



上海农村商业银行
Shanghai Rural Commercial Bank

2007年年度报告

ANNUAL REPORT



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Important Notice

The Company and the Directors assume several and joint responsibilities for any false records, misleading statements or significant omissions of information contained in this report.

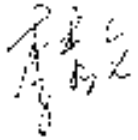
Content of the “Shanghai Rural Commercial Bank Company Limited 2007 Annual Report” has been approved by the first Board of Directors at the Eleventh Company Board Meeting and by the first Supervisory Board of Directors at the Eleventh Supervisory Board Meeting.

The financial statements have been audited and opinioned by the Wan Long Certified Public Accountants Co., Ltd.

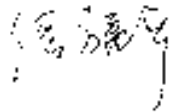
Board of Directors Shanghai Rural Commercial Bank Co., Ltd.

27th March 2008

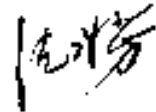
Director's Signatures



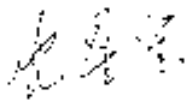
| Li XiuLun |



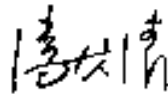
| Hou Funing |



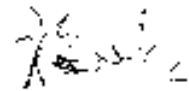
| Shen Xunfang |



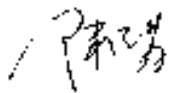
| Shen Xingbao |



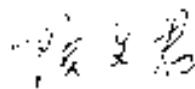
| Pan Longqing |



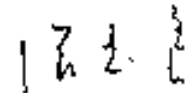
| Shi Derong |



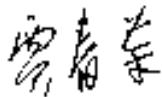
| Chen Shaochang |



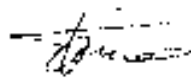
| Chen Wenjun |



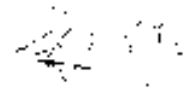
| Zhang Yuliang |



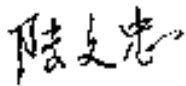
| Jia Chunrong |



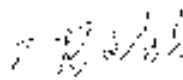
| Mei Zhe |



| Zhang Wei |



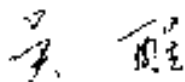
| Lu Wenzhong |



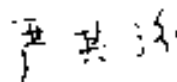
| Tang Wenxin |



| Li Rong |



| Wu Xing |



| Yan Qifen |

Chairman's Statement



Chairman: Li Xiulun

In 2007, Shanghai Rural Commercial Bank faithfully implemented the macroeconomic control policies of the central government, adapted itself to the process of building Shanghai into an international financial centre and kept pace with regional economic and banking developments. Based on the key concepts of "retail, profitability, and harmony", by taking business restructure as main task, the bank has successfully grown its retail banking business, strengthened its internal controls and risk management processes, and has achieved impressive operating results.

We have enhanced our market positioning as a key retail bank within the Shanghai community with robust growth in our retail banking business. To facilitate our desired strategic transformation into a retail bank, we have increased our focus in the areas of strategic management, business planning, marketing promotion, organizational adjustment as well as resource input. We have actively promoted third-party services and obtained regulatory approval to issue credit cards and offer wealth management services. We have been actively working on optimizing our business network layout, have launched internet banking services, and have opened a number of financial convenience stores embedded in community areas which will further expand our retail channels and enhanced the uniqueness of SRCB's retail business.

At the end of 2007, the number of SME borrowers reached 9,693, accounting for 95 percent of total corporate loan customers; outstanding loans to SME enterprises amounted to RMB 40.8 billion, accounting for nearly 70 percent of overall lending to corporate clients. Savings deposit balances totalled RMB 56.6 billion, which was comparable with the prior year; lending to personal customers reached RMB 11.8 billion which represented an increase of RMB 2.38 billion from a year ago and amounted to 16 percent of the bank's overall loan portfolio.

We have continued our focus on profitability by increasing revenues and reducing expenditures as well as restructuring the business in order to ensure greater revenue source diversity. We have developed higher yield products and have achieved an average return on lending of 6.73 percent, an increase of 0.43 percentage points over the prior year. We have enhanced our liquidity management techniques and focused on ensuring a sound and secure treasury business. The bank's turnover in treasury business exceeded RMB 2.5 trillion and we achieved an average return of 3.3 percent from the interbank bond market, an increase of 0.22 percentage points over the previous year.

We have earned RMB 71.66 million net income from fee-based services, representing an increase of RMB 30.97 million or 76% over the previous year with fee-based revenues now accounting for 2.19% of the operating revenue, up 12% from the prior year – a clear sign of our desire to diversify our business and revenue sources. We have strengthened our cost controls and financial management and have consequently seen a strong improvement in the bank's cost-to-income ratio.

In 2007, the bank thus realized a profit before provisions of RMB 2.556 billion, being an improvement of 48.09 percent over 2006.

We continued to promote the harmonious development of the bank so as to realize the unification of the bank and employees, shareholders value and social responsibility. We have adopted a human-oriented approach to ensure respect for employees and have moved steadily forward with reforms in personnel training, performance assessment and remuneration systems to ensure that we are a "fair, open and honourable" employer.

We have strengthened our internal controls and rolled out comprehensive risk management processes and procedures to ensure effective prevention of irregularities and create a healthy atmosphere. We have offered financial services to the neighbourhoods in which we operate in order to broaden the financial knowledge of local residents and we have carried out social welfare activities such as donations and sponsorship in order to ensure a fair balance between profitability and our social responsibilities.

Looking ahead, Shanghai Rural Commercial Bank is facing both new opportunities and challenges. We anticipate a good year in 2008 thanks to the Beijing Olympics and China's continuing economic growth. In addition, Shanghai is well underway in its preparations for the 2010 World Expo, and the city continues to actively upgrade its industrial structure and to accelerate its transformation into that of an international financial centre and the city also works actively to improve residents' welfare.

