange rates ruling at the balance sheet date. Shareholders' equity denominated in foreign currencies is translated into RMB at the historical exchange rates. Exchange differences arising from translation of multi-currency ledgers are recognised in current year's profit or loss, while exchange differences noted in foreign-currency financial statements of overseas branches are disclosed separately under shareholders' equity in balance sheet. The income statement is translated into RMB at the exchange rates ruling at the balance sheet date.

The Bank adopts the exchange rate published by the PBOC and other recognised exchange rates.

(f) Cash equivalents

Cash equivalents comprise the Bank's short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, including current accounts with the PBOC, balances / placements with banks and non-bank financial institutions, and balances under resale agreements, generally on original maturity of no more than three months.

(g) Provision for bad debts

Bad debt losses are estimated and identified individually. For receivables (including balances / placements with other parties, other receivables and etc.) that show signs of uncollectibility, specific provision is made according to their recoverability. Losses resulting from bad debts are accounted for through provisioning.

(h) Loans

(i) Loan classification by nature

Short-, medium-, and long-term loans: the bank classified loans according to the original maturity. Those due within one year represent short-term loans, while those due after one year or more are regarded as medium- and long-term loans.

Non-accrued loans: loans whose principal or interest is overdue for more than 90 days.

4 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(h) *Loans (continued)*

(ii) Loan measurement

Loans are stated at the amount actually drawn.

(iii) Provision for loan loss

The provision for loan loss covers: short-term loans, trade finance, discounted bills (excluding bills rediscounted by banks), medium- and long-term loans, and non-accrued loans. The Bank has made provisions for loss on such loans in accordance with the “Administrative Measures on Provisioning for Doubtful Debts by Financial Institutions” (Cai Jin [2005] No.49) issued by the MOF and the “Accounting Regulations for Financial Institutions”.

When there is objective evidence that a loan is impaired, provisions for loan losses including specific provision, general provision for non-individually identified losses and special provision for sovereignty risk, geographic risk and industry risk, are made based on the estimated losses. At each year end, the Bank will assess the recoverability of each type of loans and estimates the amount of potential losses. The amount of provision for loan losses is the difference between the carrying amount and the estimated recoverable amount. In arriving at the provision for loan losses, factors such as the loan’s risk grading, the borrowers’ repayment ability and willingness to repay, repayment record of principal and interest, the market value of the collateral and the support from guarantors are considered to determine the overall risk and recoverability and to ensure any impairment loss is provided adequately.

When borrowers or guarantors fail to repay the loan principal and interest, and use the collaterals to settle the debts, the respective loan principal together with the recognised interest are transferred to repossessed assets with the corresponding loan provision transferred to provision for impairment on repossessed assets at the same time.

(iv) Written off of loans

When a loan is still uncollectible after the Bank has completed all the necessary legal procedures, the loan is written off against the provision for the loan losses with the approval of management. If the loan written off is recovered subsequently, the amount already written off from the provision for loan losses is reversed by the amount recovered.

(i) *Discounted bills*

Discounted bills represent the bank acceptance bills or commercial acceptance bills discounted by the Bank for customers or other financial institutions or bills rediscounted with the central bank. Such discounted or re-discounted amounts are stated at the bills’ nominal values. Interest income for discounted bills is determined and recognised based on the nominal amount of the discounted bill, its maturity, and applicable interest rates. At the balance sheet date, any interest income of unexpired discounted bills from the balance sheet date until maturity will be deferred.

4 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(j) *Balances under repurchase or resale agreements*

Balances under resale agreements are stated at transaction amounts less bad debt provisions, whereas balances under repurchase agreements are stated at the actual paid or received amounts for any business incurred on the balance sheet. The underlying assets under repurchase agreements are still accounted for on the balance sheet.

The differences between transactions under resale agreements and repurchase agreements are recognised, on an accruals basis, as income or expenses arising from transactions with financial institutions during the period of resale agreements and repurchase agreements.

(k) *Investments*

(i) Short-term investments

The initial cost of a short-term investment is the total price paid on acquisition of the investment. However, it does not include unpaid interest on debt securities which was due at the time of acquisition. Short-term investments are carried at the lower of cost and market value at the end of the period.

Provision for diminution in value is made on an item-by-item basis for the difference arising from measuring the investment at lower of cost and market value.

With the exception of interest on debt securities which is due but not yet paid at the time of acquisition, interest are set off against the carrying amount of the short-term investments when received by the Bank. Upon the disposal or recovery of short-term investments, the difference between the carrying amount of the short-term investments and the proceeds received is recognised as profit or loss for the current period.

(ii) Long-term equity investments

Where the Bank has the power to control, jointly control or exercise significant influence over an investee enterprise, the investment is accounted for under the equity method of accounting whereby the investment is initially recorded at cost and adjusted thereafter for any post acquisition change in the Bank's share of the investors' equity in the investee enterprise.

Where the Bank does not control, jointly control or exercise significant influence over an investee enterprise, the investment is accounted for under the cost method, stating it at the initial investment cost. Investment income is recognised when the investee enterprise declares a cash dividend or distributes profits.

The Bank makes provision for impairment losses on long-term equity investments (see note 4(p)).

4 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(k) *Investments (continued)*

(iii) Long-term debt investments

The initial investment cost of a long-term debt investment is the total price paid on acquisition of the investment. However, it does not include any unpaid interest that is due at the time of acquisition. Such interest receivable is separately accounted for under receivables. Where the total price paid includes accrued interest that is not yet due at the time of acquisition, such interest is separately accounted for under long-term debt investments.

The premium or discount on debt securities represents the difference between the nominal value and the initial investment cost of the long-term debt investment after the deduction of related taxes and accrued interest which is not yet due for payment. The premium/discount on debt securities is amortised over the subsisting period on a straight-line basis.

In case that interest is paid by instalments during the subsisting period of debt securities, the accrued and unpaid interest of debt investment is accounted for as interest receivable in current assets. In case that both interest and principal are paid one-off on the maturity date, the accrued and unpaid interest of debt investment is accounted for as interest receivable in long-term debt investment.

Upon the disposal of long-term debt investments, the difference between the proceeds received and the carrying amount of the investments is recognised in the income statement.

The Bank makes provision for impairment losses on long-term debt investments (see note 4(p)).

(l) *Fixed assets and construction in progress*

Fixed assets are assets with comparatively high unit values held by the Bank for use in the operating activities. They are expected to be used for more than one year.

Fixed assets are stated in the balance sheet at cost less accumulated depreciation and impairment losses. Construction in progress is stated in the balance sheet at cost less impairment losses.

All direct and indirect costs that are related to the construction of fixed assets and incurred before the assets are ready for their intended use are capitalised as construction in progress. Construction in progress is transferred to fixed assets when it is ready for its intended use. No depreciation is provided against construction in progress.

4 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Depreciation is calculated to write off the cost less residual value on a straight-line basis over the estimated useful lives (if any) of fixed assets. The respective estimated useful lives adopted for the Bank's fixed assets are as follows:

Types of assets	Estimated useful life
Buildings and structures	30-35 years
Electronic equipment	5 years
Transportation and other equipment	5 years
Renovation expenses	The shorter period between lease term and five years

Fixed assets are stated at the lower of their carrying amounts and recoverable amounts at the balance sheet date. Should the recoverable amounts be lower than the carrying amounts due to obsolescence, damage of idleness, provision for impairment on fixed assets will be made for individual asset (see note 4 (p)).

Subsequent expenditure relating to a fixed asset is capitalised only when future economic benefits flow to the Bank are higher than originally expected. However, the amount capitalised should not exceed the recoverable amount of the relevant fixed asset. Other subsequent expenses in fixed assets are recognised in the income statement as expenses when incurred.

(m) Intangible assets

Intangible assets are stated in the balance sheet at cost less accumulated amortisation and impairment losses. The cost of the intangible assets is amortised on a straight-line basis over their estimated useful lives. The respective amortisation periods for the intangible assets are as follows:

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

(n) Long-term deferred expenses

Long-term deferred expenses are amortised on a straight-line basis over their beneficial periods. Prepaid operating lease charges are amortised on a straight-line basis over the terms of the respective leases, while other capital expenditure is amortised on a straight-line basis over their respective useful life.

For other long-term deferred expenses which are unlikely to generate economic benefits in subsequent periods, the unamortised balances will be charged to the income statement.

4 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(o) *Repossessed assets*

Repossessed assets are recognised at the carrying amount of the loan principal, interest receivable, and relevant tax paid for retrieved assets. The corresponding loan provisions are transferred to provision for impairment losses on repossessed assets. At the end of the period, repossessed assets are stated at cost net of impairment provision (see note 4(p)) in the balance sheet.

(p) *Provision for impairment*

The carrying amounts of assets (including long-term investments, fixed assets, construction in progress, intangible assets, repossessed assets, and other assets) are reviewed regularly at each balance sheet date to determine whether their recoverable amounts have declined below their carrying amounts. Assets are tested for impairment whenever events or changes in circumstances indicate that their recorded carrying amounts may not be recoverable.

When such a decline has occurred, the carrying amount is reduced to the recoverable amount. The amount by which the carrying amount is reduced is the impairment loss. The recoverable amount is the greater of the net selling price and the present value of the estimated future cash flows arising from the continuous use of the asset and from the disposal of the asset at the end of its useful life. Provision for impairment loss is calculated on an item-by-item basis and recognised as an expense in the income statement.

If there is an indication that there has been a change in the estimates used to determine the recoverable amount and as a result the estimated recoverable amount is greater than the carrying amount of the asset, the impairment loss recognised in prior years is reversed. Reversals of impairment losses are recognised in the income statement. Impairment losses are reversed to the extent of the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years.

(q) *Entrusted lending business and entrusted funds*

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 grants 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 amounts and no allowances for impairment are made for these entrusted loans. Received but not yet granted entrusted funds are accounted for as deposits.

4 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(r) *Income tax*

Income tax is recognised using the tax effect accounting method. It includes current tax and deferred tax.

Current tax is calculated at the applicable tax rate on taxable income.

Deferred tax is provided using the liability method for the differences between the accounting profits and the taxable profits arising from the timing differences in recognising income, expenses or losses between the accounting and tax regulations. Deferred tax is recognised only when expected timing differences can be reversed in subsequent periods. When the tax rate changes or a new type of tax is levied, adjustments are made to the amounts originally recognised for the timing differences under the liability method. The current tax rates are used in arriving at the reversal amounts when the timing differences are reversed.

Deferred tax assets arising from tax losses, which are expected to be utilized against future taxable profits, are set off against the deferred tax liabilities (only for the same taxpayer within the same jurisdiction). When it is not probable that the tax benefits of deferred tax assets will be realised, the deferred tax assets are reduced to the extent that the related tax benefits are expected to be realised.

(s) *Provisions and contingent liabilities*

Provisions are recognised when the Bank has a present obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligations and a reliable estimate can be made.

Where it is not probable that the settlement of the above obligation will cause an outflow of economic benefits, or the amount of the outflow cannot be estimated reliably, the obligation is disclosed as a contingent liability.

(t) *Income recognition*

When it is probable that the economic benefits will flow to the Bank and the revenue and costs, can be measured reliably, revenue is recognised in the income statement according to the following methods:

(i) *Interest income*

Interest income from financial assets is accrued on a time-apportioned basis with reference to the principal outstanding and at the rate applicable.

4 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(t) *Income recognition (continued)*

(i) Interest income (continued)

For either loan principal or interest overdue for more than 90 days (including extension), the accrual of interest is discontinued and is accounted in the off balance sheet memorandum accounts. Interest receivable of such loans are reversed in the income statement and recorded as an off balance sheet item. Amounts received subsequently will first be set off against the loan principal. It is only when the loan principal is fully recovered that any further amounts received can be recognised in the income statement.

Other interest income is recognised on an accruals basis, with reference to the amount and period outstanding and at the rate applicable under the alienation of right to use capital.

(ii) Fees and commission income

Fees and commission income is recognised when the related services are rendered.

(iii) Other income

Other income is recognised on an accruals basis.

(u) *Expense recognition*

(i) Interest expense

Interest expense is recognised on an accruals basis, with reference to the amount and period outstanding and at the rate applicable.

(ii) Other expenses

Other expenses are recognised on an accruals basis.

(v) *Derivative financial instruments*

The Bank's derivative financial instruments include spot, forward, foreign currency swaps and interest rate swaps contracts undertaken in response to customers' needs or for the Bank's own risk management purpose. To hedge against risks arising from derivative transactions undertaken for customers, the Bank enters into similar derivative contracts with banks and other financial institutions which are approved by the PBOC to conduct derivative business.

Derivative financial instruments are stated at fair value, with gains and losses arising recognised in the income statement.

4 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(w) Dividends appropriation to shareholders

Dividends appropriated to the shareholders are recognised in the income statement and statement of changes in shareholders' equity when approved. Cash dividends approved after the balance sheet date, but before the date on which the financial statements are authorised for issue, are separately disclosed in the shareholders' equity in the balance sheet.

(x) Employee benefits

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

(y) Operating leases charges

Lease payments made are recognised as expenses on a straight-line basis over the terms of the leases.

(z) Related parties

Parties are considered to be related to the Bank if the Bank has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decision, or vice versa, or where the Bank and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.

5 TAXATION

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

(a) Business tax

Business tax is charged at 5% (2006: 5%) of taxable income in the current year.

(b) City maintenance and construction tax

City maintenance and construction tax is calculated at 1% to 7% of the business tax.

(c) Education surcharge

Education surcharge is calculated at 3% of the business tax.

5 TAXATION (CONTINUED)

(d) Income tax

According to tax legislations and detailed rules of implementation in relevant regions, income taxes on profits generated in various regions are payable at different tax rates and on different tax bases. For the current year, the income tax rate for Shenzhen Special Economic Region is 15% (2006: 15%), and 33% (2006: 33%) for other regions where branches of the Bank are situated.

On 16 March 2007, the Fifth Plenary Session of the Tenth National People's Congress passed the Corporate Income Tax Law of the People's Republic of China ("the new tax law") which is effective from 1 January 2008. Pursuant to the new tax law, the income tax rate for the Bank's branch in Shenzhen special economic zone will be gradually increased to 25% in five years time, and the income tax rate for the rest area will be reduced from 33% to 25% from 1 January 2008.

6 BALANCES WITH CENTRAL BANKS

	2007	2006
Statutory deposit reserve funds (Note (i))	42,256,812	24,515,416
Excess of deposit reserve funds (Note (ii))	17,128,901	22,836,932
Fiscal deposits	91,944	48,623
Total	59,477,657	47,400,971

(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 2007 to 15 January 2007, the Renminbi deposit statutory deposit reserve funds placed with the PBOC were calculated at 9.5% of eligible Renminbi deposits. The deposit reserve ratio increased ten times to 14.5% between 15 January 2007 and 25 December 2007. The Bank was also required to deposit an amount equivalent to 4% of its foreign currency customer deposits accepted by domestic branches as statutory deposit reserve funds between 1 January 2007 and 15 May 2007, which has also been raised to 5% since 15 May 2007.