However, 2008 will see a much more uncertain world economy and significant inflationary pressure in China which, in addition to local currency appreciation and policy tightening, will create new challenges for the bank's development in 2008.

In 2008 we will focus strongly on further strengthening our corporate governance and improving the operations of Shareholders' General Meeting, Board of Directors, Board of Supervisors and Senior Management, so as to ensure that they create a solid basis for our development.

Second, we will further strengthen our strategic focus in order to speed up our strategic transformation and promote our retail banking agenda.

Third, we will continue to promote financial innovation and develop the bank's unique advantages and to develop core product competency.

Fourth, we will accelerate the development of a great range of service channels, particularly through the opening of financial convenience stores, development of an online banking portal for our personal clients and further improve our existing distribution network.

Fifth, we will accelerate the bank's technology construction through the development of new generation core banking system which will improve information management systems and ensure an IT platform appropriate for our aggressive retail banking agenda.

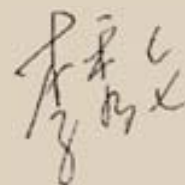
Sixth, we will reform our human resources management systems and processes so as to speed up the development of qualified personnel and ensure that we have a strong manpower pipeline to support the bank's strategic transformation objectives.

Shanghai Rural Commercial Bank has experienced three exciting years since its incorporation in 2005. With our mission to build a modern commercial bank, the management team have always been confident in exploring the opportunities available to us to enable us to grow as a new bank, and have handled the myriad issues that arose and have successfully realized the initial business goals in these initial start-up years. Through these three years of hard work, a completely new bank with energy and a steady growth potential has thus emerged in Shanghai.

These achievements are clearly to be attributed to the hard work of our employees, as well as the passionate support and attention we have received from the society. We greatly value those hard-won achievements and appreciate the support provided.

A good start is however only half the success. We sincerely hope that we can continue to receive the necessary guidance and support as we continue our efforts to relentlessly pursue the goal of building Shanghai Rural Commercial Bank into a modern commercial bank!

Chairman:



President's Statement



President: Hou Funing

Faced with the significant changes taking place in the economic environment and the challenges arising as a result of opening-up of the financial industry in 2007, Shanghai Rural Commercial Bank has, under the guidance of Shanghai CCP Committee, Shanghai municipal government and financial regulatory authorities, as well as support from all social parties, upheld the scientific development concept, implemented macroeconomic control policies from the central government, analysed economic situations, grasped development opportunities, actively promoted its retail banking services, restructured its business and thus achieved impressive business results.

A key outcome is that the bank's profitability has greatly improved, and the balance sheet size grown. The bank's operating profit before provisions was RMB 2.556 billion in 2007, an increase of 48 percent over the prior year. Pre-tax profit was RMB 756 million with our provision charge being RMB 1.8 billion. Outstanding deposits were RMB 128.4 billion as at year end, being an increase of RMB 12.5 billion from the prior year end; the daily average outstanding deposit was RMB 123.1 billion which is an increase of RMB 10 billion over 2006.

Outstanding loans at the end of 2007 were RMB 82.7 billion, which was RMB 9.0 billion higher from the previous year end. Total assets increased to RMB 155 billion, up RMB 18.9 billion compared with the end of 2006.

Secondly, adjustments made to our business structure have proved highly effective, and a clear framework for our transformation into a retail bank has been developed. The bank has actively promoted its financial services and capabilities to SME's, and in order to improve its competitiveness, has launched online internet banking products, including online corporate banking and ability to undertake online tax payments thus providing many financing products to small firms and developing a sound brand image and market reputation in this business segment.

Outstanding petty loans secured by property reached RMB 13.8 billion which accounted for 19 percent of overall bank credit assets. Personal financial services also increased with outstanding personal loans totalling RMB 11.8 billion, accounting for 16 percent of overall credit assets. The bank has also received market access qualification for credit card issuance, mutual fund distribution and wealth management; and its first "person plus machine" financial convenience store has been opened. The capability of the customer service centre has been upgraded, and the number and transaction volume of ATM, POS and multi-media terminals have increased significantly. The bank has also enhanced its financial support for the agricultural sector, with the trial program of financing farmer cooperatives achieving success. Loans to leading agricultural product processing firms have also increased.

The bank's foreign exchange business has also improved with international settlement volume exceeding \$500 million. Fee-based services witnessed robust development in 2007 as well, and revenues from these services jumped 43 percent year-on-year. The bond portfolio has been optimized with annual transaction volumes at RMB 2.53 trillion, ranked the 13th in the inter-bank market.

Thirdly, the bank's risk management ability has been strengthened considerably, and its asset quality greatly improved. The bank has highlighted the importance of its capital position and introduced advanced risk management technologies to promote reorganization of business processes. It has additionally enhanced management of credit risk, market risk, liquidity risk, operational risk and compliance risk. Recovery and disposal of non-performing assets has also been highly effective with the bank's non-performing loan outstanding at RMB 1.935 billion and the non-performing loan ratio at 2.34 percent. In 2007, the bank has reduced both the absolute volume and the percentage of non-performing loans. Its capital adequacy ratio reached 9.16 percent with risk management abilities being improved substantially.

Fourthly, through continuous effort, the bank has met all assessment and examination requirements of exchanging PBoC special bills held, and with the comprehensive technical and business cooperation with ANZ well underway this will provide a solid foundation for the bank to successfully get the exchange of the PBoC special bills.

2008 is the first year to implement the guidelines of the 17th Party Congress and the 9th Shanghai Party Representative Congress and also the final year of the initial three-year growth strategy made by

the Board of Directors. We will continue to grasp opportunities, to widen our thoughts and to innovate, sticking to scientific development concept, focusing on business restructure and accelerating transformation of business growth modes and management and furthering the process of building up a retail bank with strong capability for sustainable business development in the future.