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

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

7 BALANCES WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

(a) By nature

	2007	2006
Balances with onshore		
- banks (Note (i))	2,683,568	14,013,028
- other financial institutions	23,747	36,424
Sub-total	2,707,315	14,049,452
Balances with offshore banks	655,938	1,043,329
Total	3,363,253	15,092,781
Less: Allowance for impairment	-	(2,448)
Netbalances	3,363,253	15,090,333

- (i) The bank deposited approximately RMB 0.16 billion with State Development Bank as at 31 December 2007, which served as pledged deposit in return for State Development Bank providing guarantee to the Bank on certain syndicated loans. The deposit matures on 25 March 2008.

(b) Movements of allowance for impairment

	2007	2006
Opening balance	(2,448)	(2,448)
Write-offs for the year	2,448	-
Closingbalance	-	(2,448)

8 PLACEMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

(a) By nature

	2007	2006
Balances with onshore		
- banks	7,578,581	2,765,243
- other financial institutions	510,963	188,022
Sub-total	8,089,544	2,953,265
Placements with offshore banks	4,893,385	8,799,555
Total	12,982,929	11,752,820
Less: Allowance for impairment	(10,685)	(16,463)
Netbalances	12,972,244	11,736,357

(b) Movement in allowance for impairment

	2007	2006
Opening balance	(16,463)	(16,463)
Write-offs for the year	5,778	-
Closingbalance	(10,685)	(16,463)

9 SHORT-TERM LOANS

	2007	2006
Unsecured loans	21,781,057	30,995,312
Guaranteed loans	42,880,606	35,143,609
Collateralized loans	22,778,248	26,441,810
Pledged loans	14,950,227	13,802,991
Total	102,390,138	106,383,722

10 TRADE FINANCE

	2007	2006
Inward bills	3,274,374	1,219,641
Outward bills	2,029,590	1,180,722
Export loans	847,499	939,545
Packing loans	560,343	443,204
Others	495,048	389,395
Total	7,206,854	4,172,507

11 INTEREST RECEIVABLE
(a) By nature

	2007	2006
Interest receivable on loans	600,463	297,782
Interest receivable on debt securities	580,510	519,896
Other interest receivables	72,337	117,687
Total	1,253,310	935,365

(b) Ageing analysis

Ageing	2007		2006	
	Amount	Percentage (%)	Amount	Percentage (%)
Within one year	1,251,490	99.9%	927,538	99.2%
After one year but within two years	1,293	0.1%	5,855	0.6%
After two years but within three years	-	-	269	-
After three years	527	-	1,703	0.2%
Total	1,253,310	100%	935,365	100%

Ageing refers to the period between the date of recording the interest receivable and the balance sheet date.

12 OTHER RECEIVABLES

(a) By nature

	2007	2006
Receivables on transfer of non-performing assets (Note (i))	10,000,000	10,000,000
Prepayment	63,564	40,020
Positive fair value of derivatives (Note 53(a)(i))	26,778	67,951
Amounts pending for settlement	23,731	128,154
Others	562,753	2,039,724
Total	10,676,826	12,275,849
Less: Provisions for bad debts	(162,008)	(949,322)
Net balances	10,514,818	11,326,527

(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 enterprise income tax payment over a period of five years from 2007 to 2011.

(b) Ageing analysis

Ageing	2007			2006		
	Amount	Percentage (%)	Provision	Amount	Percentage (%)	Provision
Within one year	471,020	5%	(84,918)	11,347,158	93%	(94,338)
After one year but within two years	10,077,532	94%	(24,001)	44,268	-	(17,290)
After two years but within three years	32,155	-	(6,950)	20,400	-	(15,429)
After three years	96,119	1%	(46,139)	864,023	7%	(822,265)
Total	10,676,826	100%	(162,008)	12,275,849	100%	(949,322)

Ageing refers to the period between the transaction date of the other receivables and the balance sheet date.

(c) Movements in provision for bad debts

	2007	2006
Opening balance	(949,322)	(1,700,778)
Release for the year	27,057	93,089
Write-offs for the year	759,435	664,025
Others	822	(5,658)
Closing balance	(162,008)	(949,322)

13 DISCOUNTED BILLS

	2007	2006
Banker's bills of acceptance	29,138,971	39,051,910
Commercial bills of acceptance	9,833,783	13,006,319
Total	38,972,754	52,058,229

14 SHORT-TERM INVESTMENTS

(a) *By nature*

	2007	2006
Government bonds	3,049,107	3,596,475
PBOC bills	7,108,102	18,852,791
Policy bank debt securities	3,746,056	5,704,266
Other debt securities	53,217	214,222
Other equity investments	7,967	61,387
Total	13,964,449	28,429,141
Less: Allowance for lower of cost and market value	(82,046)	(8,701)
Netbalances	13,882,403	28,420,440

- (i) The Bank's major holding of the government bonds, PBOC bills, and policy bank debt securities are traded in inter-bank bond markets.
- (ii) Other debt securities are mainly Renminbi-dominated bonds issued in the PRC capital markets.
- (iii) Other equity investments are mainly investments in overseas-listed shares.
- (iv) As at 31 December 2007, the market value of the short-term investments amounted to RMB 14.0 billion. (2006: RMB 28.8 billion).

(b) *Movements in allowance for lower of cost and market value*

	2007	2006
Opening balance	(8,701)	(49,598)
(Charge) / Release for the year	(78,900)	40,851
Write-offs for the year	5,555	46
Closingbalance	(82,046)	(8,701)

15 BALANCES UNDER RESALE AGREEMENTS

(a) By type of pledged assets

	2007	2006
Debt securities under resale agreements		
- Government bonds	3,893,548	4,000,000
- PBOC bills	8,290,600	-
- Policy bank debt securities	6,339,840	1,108,614
- Other debt securities	-	3,243,750
Sub-total	18,523,988	8,352,364
Bills under resale agreements	30,802,824	2,695,436
Loans under resale agreements	1,159,179	1,345,296
Total	50,485,991	12,393,096
Less: Allowance for impairment losses	-	(39,000)
Netbalances	50,485,991	12,354,096

(b) Movements in allowance for impairment losses

	2007	2006
Opening balance	(39,000)	-
Release / (Charge) for the year	39,000	(39,000)
Closingbalance	-	(39,000)

16 LONG-TERM DEBT INVESTMENTS MATURING WITHIN ONE YEAR

Type of debt securities	Annual interestrate	Maturitydate	2007			
			Nominal value	Premium/ (discount)	Interest receivable	Total
Government bonds	2.45%~7.3%	24/4/2008-15/12/2008	2,396,271	864	52,972	2,450,107
PBOC bills	3.30%~4.15%	7/1/2008-25/3/2008	480,000	-	-	480,000
Policy bank debt securities	2.05%~4.25%	17/6/2008-25/11/2008	2,680,000	5,954	-	2,685,954
Other debt securities	6.50%~15%	16/1/2008-20/6/2008	217,949	(8)	-	217,941
Total			5,774,220	6,810	52,972	5,834,002

Type of debt securities	Annual interestrate	Maturitydate	2006			
			Nominal value	Premium/ (discount)	Interest receivable	Total
Government bonds	1.58%~3.50%	24/2/2007-20/12/2007	4,173,565	1,757	66,558	4,241,880
PBOC bills	4.15%	31/12/2007	200,000	-	-	200,000
Policy bank debt securities	2.05%~4.22%	14/5/2007-13/12/2007	1,394,500	(249,337)	-	1,145,163
Other debt securities	1.79%~4.50%	15/1/2007-9/11/2007	514,489	147	-	514,636
Total			6,282,554	(247,433)	66,558	6,101,679