We will firmly push forward our stated retail banking strategy vision in order to enhance bank value and shareholder return via strong focus on capital return ratio and sustainable development thus overcoming capital and resource restraints and with a heavy focus on innovation. The business emphasis will thus be new and existing retailing, fee-based services with a strong client focus concepts underlying our approach.

We will retain our mission of "creating value for clients" as we undertake further business exploration and development via market access, product innovation, channel development and systematic marketing. We will continue to optimize credit structures thus enabling provision of financial services to viable SME's and individuals thus enhancing our retail banking capabilities.

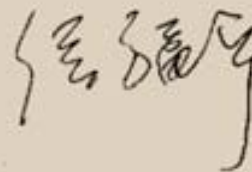
We will use wholesale market products such as funds, bonds, bills and interest rates to further develop our treasure, trade finance, cash management and wealth management businesses to ensure the bank's core competencies. We will optimize the combination of asset allocation, liability resource and business categories to realize diversification of customer service and income structure.

We will study leading foreign banks' best practice with an intention of setting up a flat organization structure, a vertical management system and a centralized operations system to speed up process construction and thus build up an organizational structure, business mode and risk management system which will be fit for the focused retail bank.

We will ensure that our plans to implement and roll out a new generation core banking system is done with the highest standards and is at a advanced level thus ensuring development of an world-class information technology platform that caters for both current requirements and future growth plans.

New situations bring new opportunities, new challenges create new tasks. Shanghai Rural Commercial Bank will grasp the myriad opportunities available to it and undertake the mission of innovative reform and will work relentlessly with a sense of urgency towards ensuring that its vision of becoming a modern commercial bank is achieved quickly.

President:





Top Management



Front row: Lu Xiulun, Chairman of Board of Directors (the second from the left)

Shen Huiqi, Chairman of Board of Supervisors (the third from the left)

Hou Funing, Vice Chairman, President (the first from the left)

Back row: Shen Xunfang, Director, Deputy Party Secretary (third from the left)

Shen Xingbao, Director, Vice President (the third from the right)

Ye Guorong, Vice President (the second from the left)

Qiao Zhongxing, Assistant President (the second from the right)

Wu Guohua, Assistant President (the first from the left)

Zhao Deyuan, Secretary of Board of Directors (the first from the right)

Company Information

3.1 Legal Name in Chinese: 上海农村商业银行股份有限公司 (“上海农村商业银行” , 下称 “本公司”)

Legal name in English: Shanghai Rural Commercial Bank Co., Ltd.
(“Shanghai Rural Commercial Bank” , hereinafter referred to as “the Company” or “SRCB”)

3.2 Legal Representative: Li Xiulun

3.3 Board Secretary: Zhao Deyuan

Mailing Address: Secretariat, Fl. 26, No.728, Yan'an Road (W), Shanghai, China

Telephone: 0086-21-52381111-8031, 0086-21-52381799

Facsimile: 0086-21-52381839

Email: zhaody@shrcb.com

3.4 Registered Address: No.981 Pudong Avenue, Shanghai, China

Office Address: Fl. 25 – 26, Huamin Empire Building, 728 Yan'an Road (W), Shanghai, China,

Post Code: 200050

Website: <http://www.shrcb.com>

Email: webmaster@shrcb.com

3.5 Annual Report published on : <http://www.shrcb.com>

Copies of Annual Report available at the Board Secretary's Office

3.6 Other Information:

Date of first registration: 23 August 2005

Registration Number of Business License: 3100001007291

Tax Registration Number: Shanghai 310043779347314

Auditor: Wan Long Certified Public Accountants Co., Ltd.

3.7 The Report is prepared in both Chinese and English. The Chinese version prevails.

Summary of Key Financial and Performance Indicators

4.1 Highlight of Financial Results for the Period of Report

Items	Unit: thousand RMB
Profit before taxation	721,275
Net profit	372,157
Net profit excl. extraordinary items	326,731
Profit from principle operations	675,849
Investment income	940,936
Subsidy income	-
Net non-operating income	45,426
Net cash flow from operating activities	3,578,820
Net Increase in cash and cash equivalents	5,061,146

4.2 Highlight of Financial Results and Ratios of the Last Three Years

Items	Unit: thousand RMB		
	2007	2006	2005
Income from principle operations	6,733,177	5,304,547	3,989,610
Net profit	372,157	357,591	327,567
Total assets	157,472,752	136,108,749	127,416,876
Deposit balance	128,317,458	115,908,805	100,897,779
Loan balance	82,713,857	73,726,494	63,300,494
Shareholder's equity	8,626,538	6,446,112	6,153,530
Fully diluted EPS	0.10	0.12	0.11
Weighted average EPS	0.12	0.12	0.11
EPS excl. extraordinary items	0.09	0.09	0.10
Net assets per share	2.30	2.15	2.05
Adjusted net assets per share	2.30	2.15	2.05
Net cash flow per share from operating activities	0.96	2.61	1.90
Cost to Income ratio(%)	38.52	47.55	55.77
Return on equity (%)	4.94	5.68	5.32
Weighted average return on equity after extraordinary items (%)	4.67	4.28	5.25

Summary of Key Financial and Performance Indicators

4.3 Provision for Loan Losses

Items	Unit: thousand RMB		
	2007	2006	2005
Opening balance	1,206,313	1,169,715	694,517
Current year provision charge	1,800,000	1,250,544	488,853
Other transfer-in	3,000	2,000	721,460
Recoveries	11,393	32,015	16,334
Other transfer-out			
Write-offs	1,622,073	1,247,961	751,449
Closing balance	1,398,633	1,206,313	1,169,715