17 MEDIUM AND LONG-TERM LOANS

By original maturity:

	2007		
	1 year – 5 years	After 5 years	Total
Unsecured loans	7,476,219	2,589,696	10,065,915
Guaranteed loans	26,393,959	1,846,581	28,240,540
Collateralized loans	15,056,173	26,516,461	41,572,634
Pledged loans	8,143,101	3,429,004	11,572,105
Total	57,069,452	34,381,742	91,451,194

	2006		
	1 year – 5 years	After 5 years	Total
Unsecured loans	2,173,465	2,545,633	4,719,098
Guaranteed loans	8,756,350	1,994,500	10,750,850
Collateralized loans	6,484,420	17,369,563	23,853,983
Pledged loans	4,027,785	2,677,989	6,705,774
Total	21,442,020	24,587,685	46,029,705

18 NON-ACCRUAL LOANS

	2007	2006
Unsecured loans	445,071	147,188
Guaranteed loans	3,047,786	2,253,466
Collateralized loans	3,713,364	4,020,183
Pledged loans	1,159,184	1,926,381
Total	8,365,405	8,347,218

19 PROVISION FOR LOAN LOSSES

	2007	2006
Opening balance	(7,427,049)	(5,391,992)
Charge for the year	(861,149)	(2,948,096)
(Transfer-in) / transfer-out for the year	(12,719)	115
Recovery of loans previously written off	-	(27,696)
Write-offs for the year	459,534	940,620
Closing balance	(7,841,383)	(7,427,049)

20 LONG-TERM DEBT INVESTMENTS

(a) By type

Type of debt securities	Annual interest rate	Maturity date	2007				Total
			Nominal value	Premium/ (discount)	Interest receivable	Allowance for impairment	
Government bonds	2.64%~4.68%	23/8/2009 -18/9/2022	5,635,009	(3,393)	132,807	-	5,764,423
PBOC bills	4.34%~4.47%	9/11/2010 -30/11/2010	4,350,000	-	-	-	4,350,000
Policy bank debt securities	2.6%~4.94%	20/3/2009 -25/10/2017	20,419,000	(29,634)	-	-	20,389,366
Other debt securities	3.95%~9.5%	19/2/2009 -16/8/2014	1,715,160	4,736	12,126	(97,084)	1,634,938
Total			32,119,169	(28,291)	144,933	(97,084)	32,138,727

Type of debt securities	Annual interest rate	Maturity date	2006				Total
			Nominal value	Premium/ (discount)	Interest receivable	Allowance for impairment	
Government bonds	1.75%~3.81%	20/2/2008 -25/5/2012	3,904,000	1,333	39,301	-	3,944,634
PBOC bills	3.30%~4.15%	7/1/2008 -25/3/2008	480,000	-	-	-	480,000
Policy bank debt securities	2.05%~4.30%	7/2/2008 -29/8/2015	16,959,000	(15,442)	-	-	16,943,558
Other debt securities	1.79%~8.0%	25/3/2008 -1/9/2016	2,247,319	2,929	5,892	-	2,256,140
Total			23,590,319	(11,180)	45,193	-	23,624,332

(b) Movements in allowance for impairment

	2007	2006
Opening balance	-	-
Charge for the year	(97,084)	-
Closing balance	(97,084)	-

21 LONG-TERM EQUITY INVESTMENTS

	2007	2006
Investment in subsidiary (Note (i))	4,100	4,100
Other equity investments (Note (ii))	49,344	49,764
Total	53,444	53,864

(i) Investment in subsidiary

The principal subsidiary of the Bank as at 31 December 2007 and 31 December 2006 is as follows:

Name of subsidiary	Type of shares held	Place of incorporation	Date of incorporation	Paid-up capital	Equity held	Principal activities
					by the Bank (%)	
Guangdong Guangfa International Financial & Consulting Co., Ltd.	Legal person share	PRC	5 April 1994	RMB 10,000,000	41%	Consultancy on credit card and related business

(ii) Other equity investments

Other investments of the Bank include equity investments in local/foreign companies, in which the Bank has less than 20 percent voting power and no significant influence over the management.

(iii) As the expected recoverable amount of the Bank's long-term equity investment is not less than the net carrying value, there is no impairment allowance.

(iv) The ratio of the aggregate balance of the Bank's investments (including short-term and long-term investments) as at 31 December 2007 to its net asset value is 336% (2006: 456%).

22 FIXED ASSETS

	Buildings and Structures	Electronic Equipment	Transportation and Other Equipment	Leasehold Improvement	Total
Cost:					
1 January 2007	3,147,106	1,299,488	414,388	799,176	5,660,158
Additions	10,521	101,562	70,630	79,761	262,474
Transfer from repossessed assets (Note 26)	87,042	-	-	-	87,042
Transfer from construction in progress (Note 23)	-	520	-	-	520
Disposal / retirement	(38,752)	(34,946)	(40,547)	(15,811)	(130,056)
31 December 2007	3,205,917	1,366,624	444,471	863,126	5,880,138
Less: Accumulated depreciation					
1 January 2007	(703,740)	(907,421)	(345,150)	(535,429)	(2,491,740)
Charge for the year	(99,940)	(136,639)	(21,614)	(92,693)	(350,886)
Write-offs for the year	10,715	33,759	40,519	15,285	100,278
31 December 2007	(792,965)	(1,010,301)	(326,245)	(612,837)	(2,742,348)
Less: Allowance for impairment					
1 January 2007	(310,614)	-	-	-	(310,614)
Charge for the year	(270)	-	-	-	(270)
Write-offs for the year	5,495	-	-	-	5,495
31 December 2007	(305,389)	-	-	-	(305,389)
Net carrying value:					
31 December 2007	2,107,563	356,323	118,226	250,289	2,832,401
Cost:					
1 January 2006	2,887,653	1,268,374	496,717	832,214	5,484,958
Additions	73,455	105,576	6,606	92,516	278,153
Transfer from repossessed assets (Note 26)	206,397	-	293	-	206,690
Transfer from construction in progress (Note 23)	25,230	-	512	-	25,742
Disposal / retirement	(45,629)	(74,462)	(89,740)	(125,554)	(335,385)
31 December 2006	3,147,106	1,299,488	414,388	799,176	5,660,158
Less: Accumulated depreciation					
1 January 2006	(615,073)	(829,337)	(383,930)	(568,099)	(2,396,439)
Charge for the year	(96,252)	(151,856)	(45,315)	(91,043)	(384,466)
Write-offs for the year	7,585	73,772	84,095	123,713	289,165
31 December 2006	(703,740)	(907,421)	(345,150)	(535,429)	(2,491,740)
Less: Allowance for impairment					
1 January 2006	(310,614)	-	-	-	(310,614)
Charge for the year	-	-	-	-	-
31 December 2006	(310,614)	-	-	-	(310,614)
Net carrying value:					
31 December 2006	2,132,752	392,067	69,238	263,747	2,857,804

22 FIXED ASSETS (CONTINUED)

- (i) As at 31 December 2007, ownership documentation for the Bank's buildings and structures with a net carrying value of approximately RMB 0.55 billion (2006: RMB 0.67 billion) has not been completed yet. The management are of the opinion that the Bank is entitled to lawfully and validly occupy or use the above mentioned buildings and structures.
- (ii) As at 31 December 2007, the Bank's fixed assets, with an original carrying value of RMB 1.33 billion (2006: RMB 0.77 billion), had fully depreciated, and were still in use.
- (iii) As at 31 December 2007, the book value for idled fixed assets is RMB 0.1 billion (2006: RMB 0.13 billion).
- (iv) As at December 31 2007, the net carrying value of fixed assets leased out is RMB 0.47 billion (2006: RMB 0.37 billion).

23 CONSTRUCTION IN PROGRESS

	2007	2006
Cost:		
Opening balance	261,210	248,687
Additions during the year	87,070	46,802
Transfer to fixed assets during the year (Note 22)	(520)	(25,742)
Disposal during the year	(139)	(8,537)
Closing balance	347,621	261,210

24 INTANGIBLE ASSETS

	Landuserights	Software	Others	Total
Cost:				
1 January 2007	111,895	209,324	44,816	366,035
Increase	-	33,509	-	33,509
Decrease	(42,516)	(5,497)	-	(48,013)
31 December 2007	69,379	237,336	44,816	351,531
Less:Accumulated amortisation				
1 January 2007	(23,353)	(120,497)	(36,101)	(179,951)
Increase	(3,636)	(30,865)	(3,653)	(38,154)
Decrease	8,098	4,354	-	12,452
31 December 2007	(18,891)	(147,008)	(39,754)	(205,653)
Less:Allowance for impairment				
1 January 2007	(3,050)	-	-	(3,050)
Charge for the year	(5,894)	-	-	(5,894)
Write-offs for the year	3,050	-	-	3,050
31 December 2007	(5,894)	-	-	(5,894)
Net carrying value:				
31 December 2007	44,594	90,328	5,062	139,984
Cost:				
1 January 2006	129,463	167,354	45,973	342,790
Increase	25,238	45,194	-	70,432
Decrease	(42,806)	(3,224)	(1,157)	(47,187)
31 December 2006	111,895	209,324	44,816	366,035
Less:Accumulated amortisation				
1 January 2006	(25,492)	(94,086)	(31,725)	(151,303)
Increase	(3,993)	(29,635)	(5,532)	(39,160)
Decrease	6,132	3,224	1,156	10,512
31 December 2006	(23,353)	(120,497)	(36,101)	(179,951)
Less:Allowance for impairment				
1 January 2006	-	-	-	-
Charge for the year	(3,050)	-	-	(3,050)
31 December 2006	(3,050)	-	-	(3,050)
Net carrying value:				
31 December 2006	85,492	88,827	8,715	183,034

As at 31 December 2007, ownership documentation for the Bank's land use rights with a net carrying value of approximately RMB 0.04 billion (2006: RMB 0.05 billion) has not been completed yet. The management are of the opinion that the Bank is entitled to lawfully and validly occupy or use the above mentioned land use rights.

25 LONG-TERM DEFERRED EXPENSES

	Prepaid lease expenses	Others	Total
1 January 2007	20,708	52,290	72,998
Additions	-	56,810	56,810
Amortisation	(5,649)	(40,094)	(45,743)
31 December 2007	15,059	69,006	84,065
1 January 2006	26,727	41,976	68,703
Additions	18,670	33,238	51,908
Amortisation	(24,689)	(22,924)	(47,613)
31 December 2006	20,708	52,290	72,998

26 REPOSSESSED ASSETS
(a) By category

	2007	2006
Land, buildings and structures	76,119	143,746
Others	10,126	5,977
Total	86,245	149,723
Less: Allowance for impairment	(59,874)	(93,508)
Net	26,371	56,215

The Bank transferred repossessed assets with a net carrying value of RMB 0.09 billion (2006: RMB 0.21 billion) to fixed assets (Note 22) in 2007.

(b) Movements in allowance for impairment losses

	2007	2006
Opening balance	(93,508)	(314,352)
Charge for the year	(1,089)	(10,448)
Write-offs on transfer to fixed assets	-	136,978
Disposal	34,548	89,594
Others	175	4,720
Closing balance	(59,874)	(93,508)

27 DEFERRED TAX ASSETS

Movements of deferred taxation

	Loan loss provision	Impairment for other assets	Adjustment for fair value of financial derivatives	Others	Net value
1 January 2007	1,870,937	263,515	3,709	31,269	2,169,430
Recognised in income statement					
- Due to change in tax rates (Note (ii))	(324,301)	(10,350)	(899)	(7,580)	(343,130)
- Arising from temporary differences	(234,218)	53,108	(1,727)	(31,690)	(214,527)
Write-offs through income statement	-	(162,304)	-	-	(162,304)
Recognised in equity	-	-	-	5,684	5,684
31 December 2007	1,312,418	143,969	1,083	(2,317)	1,455,153
1 January 2006	1,150,648	334,086	(1,534)	78,430	1,561,630
Recognised in income statement	720,289	(70,571)	5,243	(47,161)	607,800
31 December 2006	1,870,937	263,515	3,709	31,269	2,169,430

- (i) The above deferred tax assets represent the difference between 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 prevailing situation, current tax legislation, as well as prudent accounting principles.

When undertaking accounting treatment, the Bank will act prudently, and include the difference between deferred tax assets recognised at the balance sheet date of each accounting period and the deferred tax assets recognised at the prior balance sheet date in the current income tax expenses.

- (ii) The deferred tax assets and liabilities are adjusted through income statement or equity in response to the change to tax rate. The Bank has considered the effect of the new tax law (see Note 5(d)) on deferred tax assets and liabilities as at 31 December 2007. The change in applicable tax rate in the future reduced the book value of deferred tax assets by RMB 0.34 billion. The change has been reflected in the Bank's financial statements for the year of 2007. The new tax law has no impact on the book value of tax payable in balance sheet as at 31 December 2007.

28 SHORT-TERM DEPOSITS

	2007	2006
Current deposits	124,057,554	113,380,348
Term deposits maturing within one year	25,107,860	54,124,238
Corporate call deposits	16,786,964	14,946,336
Credit card deposits	1,046,460	1,200,930
Total	166,998,838	183,651,852

29 SHORT-TERM SAVINGS DEPOSITS

	2007	2006
Current savings deposits	28,935,538	26,678,042
Term savings deposits maturing within one year	18,730,038	22,968,147
Individual call deposits	2,729,657	1,783,515
Total	50,395,233	51,429,704

30 PLEDGED DEPOSITS

	2007	2006
Short-term pledged deposits	53,844,355	51,317,960
Long-term pledged deposits	288,080	39,115
Total	54,132,435	51,357,075

31 DEPOSITS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	2007	2006
Deposits from onshore		
- banks	7,848,765	4,967,130
- other financial institutions	31,340,226	26,921,210
Total	39,188,991	31,888,340

32 TAKINGS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	2007	2006
Takings from onshore		
- banks	285,880	351,304
- other financial institutions	1,000	1,000
Sub-total	286,880	352,304
Takings from offshore banks	145,880	156,175
Total	432,760	508,479

33 BALANCE UNDER REPURCHASE AGREEMENTS

	2007	2006
Debt securities under repurchase agreements		
- Government bonds	1,285,000	-
- PBOC bills	4,971,900	-
- Policy bank debt securities	4,845,000	1,140,000
Sub-total	11,101,900	1,140,000
Discounted bills under repurchase agreements	9,029,428	345,310
Loans under repurchase agreements	1,434,850	1,223,450
Total	21,566,178	2,708,760

Pledges as security under repurchase agreements include debt investments and credit assets held by the Bank with equivalent value.