4.4 Supplementary Financial Data for the Last Three Years

Items	Unit: thousand RMB		
	2007	2006	2005
Total liabilities	148,846,214	129,662,638	121,263,347
Total deposits	128,317,458	115,908,805	100,897,779
Incl.: Long term deposit	14,859,666	18,393,554	14,414,146
Interbank borrowing			
Total loans	82,713,857	73,726,493	63,300,494
Incl.: Short term loans	31,020,948	27,500,534	26,915,561
Import & export negotiations	10,385	17,600	-
Bill discounting	3,275,718	5,558,646	8,462,253
Medium-long term loans	47,324,035	39,442,552	26,727,836
Overdue loans	98,642	117,985	763,818
Dull loans	932,984	1,103,041	429,685
Bad loans	61,530	3,735	1,340

Summary of Key Financial and Performance Indicators

4.5 Supplementary Income Statement

Items	Unit: thousand RMB		
	2007	2006	2005
Profit from principle operations	675,849	347,265	360,353
Operating profit	(265,087)	(391,687)	(80,268)
Net profit	372,157	357,591	327,567
Net profit excl. extraordinary items	326,731	270,445	322,949

4.6 Supplementary Financial Indicator for the Last Three Years

Items	Standard Value	2007	2006	2005
Capital adequacy ratio	>=8	9.16%	7.32%	8.26%
Core capital adequacy ratio	>=4	9.65%	7.61%	4.77%
Liquid ratio				
RMB		42.43%	53.24%	60.96%
Foreign currency		1224.21%	852.54%	7969.18%
Deposit-loan ratio				
RMB		62.15%	58.89%	54.43%
Foreign currency		63.73%	107.62%	-
Interbank funding ratio				
borrowing		2.68%	0.35%	7.78%
lending		5.36%	5.57%	9.69%
Intl commercial borrowing ratio		-	-	-
NPL ratio		2.34%	2.91%	4.07%
Interest receipt ratio		99.83%	98.29%	94.08%
Single largest customer loan ratio		7.86%	8.52%	5.69%
Top ten customer loan ratio		59.92%	71.44%	44.38%

Summary of Key Financial and Performance Indicators

4.7 Capital Composition and Change

	Unit: thousand RMB		
	2007-12-31	2006-12-31	2005-12-31
Net capital	7,635,591	5,866,169	5,678,508
Net core capital	8,048,113	6,101,588	3,276,682
Total risk-weighted assets	83,365,661	80,137,677	68,775,000
Capital adequacy ratio	9.16%	7.32%	8.26%

4.8 Changes of the Shareholders Equity

	Unit: thousand RMB					
Items	Paid-in capital	Capital surplus	Surplus reserve	General reserves	Retained earnings	Total equity
As at 1 Jan 2007	3,000,294	4,507	278,848	2,617,824	544,638	6,446,111
Increase	745,392	1,237,416	98,393	5,480	372,157	2,458,838
Decrease	-	-	-	-	278,411	278,411
As at 31 Dec 2007	3,745,686	1,241,923	377,241	2,623,304	638,384	8,626,539

Changes in Share Capital and Shareholders Profile

5.1 Changes in Share Capital

5.1.1 Share capital structure

Class	Number of Shares	Unit: share
		Percentage
Legal person shares	2,974,041,470	79.40%
Natural person shares	771,417,000	20.59%
Packaged shares*	227,306	0.01%
Total	3,745,685,776	100%

*Packaged shares: In accordance with requirements in the documents No.61 (2004) of CBRC, all the shares that belong to the former Rural Credit Cooperatives but are without identified holders are packaged and converted into the packaged shares of the Rural Commercial Bank; they will be disposed when the identity of respective shareholders are confirmed.

5.1.2 Share issuance

During the reporting period, the 1st extraordinary Shareholders' General Meeting for 2007 was held, and the proposal to make a private placement to Australia and New Zealand Banking Group Limited via issuance of 745,391,470 ordinary shares was approved. The company's registered capital has therefore been increased from RMB 3,000,294,306 to RMB 3,745,685,776.

5.2 Shareholders Profile

5.2.1 Number of shareholders

At the end of the reported period, the Company's total number of shareholders is 24,445, among which 219 are legal person shareholders, 24,225 are natural person shareholders and 1 packaged shareholder.

Changes in Share Capital and Shareholders Profile

5.2.2 Top ten shareholders as at the end of the reported period

No.	Name	Shares as at Jan 1 2007	Shares as at Dec 31 2007	Percentage of total shares
1	ANZ (Group) Co., Ltd	0	74,539.147	19.9%
2	Shanghai International (Group) Co., Ltd	30,000	30,000	8.01%
3	Shanghai Dragon Investment Co., Ltd	30,000	30,000	8.01%
4	Shanghai State-owned Assets Management Co., Ltd	30,000	30,000	8.01%
5	Shanghai Greenland (Group) Co., Ltd	20,000	20,000	5.34%
6	Jin Jiang International (Group) Co., Ltd	15,000	15,000	4.00%
7	Shanghai SITICO Investment Management Co.,Ltd	15,000	15,000	4.00%
8	Shanghai Shan Xin Property Co., Ltd	6,000	6,000	1.60%
9	Oriental Intl (Group) Co., Ltd	6,000	6,000	1.60%
10	Shanghai Qingpu Asset Management Co.,Ltd	5,000	5,000	1.33%
Total		157,000	231,539.147	61.80%

5.3 Information on Shareholders Holding 5% of Shares or More

1. Australia and New Zealand Banking Group Limited holds 19.9% of SRCB's shares. Established in 1835, Australia and New Zealand Banking Group Limited ("ANZ"), is headquartered in Melbourne, Australia and is the 3rd largest bank in Australia and the largest bank in New Zealand. ANZ operates 1,327 branches in 31 countries. As at 31st December, 2007, ANZ had total assets of AUD\$ 392.6 billion, and its market value ranked it 43rd amongst the world's commercial banks.