34 INTEREST PAYABLES

(a) By nature

	2007	2006
Deposit interest payables	2,405,126	1,705,680
Other interest payables	48,949	95,552
Total	2,454,075	1,801,232

(b) Ageing analysis

	2007	2006
Within one year	2,166,041	1,469,208
After one year but within two years	134,812	231,782
After two years but within three years	126,075	60,245
After three years	27,147	39,997
Total	2,454,075	1,801,232

Ageing refers to the period between the date of recording the interest payables and the balance sheet date.

35 TAX PAYABLES

	2007	2006
Income tax	1,618,220	1,295,529
Business tax and surcharges	396,410	237,639
Property tax	63,855	73,692
Others	16,677	13,025
Total	2,095,162	1,619,885

36 OTHER LIABILITIES

(a) By nature

	2007	2006
Unrealised interest income on discounted bills	1,081,228	496,444
Payables in respect of the transferred non-performing assets (Note (i))	319,195	948,805
Litigation provision	84,301	209,006
Loan repayment pending settlement	31,944	42,239
Negative fair value of derivatives (Note 53(a)(i))	30,753	79,191
Others	1,464,992	1,436,032
Total	3,012,413	3,211,717

36 OTHER LIABILITIES (CONTINUED)

(a) *By nature (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. Up to 31 December 2007, collected amount related to the non-performing assets transferred, recognised in account payable amounted to RMB 0.32 billion (2006: RMB 0.95 billion).

(b) *Ageing analysis*

	2007	2006
Within one year	2,467,785	2,821,593
After one year but within two years	299,050	96,310
After two years but within three years	26,913	30,636
After three years	218,665	263,178
Total	3,012,413	3,211,717

Ageing refers to the period between the transaction date of the liability and the balance sheet date.

37 SHARE CAPITAL

	2007 and 2006	
	No. of Shares (Thousand)	Total (RMB thousand)
Registered capital and paid-in share capital (Par value of RMB 1 each)	11,408,423	11,408,423

38 CAPITAL RESERVE

	2007	2006
Exchange difference	(17,052)	(7,109)

39 SURPLUS RESERVE

	2007	2006
Opening balance	-	-
Appropriation	266,816	-
Closing balance	266,816	-

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 reserve 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 general meeting.

39 SURPLUS RESERVE (CONTINUED)

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.

40 REGULATORY GENERAL RESERVE

	2007	2006
Opening balance	1,284,002	-
Appropriation	2,240,658	-
Transfer in	-	1,284,002
Closing balance	3,524,660	1,284,002

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 in Mainland China including the Bank are required to set aside a regulatory general reserve (except allowances for impairment losses) to cover potential losses against their assets. The regulatory general reserve is in principle not less than 1% of the aggregate amount of risk-bearing assets, before allowances for impairment losses, at the balance sheet date. The regulatory general reserve forms part of the equity of the financial institution, and transfers to it are made through appropriations of profit after tax.

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

The Bank had fulfilled the requirement in 2007 in accordance with the above notice and appropriated 1% of aggregate amount of risk-bearing assets, before allowances for impairment losses, at 31 December 2007.

41 INTEREST INCOME

	2007	2006
Interest income on loans	10,802,121	8,487,666
Interest income on discounted bills	3,049,598	1,694,351
Interest income on credit cards	520,755	248,623
Interest income on inward and outward bills receivables	214,748	138,406
Other	25,256	18,654
Total	14,612,478	10,587,700

42 INTEREST INCOME ON BALANCES AND PLACEMENTS WITH FINANCIAL INSTITUTIONS

	2007	2006
Interest income from discounted bills	3,327,802	604,789
Interest income from balances under resale agreements	1,280,675	198,076
Interest income from balances with central banks	641,982	455,695
Interest income from placements with banks and other financial institutions	590,054	297,324
Interest income from balances with banks and other financial institutions	134,104	104,766
Others	24,113	22,292
Total	5,998,730	1,682,942

43 INTEREST EXPENSES

	2007	2006
Interest expenses on deposits	5,089,838	4,071,561
Interest expenses on saving deposits	844,358	960,991
Others	15,158	12,406
Total	5,949,354	5,044,958

44 INTEREST EXPENSES ON DEPOSITS AND TAKINGS FROM FINANCIAL INSTITUTIONS

	2007	2006
Interest expenses on re-discounted bills	4,005,501	1,000,962
Interest expenses on deposits from banks and other financial institutions	525,861	638,319
Interest expenses on balances under repurchase agreements	546,160	268,760
Interest expenses on takings from banks and other financial institutions	45,439	22,693
Others	35,236	54,561
Total	5,158,197	1,985,295

45 OPERATING COST

	2007	2006
Staff costs	2,566,557	1,760,608
Traveling and conference reception expenses	446,203	364,095
Office expenses	436,317	364,115
Rent	418,041	384,364
Depreciation	350,886	384,466
Repair and maintenance expenses	356,151	323,002
Communication expenses	150,309	121,970
Transportation expenses	118,467	94,263
Others	746,070	640,482
Total	5,589,001	4,437,365

46 INVESTMENT INCOME

	2007	2006
Interest income on debt securities	1,692,969	1,412,287
Net trading loss on debt securities	(30,083)	(3,190)
Income on equity investment	92,070	56,060
Total	1,754,956	1,465,157

47 NON-OPERATING INCOME

	2007	2006
Release of litigation loss and provision	44,971	-
Gain on disposal of intangible assets	31,916	-
Gain on disposal of repossessed assets	30,126	22,248
Gain on disposal of fixed assets	3,653	24,367
Others	75,613	136,242
Total	186,279	182,857

48 NON-OPERATING EXPENSES

	2007	2006
Net loss on disposal of fixed assets	9,931	23,907
Litigation loss and provision charge	3,455	94,073
Loss on disposal of repossessed assets	339	36,998
Others	96,100	101,872
Total	109,825	256,850

49 ALLOWANCE FOR ASSETS IMPAIRMENT

	2007	2006
Allowance for loan loss	861,149	2,948,096
Allowance / (release of allowance) for lower of cost and market value of short-term debt investment	78,900	(40,851)
Allowance for long-term debt investment impairment	97,084	-
Allowance for fixed assets and intangible assets impairment	6,164	3,050
Allowance for repossessed assets impairment	1,089	10,448
Release of provision on other assets	(27,057)	(93,089)
(Release of allowance) / allowance for balance under resale agreements impairment	(39,000)	39,000
Total	978,329	2,866,654

50 INCOME TAX

	2007	2006
Income tax for the year	1,603,898	794,217
Deferred tax (Note 27)	719,961	(607,800)
Income tax expense	2,323,859	186,417

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

	2007	2006
Profit / (loss) before tax	4,992,015	(354,276)
Income tax expense / (credit) at statutory tax rate of 33%	1,647,365	(116,911)
Non-deductible expenses	649,179	459,936
Income tax adjustment of non-taxable income	(92,547)	(139,255)
Effect of different tax rate applicable to profit of particular location of operation (Note(i))	(50,537)	(17,353)
Deferred tax released due to change in tax rate (Note 27(ii))	343,130	-
Other (Note (ii))	(172,731)	-
Income tax expense	2,323,859	186,417

- (i) According to tax legislations and detailed rules of implementation in relevant regions, income taxes on profits generated in various regions are payable at different tax rates and on different tax basis. The income tax rate for Shenzhen Special Economic Region is 15% for the year (2006: 15%).
- (ii) Other mainly represents assets losses incurred before restructuring that were approved for income tax deduction by tax bureau and write-offs of deferred tax assets.

51 RELATED PARTIES
(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.

51 RELATED PARTIES (CONTINUED)

(b) Shareholders

Since the Bank does not have controlling shareholders, the Bank's shareholder related parties are those shareholders holding 5% or more of the Bank's equity:

	2007 and 2006	
	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%
	2007	2006
Loans and advances to customers (Note (i))	205,953	214,500
Balances with banks and other financial institutions	138,655	4,197,345
Long-term debt investment		
- Nominal value	145,880	-
- Impairment allowance	(70,606)	-
Long-term debt investment, net carrying value	75,274	-
Deposits from customers	7,123,037	1,969,046
Interest payable	131,996	-
Other payables	17,000	-
	2007	2006
Interest income	15,783	50,431
Interest expense	149,052	11,582
Fee and commission income	6,547	-
Operating expense (Note (ii))	17,000	-
Impairment losses for long-term debt investment	70,606	-

(i) No provision for loan losses was made for the loans and advances to shareholders.

(ii) The operating expense represented an accrued technical assistance fee payable to CITIGROUP INC..

51 RELATED PARTIES (CONTINUED)

(c) Entities controlled by the directors and supervisors

	2007	2006
Loan and advances to customers (Note (i))	37,500	-
Interest income	2,500	27,738
Interest expense	-	418

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

(d) Investee entity controlled or commonly controlled by the Bank but which are not consolidated

The following balances and transaction value with investee entity includes only balances and transaction value with Guangdong Guangfa International Finance & Consulting Co., Ltd..

	2007	2006
Deposits from customers	7,412	6,444
Other payables	26,564	-
Interest expense	62	62
Operating expenses (Note (i))	135,210	68,845

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

(e) Key management personnel

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

- (i) The aggregate emoluments for Directors, Supervisors and Senior Executive Officers for the year ended 31 December 2007 amounted to RMB 0.03 billion (2006: RMB 0.02 billion).
- (ii) The Bank's management is of the opinion that the transactions with key management personnel 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. Other than the emoluments for Directors, Supervisors and Senior Executive Officers as disclosed in Note 51 (e)(i), the transaction amounts with them are insignificant. Accordingly, the Bank has not disclosed the details of such transactions.

52 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.

Entrusted 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:

	2007	2006
Entrusted loans	11,606,237	5,178,677
Entrusted funds	(11,606,237)	(5,178,677)

53 OFF-BALANCE SHEET ITEMS

(a) Off-balance sheet business with contingent risks

(i) Derivative financial instruments

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, through the operations of its branch network, acts as an intermediary for a wide range of customers structuring deals to produce risk management products to suit individual customer needs. These 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. 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.

	2007			2006		
	Notional	Fairvalue		Notional	Fairvalue	
	value	Assets	Liabilities	value	Assets	Liabilities
Interest rate swaps	1,021,081	22,817	(24,422)	2,580,655	64,856	(73,358)
Currency contracts:						
- Forwards	86,207	1,403	(1,389)	104,931	2,215	(2,172)
- Swaps	851,308	2,558	(4,942)	889,527	880	(3,661)
	937,515	3,961	(6,331)	994,458	3,095	(5,833)
Total	1,958,596	26,778	(30,753)	3,575,113	67,951	(79,191)
		(Note 12(a))	(Note 36)		(Note 12(a))	(Note 36)

53 OFF-BALANCE SHEET ITEMS (CONTINUED)

(a) *Off-balance sheet business with contingent risks (CONTINUED)*

(ii) Non-cancellable off-balance sheet credit business

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 amount reflected in the table for guarantees and letters of credit represents the maximum potential loss that would be recognised at balance sheet date if counterparties fail completely to perform as contracted.

	2007	2006
Acceptances	69,493,613	72,426,987
Financial guarantees	967,954	2,213,271
Non-financial guarantees	4,066,733	4,128,626
Usance letters of credit	5,113,654	1,579,237
Sight letters of credit	3,178,798	2,175,172
Total	82,820,752	82,523,293

These commitments and contingent liabilities expose the Bank to credit risk. 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 is not representative of expected future cash outflows.

(b) *Off-balance sheet items with contingent gain*

These items represent the accrued loan principal or interest calculated off-balance sheet, which have not yet been recovered, and are overdue for more than 90 days (excluding the 90th day).

	2007	2006
Accrued interests not yet received	967,881	595,434

54 COMMITMENTS

(a) *Loan commitments*

Facilities, including unused loan facilities and unused credit limit of credit cards, committed by the Bank for designated customers may be drawn on request. Non-cancellable loan commitments provided by the Banks to specific customers are as follows:

	2007	2006
Undrawn loan facilities under loan contracts	1,714,504	2,305,430
Unutilised overdraft limit of credit cards	29,086,918	11,468,619
Total	30,801,422	13,774,049

There is no risk of unused credit limits being drawn upon, as the unused credit extended to other bank customers is cancellable. Therefore, this amount is not included above.

54 COMMITMENTS (CONTINUED)

(b) Operating leases commitments

At the balance sheet date, the Bank's future minimum lease payments under non-cancellable operating leases for buildings and structures, vehicle and electronic equipments were as follows:

	2007	2006
Within one year	343,586	300,298
After one year but within two years	286,362	252,387
After two years but within three years	241,476	218,576
After three years	792,158	802,311
Total	1,663,582	1,573,572

(c) Capital commitments

The Bank had the following authorised capital commitments at the balance sheet date:

	2007	2006
Purchase of fixed assets		
- Contracted for	343,917	54,684
- Not contracted for	106,411	81,921
Total	450,328	136,605

(d) Underwriting obligations

The Bank had no underwriting obligations of debt securities issued in the PRC at 31 December 2007 (2006: RMB 0.57 billion).

(e) Redemption obligations

As an underwriting agent of PRC Government bonds, the Bank has the responsibility to buy back those bonds sold by it should the holders decide to early redeem the bonds held. The redemption price for the bonds at any time before their maturity date is based on the coupon value plus any interest unpaid and accrued up to 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:

	2007	2006
Redemption obligations	7,600,777	11,089,066

Management expects the amount of redemption before the maturity date of these government bonds through the Bank will not be material.

55 LITIGATIONS AND DISPUTES

As at 31 December 2007, the Bank was the defendant in certain pending litigations, with gross claims of approximately RMB 0.17 billion (2006: RMB 0.48 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 (Note 36). Management of the Bank is of the view that the provision made is reasonable and adequate.

56 RISK OF FINANCIAL INSTRUMENTS

(a) Credit risk

Credit risk represents the potential loss that may arise from the failure of a borrower 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 NPLs. The definitions of these five categories are as follows:

- Pass: The borrowers 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 borrowers are able to service their loans currently. However there are adverse factors by which repayment may be adversely affected.
- Substandard: The borrowers' 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 borrowers 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.

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

- (i) The borrower 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 borrower's major products, loss of significant customers, failure to repay the judgement debt or significant default in repayment of bank loans, etc.
- (ii) The borrower breaches the loan contract due to inability of repayment, including a default in repaying the principal or interest; the borrower 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.

56 RISK OF FINANCIAL INSTRUMENTS (CONTINUED)

(a) Credit risk (continued)

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

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

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 all the operations regarding the Bank's risk management, and also leading the Credit Approval Committee to formulate the credit policies, management framework and marketing strategies from time to time, to analyse the development of lending businesses and the level of risk management, and to approve loans with amounts not exceeding the authorised limit in accordance with relevant rules, regulations and monetary policies in the PRC and the Bank's business strategy. To mitigate risk, the Bank may obtain collaterals and guarantees from customers where appropriate.