2. Shanghai International Group Co. holds approximately 8.01% shares of the company. Shanghai International Group was set up in April 2000 upon the approval of Shanghai Municipal Government following the standardization of the administration of state-owned assets. It is a domestic joint-venture company with a registered capital of RMB 10.56 billion. Its business scope includes the management of state-owned assets and state-owned equity, investments, equity restructure, asset management and consulting services and organizing international bidding.

3. Shanghai Dragon Investment Co., Ltd holds approximately 8.01% shares of the company. In November 2002, the wholly state-owned company was established with a registered capital of RMB 3 billion. Its business scope covers investment and consulting. Investment covers investment in business, real estate and related activities and infrastructure development. Consulting service covers investment consulting, financial consulting, advisory and agency service for corporate M&A and corporate financial advisor.

Changes in Share Capital and Shareholders Profile

4. Shanghai State-Owned Asset Management Co., Ltd holds approximately 8.01% shares of the company. It was set up in September 1999 under the approval of Shanghai Municipal Government with a registered capital of RMB 5 billion. As a city-controlled state-owned assets operation company, its main business scope is investment, equity restructure and acquisition, re-packaging and transfer of assets.

5. Shanghai Green Land (Group) Co., Ltd holds approximately 5.34% shares of the company. Shanghai Green Land (Group) Co.,Ltd, a domestic Joint Venture set up in July 1992, has a registered capital of RMB 0.702 billion. It provides gardening service and is involved mainly in real estate development industry but diversifies into other related industries.

5.4 Top Ten Shareholders' Correlation and Disclosure on Frozen Shares

Shanghai State-owned Asset Management Co., Ltd and Shanghai SITICO Investment Management Co., Ltd are subsidiary companies of Shanghai International (Group) Co., Ltd.

During the reported period none of the ten largest shareholders have had any shares frozen.

Directors, Supervisors, Senior Management and Staff

6.1 Information about the Directors, Supervisors and Senior Management

6.1.1 Members of the Board of Directors

Title	Name	Gender	Birth	Tenure	Position	On payroll List(✓)	Share held
Chairman	Li Xiulun	Male	1948	2005.8.25-2008.8.24	Party Secretary, SRCB	✓	500,000
Vice Chairman	Hou Funing	Male	1964	2005.8.25-2008.8.24	Deputy Party Secretary and president, SRCB	✓	500,000
Director	Shen Xunfang	Male	1958	2005.8.25-2008.8.24	Deputy Party Secretary and Secretary of Discipline Committee, SRCB	✓	500,000
Director	Shen Xingbao	Male	1958	2005.8.25-2008.8.24	Vice President, SRCB	✓	500,000
Director	Pan Long Qing	Male	1949	2005.8.25-2008.8.24	Party Secretary and General Manager, Shanghai International (Group) Co., Ltd		
Director	Shi Derong	Male	1948	2005.8.25-2008.8.24	Party Secretary and President, Shanghai Dragon Investment Co., Ltd		
Director	Chen Shaochang	Male	1948	2005.8.25-2008.8.24	Vice President, Shanghai State-owned Assets Management Co., Ltd		
Director	Chen Wenjun	Female	1955	2005.8.25-2008.8.24	Director and Vice President, Jin Jiang International Group Co., Ltd		

Directors, Supervisors, Senior Management and Staff

6.1.1 Members of the Board of Directors(continued)

Title	Name	Gender	Birth	Tenure	Position	On payroll List(✓)	Share held
Director	Zhang Yuliang	Male	1956	2005.8.25-2008.8.24	Party Secretary, Chairman and President, Shanghai Greenland (Group) Co., Ltd		
Director	Jia Chunrong	Male	1948	2005.8.25-2008.8.24	Chairman, Shanghai SITICO Investment Management Co.,Ltd		
Director	Mei Zhe	Female	1965	2005.8.25-2008.8.24	Deputy Party Secretary and Vice President, Shanghai Social Welfare Development (Group)		50,000
Director	Zhang Wei	Male	1945	2005.8.25-2008.8.24	Former secretary of Supervisory Board, Bank of Shanghai		50,000
Director	Lu Wenzhong	Male	1947	2005.8.25-2008.8.24	Party Secretary of Ying Dong Village, Chenjia Town, Chongming County		300,000
Director	Tang Wenxin	Male	1948	2005.8.25-2008.8.24	Chairman of labour union, SRCB	✓	500,000
Director	Li Rong	Female	1959	2005.8.25-2008.8.24	Deputy General Manager, Putuo Sub-branch, SRCB	✓	250,000
Independent Director	Wu Xing	Male	1945	2005.8.25-2008.8.24	Former Head of Internal Auditing Bureau, ICBC, Shanghai Branch	✓	
Independent Director	Yan Qifen	Male	1941	2005.8.25-2008.8.24	Former Chairman, Shanghai Da'an Value Document Delivery Co.,Ltd	✓	100,000

Directors, Supervisors, Senior Management and Staff

6.1.2 Members of the Board of Supervisors

Title	Name	Gender	Birth	Tenure	Position	On payroll List(✓)	Share held
Chairman (External Supervisor)	Shen Huiqi	Male	1950	2006.4.28- 2008.8.24	Supervisor of the Party Construction, SRCB		
Supervisor	Cai Hong sheng	Male	1949	2005.8.25- 2008.8.24	Party Secretary & Chairman, Oriental International (Group) Co., Ltd		
Supervisor	Lou Jinjiang	Male	1951	2005.8.25- 2008.8.24	Deputy Secretary, Discipline Committee, SRCB	✓	500,000
Supervisor	Wu Zhenlai	Male	1950	2005.8.25- 2008.8.24	Chairman, Shanghai Shan Xin Property Co.,Ltd		50,000
Supervisor	Lu Chang sheng	Male	1959	2005.8.25- 2008.8.24	General Manager, Support Advisory Division, Shanghai Qingpu Asset Management Co.,Ltd		30,000
Supervisor	Zhang Tiangao	Male	1945	2005.8.25- 2008.8.24	Vice Chairman, South Eastern Suburb Express Ring Road Co.,Ltd	✓	250,000
Supervisor	Feng Baolong	Male	1951	2007.2.1- 2008.8.24	Deputy General Manager, Pudong Branch, SRCB	✓	150,000
Supervisor	Zhang Zuyu	Male	1957	2005.8.25- 2008.8.24	General Manager, Zhangyan Sub- branch, Jin Shan, SRCB	✓	100,000
External Supervisor	Liu Hongzhong	Male	1965	2005.8.25- 2008.8.24	Director, International Faculty, Fudan University	✓	

Directors, Supervisors, Senior Management and Staff

6.1.3 Senior management

Title	Name	Gender	Birth	Years of Financial Experience	Tenure	On payroll List(✓)	Share held
President	Hou Funing	Male	1964	17	2005.8.25-2008.8.24	✓	500,000
Vice President	Shen Xingbao	Male	1958	11	2005.8.25-2008.8.24	✓	500,000
Vice President	Ye Guorong	Male	1957	27	2005.8.25-2008.8.24	✓	500,000
Assistant President	Qiao Zhongxing	Male	1957	9	2005.8.25-2008.8.24	✓	500,000
Assistant President	Wu Guohua	Male	1964	13	2005.8.25-2008.8.24	✓	500,000
Board Secretary	Zhao Deyuan	Male	1964	21	2006.3.23-2008.8.24	✓	300,000

6.1.4 Directors, supervisors and senior management's working experience and positions held

6.1.4.1 Directors

Li Xiulun, Male, 60, graduated from the Distance Education College of the Central Party School with a Bachelor's Degree, major in economics. Mr. Li is Party Secretary and Chairman of SRCB. Previous positions held include Assistant General Manager, ICBC Shanghai Branch and Party Secretary and President, Shanghai Finance School for Vocational Education; Chief Inspector and Auditor, ICBC Shanghai Branch; Party Secretary and Chairman, Shanghai Rural Credit Cooperatives Union.

Hou Funing, Male, 44, graduated from Fudan University with a Master's Degree, major in Economics. Mr. Hou is Deputy Party Secretary, Vice Chairman and President of SRCB. Previous positions held with Bank of Shanghai include General Manager, Financial Management Dept., Head of President's Office, Assistant President and Head of President's Office, Assistant President and General Manager of Head Office Branch, Vice President. He was also Deputy Party Secretary and President of Shanghai Rural Credit Cooperatives Union.

Shen Xunfang, Male, 50, graduated from Fudan University with a Doctor's Degree major in International Politics. He is Deputy Party Secretary, Party Secretary of the Discipline Committee and Director of SRCB. Previous positions held in Shanghai Municipal Government include Officer at the Comprehensive Section of the General Office; Deputy Director/director level secretary at Secretariat. He was Deputy Party Secretary and Secretary of the Discipline Committee of Shanghai Rural Credit Cooperatives Union.

Directors, Supervisors, Senior Management and Staff

Shen Xingbao, Male, 50, graduated from Central Party School with a Master's Degree major in Politics. Mr. Shen is Director and Vice President of SRCB. Previous positions held include Party Secretary and Chief of YangPu Environmental Protection Bureau, Party Secretary and General Manager, Yang Pu Administrative Department, Bank of Shanghai; General Manager, SME Service Centre, Bank of Shanghai; Head of President's Office, Bank of Shanghai, Deputy Party Secretary and Secretary of Discipline Committee, Da Zhong Insurance Co., Ltd, Vice President, Shanghai Rural Credit Cooperatives Union.

Pan Longqing, Male, 59, graduated from the PLA Aviation Engineering Institute with a Bachelor's Degree, major in Information Management. Mr. Pan is Party Secretary and General Manager of Shanghai International Group and Party Secretary and Chairman of Shanghai International Trust & Investment Corp. Previous positions held include Deputy Party Secretary and Party Secretary and Head of Song Jiang District. He has also been Party Secretary of Shanghai Foreign Economic Relation & Trade Commission.

Shi Derong, Male 60, graduated from Tongji University with a Doctor's Degree major in Engineering. Mr. Shi is Party Secretary and Chairman of Shanghai Dragon Investment Co., Ltd. and President of Shanghai Building Material (Group) Corp. Previous positions held include Deputy Party Secretary of Lu Wan District, Party Secretary and Director, Shanghai Civil Affairs Bureau.

Chen Shaochang, Male, 60, graduated from Shanghai No.2 Industrial University with a Bachelor's Degree, major in Automation of Machinery. Chen is Vice-president of Shanghai State-owned Assets Management Co., Ltd. Previous positions held include Deputy Director of General Office, Shanghai Municipal Party Committee, Senior Manager of Syndication Dept., Bank of China, London Branch.

Chen Wenjun, Female, 53, graduated from Shanghai University of Finance and Economics with a Master's Degree major in Monetary and Banking Study. Ms. Chen is Director and Senior Vice-president of JinJiang International Group Co., Ltd. Previous positions held with Jinjiang Group include Vice-president, Director and Assistant to President and Head of Finance.

Zhang Yuliang, Male, 52, graduated from Shanghai Agronomy College with a Bachelor's Degree major in Rural Economics. Mr. Zhang is Party Secretary, President and Chairman of Shanghai Green Land (Group) Co., Ltd. Previous positions held include Director, Planning Department, Shanghai Agricultural Committee, Deputy Director, Shanghai Municipal Housing Administration Office and Party Secretary and General Manager, Shanghai Green Land Development Company.