With respect to daily operations, the Credit Review Department (the 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 subordinated units. Being a standing body of the Head Office's Credit Policy Committee, the Department reviews and approves various lending businesses reported to and filed with the Department.

56 RISK OF FINANCIAL INSTRUMENTS (CONTINUED)

(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 asset 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.

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 for relevant market risk management, in order to improve and standardise the risk management procedures such as VAR calculation and back testing.

(c) Interest rate risk

Interest rate risk is the likelihood of loss that may arise from movements in market interest rate. The Bank predicts interest rate risk 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 and derivative financial instruments. Asset portfolio aims at diversifying risks and improves profitability with diversification of assets.

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 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.

56 RISK OF FINANCIAL INSTRUMENTS (CONTINUED)

(c) Interest rate risk (continued)

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 staff should have accurate judgment to the trend of interest rate of international major currencies in the course of treasury management and investment activities conducted by the Bank's head office. 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 seldom last for more than 1 year, which is nearly equivalent with the period of foreign currency capital. Based on the investment strategy of the foreign currency fixed rate, the Bank has already reduced to the balance of foreign currency debt investment to less than USD 0.1 billion, among which the balance of foreign currency fixed rate debt investment had been reduced to less than USD 0.03 billion. The surplus foreign currency fund was mainly used for domestic trade financing and money market. The average net period of foreign currency assets and liabilities is less than 1 year.

(d) Currency risk

The Bank's reporting currency is the Renminbi. The exchange rates between RMB and foreign currencies are regulated by the PBOC and there are only small fluctuations during each year concerned. The Bank's currency risk comprises exposures that arise from foreign currency portfolio originated from treasury business and currency risk originated from the Bank's overseas branches. The Bank manages the currency risk by spot and forward foreign exchange transactions and matching its foreign currency denominated assets with corresponding liabilities in the same currencies.

The currency risks of the trading book include the risks arising from FX 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 the capital in foreign currency when exchanging the other currencies to US dollar. The retail FX exchange business are operated on an automated trading system, the Bank can monitor the exposure timely. The transaction dealing and risk management system of Head office can measure and monitor the exchange exposure which is raised by the transactions timely.

56 RISK OF FINANCIAL INSTRUMENTS (CONTINUED)

(e) 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.

(f) 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.

57 POST BALANCE SHEET EVENTS

In accordance with the 2007 profit appropriation proposal as approved during the meeting of Board of Directors on 18 March 2008, the Bank has appropriated 10% of its current year net profit to the statutory surplus reserve (Note 39), and made appropriation to the regulatory general reserve (Note 40) such that the reserve balance is equivalent to 1% of the Bank's aggregate amount of risk-bearing assets as at 31 December 2007.

58 ADOPTION OF NEW ACCOUNTING STANDARDS

From 1 January 2008 onwards, the Bank began to adopt China Accounting Standards for Business Enterprises ("New CAS") issued by the MOF on 15 Feb 2006, instead of the preceding Accounting Standards for Business Enterprises and Accounting Regulations for Financial Enterprises ("preceding CAS"). The adoption of New CAS may change the Bank's accounting policies and accounting estimates which were based on the preceding CAS, which may accordingly impact on the financial position and results of operation of the Bank.

59 COMPARATIVE FIGURES

In addition to effects of retrospective adjustment due to the change of accounting policy on 2006 financial statements as disclosed in Note 3, certain items in the 2006 financial statements have been reclassified to conform with the current year's presentation to facilitate comparison.

Guangdong Development Bank Head Office

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

Beijing Branch

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

Shanghai Branch

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

Dalian Branch

Address: No.3 Zhongshan Plaza, Zhongshan District, Dalian, Liaoning
Postcode: 116001
Telephone: 0411-82553222
Facsimile: 0411-82553258

Daqing Sub-branch

Address: Ranghulu District, Daqing, Heilongjiang
Postcode: 163458
Telephone: 0459-6139188
Facsimile: 0459-6139012

Zhengzhou Branch

Address: No.19 East Weisi Road, Zhengzhou, Henan
Postcode: 450008
Telephone: 0371-65618098
Facsimile: 0371-65618202

Xinxiang Sub-branch

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

Anyang Sub-branch

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

Nanjing Branch

Address: Yunhu Building, No.47 Hunan Road, Nanjing, Jiangsu
Postcode: 210009
Telephone: 025-83305888 (Operator)
Facsimile: 025-83244601

Wuxi Sub-branch

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

Hangzhou Branch

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Telephone: 0571-87917921 87019888 (Operator)
Facsimile: 0571-87917852

Ningbo Branch

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

Wenzhou Sub-branch

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

Kunming Branch

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

Yuxi Sub-branch

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Postcode: 653100
Telephone: 0877-2064659
Facsimile: 0877-2064667

Qujing Sub-branch

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

Wuhan Branch

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Xinhuaxia Road, Wuhan, Hubei
Postcode: 430015
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Facsimile: 027-85354848

Shenyang Branch

Address: No.227 Qingnian Street, Shenhe District,
Shenyang, Liaoning
Postcode: 110016
Telephone: 024-23985610 22878888(Operator)
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Guangzhou Branch

Address: No.3 Lujing Road, Guangzhou, Guangdong
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Facsimile: 020-83503050

Shenzhen Branch

Address: 19-22/F West Block Shopping Plaza, No.123
Shennan Rd. East, Shenzhen, Guangdong Province
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Facsimile: 0755-82380002

Zhuhai Branch

Address: No. 68 Jingshan Road, Jida, Zhuhai,
Guangdong Province
Postcode: 519015
Telephone: 0756-3250900 (Operator)
Facsimile: 0756-3250700

Shantou Branch

Address: Chaoshanxinghe Building, Jinhuan Road,
Shantou, Guangdong Province
Postcode: 515041
Telephone: 0754-8262689
Facsimile: 0754-8262489

Meizhou Branch

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Province
Postcode: 514021
Telephone: 0753-2242068 2242273 2247501
Facsimile: 0753-2243595

Huizhou Branch

Address: No.19 Xiapu Avenue, Huizhou, Guangdong
Province
Postcode: 516001
Telephone: 0752-2119885 2119887
Facsimile: 0752-2119888

Qingyuan Branch

Address: Guangfa Building, Beijiangsan Road, Zone 3
Xinchengxi, Qingyuan, Guangdong Province
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Zhongshan Branch

Address: No.55 Huabai Road, Shiqi, Zhongshan,
Guangdong Province
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Shaoguan Branch

Address: Block 41, Huiminnan Road, Shaoguan City, Guangdong Province

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Facsimile: 0751-8763208

Dongguan Branch

Address: No.6 Dongcheng Xi Road, Dongguan City, Guangdong Province

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Postcode: 528000

Telephone: 0757-83358832

Facsimile: 0757-83359356

Jiangmen Branch

Address: No.49 Jianshe Road, Jiangmen City, Guangdong Province

Postcode: 529000

Telephone: 0750-3288388 (Operator)

Facsimile: 0750-3354276

Zhaoqing Branch

Address: Block 1, No.75 Tianningbei Road, Zhaoqing City, Guangdong Province

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Facsimile: 0758-2313013

Yangjiang Branch

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Telephone: 0662-3367737

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Zhanjiang Branch

Address: No.22 Zhongshanyi Road, Chikan, Zhanjiang City, Guangdong Province

Postcode: 524032

Telephone: 0759-3366558

Facsimile: 0759-3313285

Maoming Branch

Address: No.107 Youchengsi Road, Maoming City, Guangdong Province

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Telephone: 0668-2888376

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