Jia Chunrong, Male, 60, graduated from LIXIN Accounting Institute with a diploma major in Accounting. Mr. Jia is Chairman of Shanghai Investment and Management Co., Ltd. Previous positions held include Deputy General Manager and Head of Finance & Planning, Shanghai Industrial Investment Co., Ltd., Deputy General Manager and General Manager of Shanghai SITICO Investment Management Co., Ltd.

Directors, Supervisors, Senior Management and Staff

Mei Zhe, Female, 43, graduated from Jiaotong University with a Master's Degree major in Electronic Materials and Devices. Ms. Mei is Party Secretary and General Manager of Shanghai Social Welfare Development Group. Previous positions held include Deputy Director, Shanghai Aging Population Affairs Development Centre, Legal Representative, Shanghai Qian He Hotel, Deputy Party Secretary and Acting General Manager, Shanghai Social Welfare Development (Group) Co.,Ltd.

Zhang Wei, Male, 63, graduated from Shanghai TV University with a diploma, major in Management. Zhang was formerly Director of Finance and Trade Office of Lu Wan District Government and Party Secretary and General Manager of Luwan Administrative Division, Shanghai City Credit Cooperatives. Previous positions held with Bank of Shanghai include General Manager, Southern Region, Director of Administration and Secretary of Supervisory Board.

Lu Wenzhong, Male, 61, is Chairman and Party Secretary of Yingdong Village, Chenjia Town, Chongming County. He was formerly Accountant and heads of the local militia company and the farming labour group.

Tang Wenxin, Male, 60, graduated from Shanghai Min Li Middle School. Mr. Tang is Chairman of Labour Union SRCB, Previous positions held include Director of Credit Cooperatives Department, Agriculture Bank of China, Shanghai Branch; Deputy Director, Shanghai Rural Financial Reform Leadership Group's Office; Director, Credit Cooperatives Supervision Department, PBoC Shanghai Branch, Section Chief and Director of Cooperation Finance Administration Department of PBoC, Shanghai Branch, Vice President, Shanghai Rural Credit Cooperatives Union and Director of Labour Union Working Committee, SRCB.

Li Rong, Female, 49, graduated from Shanghai Television School major in International Accounting. Ms.Li has an accounting qualification. She is Deputy General Manager SRCB Putuo Sub-branch. She was previously Assistant General Manager and Deputy General Manager, Putuo Rural Credit Cooperatives Union.

Wu Xing, Male, 63, Junior College, graduated from Anhui Finance and Trade College with a diploma major in Financial Management. Mr. Wu was formerly Vice President of ICBC, An Hui Provincial Branch, Commissioner of ICBC Internal Audit and Supervision Bureau, Wuhan Province; General Manager, Audit and Supervision Bureau and Head of Internal Audit Bureau, ICBC.

Yan Qifen, Male, 67, graduated from Shanghai University of Finance and Economics with a Diploma, major in Finance. Mr. Yan is Chairman of Shanghai Da An Value Document Delivery Co., Ltd. Previous positions held with Agricultural Bank of China, Shanghai Branch include Director of Industrial and Commercial Credit Division, Chief Economist, Deputy General Manager, Party Secretary, General Manager and Senior Analyst.

Directors, Supervisors, Senior Management and Staff

6.1.4.2 Supervisors

Shen Huiqi, Male, 58, graduated from Shanghai University of Finance and Economics with a Bachelor's Degree major in Finance. Mr. Shen is Chairman of Supervisory Board, SRCB. He was formerly members of the Party's Standing Committee of Jiading District, Shanghai and Deputy Party Secretary and Deputy Director of Fengxian District Government.

Cai Hongsheng, Male, 59, graduated from the Management School of Fudan University with a Bachelor's Degree, major in Management. Mr. CAI is Chairman and Party Secretary, Oriental International (Group) Co., Ltd. Previous positions held include Secretary-General and Deputy Director of the Shanghai Municipal Finance and Trade Office; Director and Deputy Party Secretary, Shanghai Municipal Commerce Committee.

Lou Jinjiang, Male, 57, graduated from PLA Nanjing Institute of Politics. Mr. Lou is Deputy Secretary of Discipline Committee, SRCB. He was formerly Deputy Director of Communications Division, Shanghai Municipal Finance Bureau, Deputy Director, HR Department and Deputy Director, Communications Department, Shanghai General Economic Committee.

Wu Zhenlai, Male, 58, graduated from the Adult Education College of Tongji University with a diploma. Mr. Wu is the Chairman of Shanghai Shan Xin Property Co., Ltd. He was previously Manager, Shanghai Wenhua Architectural Design Firm.

Lu Changsheng, Male, 49, graduated from the Economics and Management Institute of the PLA Air force College of Politics. Mr. Lu is Manager of the Support Advisory Division of Shanghai Qingpu Asset Management Co., Ltd and Manager of Shanghai Qingpu Grain and Oil Warehouse Management Company. He was previously Manager of Shanghai Qingpu Grain Oil and Foodstuff Company.

Zhang Tiangao, Male, 63, was previously General Manager, Xuhui Credit Cooperatives Union and Vice President, South East Suburb Express Ring Road Company.

Feng Baolong, Male, 57, graduated from Shanghai University of Finance and Economics with a Diploma major in Accounting. He is Deputy General Manager, SRCB Pudong Branch. She was previously Deputy General Manager, Pudong Rural Credit Cooperatives Union.

Zhang Zuyu, Male, 51, is General Manager, Zhang Yan Sub-branch, SRCB. He was formerly General Manager Zhang Yan Credit Cooperatives.

Liu Hongzhong, Male, 43, graduated from Fudan University with a PhD, major in Finance. Mr.Liu is Director and Professor of International Finance Faculty and Deputy Director of International Finance Research Centre of Fudan University. He was formerly Associate Professor and Deputy Head of International Finance College of Fudan University.

Directors, Supervisors, Senior Management and Staff

6.1.4.3 Senior management

Ye Guorong, Male, 51, graduated from Shanghai University of Finance and Economics with a diploma major in Finance. Previous positions held with Bank of Shanghai include General Manager, Huanlong Sub-branch, General Manager, Zha Bei Regional Branch and General Manager, Accounting & Settlement Dept.

Qiao Zhongxing, Male, 51, graduated from Shanghai Normal University with a Bachelor's Degree in Chinese Language and Literature. Mr. Qiao is Assistant President of SRCB and General Manager, Pudong Branch, SRCB. He was formerly Deputy General Manager, Bank of Shanghai, Pudong Branch, Assistant Director, Shanghai Rural Credit Cooperatives Union and General Manager, Pudong Credit Cooperatives Union.

Wu Guohua, Male, 44, graduated from Shanghai University of Finance and Economics with a Master's Degree, major in Monetary and Banking Study. Mr. Wu is Assistant President, SRCB. He was formerly General Manager, Corporate Banking Dept., China Minsheng Banking Corp., Ltd., Shanghai Branch and Assistant Director, Shanghai Rural Credit Cooperatives Union.

Zhao Deyuan Male, 44, graduated from Shanghai University of Finance and Economics with a Master's Degree, major in Fiscal Policy and Treasury. Mr. Zhao is Secretary to SRCB's Board of Directors and Head of Presidents' Office. Previous positions held include Assistant General Manager, ICBC Pudong Branch, Deputy General Manager, ICBC Bund Sub-branch, Deputy General Manager, Finance Department, ICBC Shanghai Branch, Deputy General Manager, No.2 Business Dept., ICBC Shanghai Branch and General Manager ICBC Waigaoqiao Sub-branch.

6.2 Changes in SRCB's Directors, Supervisors and Senior Management during the Reporting Period

On December 26, 2007, the 2nd extraordinary Shareholders' General Meeting of 2007 elected two foreign directors, whose qualifications are subject to the approval of regulatory authority. On February 1, 2007, the 1st employee representatives meeting elected an employee supervisor. There is no change for senior management during the reporting period.

6.3 Workforce

As at the end of the Period, SRCB has 4,196 employees on its register, consisting of 657 management executives, 3,424 business staff and 115 other staff. 101 employees have a Master's Degree or PhD, accounting for 2.41% of total headcounts. 2,711 employees have Bachelor's Degree or Diploma, accounting for 64.61% of total headcounts. 1,384 employees graduated from Technical Secondary School or below, accounting for 32.98% of total headcounts.

Corporate Governance Structure

7.1 Corporate Governance

In 2007, in compliance with Company Law of PRC, the Law of Commercial Banks of PRC, Guidelines for Corporate Governance of Joint-stock Commercial Banks, Guidelines on Performance of Boards of Directors of Share-system Commercial Banks with Due Diligence and relevant regulations, SRCB made great efforts to improve its corporate governance structure, to promote sound governance regulations and to regulate the operation of SRCB appropriately.

The directors fulfilled their duties earnestly and were fully involved in the key decision-making process. The supervisors fulfilled their supervisory duties as required and conducted special inspections throughout the year. The bank's senior management closely studied the new market environment, promoted the decision-making and strategic work, which safeguarded the interests of shareholders, depositors and other related parties, fulfilled the bank's social responsibilities, and assisted in creating social value.

7.1.1 Enhancement of a sound corporate governance system

As its primary focus, corporate governance was formulated and specified in order to standardize the governance behaviour and to safeguard the interests of SRCB and shareholders, and some of SRCB's basic regulations were modified and improved, including the bank's Articles of Association and Rules of Procedure for Shareholders' General Meeting, Performance Appraisal Method for Directors and Supervisors and Election Method of Supervisors.

Secondly, the Company promoted the formulation of regulations and standardization of Special Committee operations, to modify the operational regulations of the Nomination Committee of Board of Supervisors and of the Audit Committee of Board of Supervisors, to formulate the operational regulations for the Operational Risk Management Committee and Credit Risk Management Committee, and to modify the operational regulations for the Asset & Liability Management Committee.

Thirdly, some governance policies were formulated or modified in a timely manner, including formulated regulations for operational risk management and provisional measures for market risk management, and modified the bank's internal control provision and compliance policy.

7.1.2 Shareholders and Shareholders' General Meeting

During the reported Period, SRCB has held three General Meetings of Shareholders according to the requirements stated by the Articles of Association and Rules of Procedure for Shareholders' General Meeting. All the meetings have acted in full accordance with relevant regulations. Shareholders' right to access information, to participate and to vote were respected. A legal opinion was issued by Jun He Law Firm.

7.1.3 Shareholders and the Company

The Shareholding structure of the Company complied with relevant banking regulations and rules. The top five shareholders did not bypass the Shareholders' General Meeting to intervene with the Company's operation and decision-making, directly or indirectly. The Company was completely independent from the top five shareholders in terms of personnel, assets, finance, organizational structure and business operation. The Company's Board of Directors, Board of Supervisors and its internal organizations were able to operate independently.

7.1.4 Directors, the Board of Directors and special committees

The Board of Directors currently comprises 17 members, including four executive directors, seven directors from legal-person shareholders, two natural person directors, two employee directors and two independent directors. All board members fulfilled their duties earnestly, and safeguarded the interests of the company and shareholders. In 2007, the Board of Directors held four regular meetings, and one extraordinary meeting, with 50 resolutions involved.

These resolutions related mainly to the bank's capital program, business operation plan, financial budget, shares transfer and issuance, profit distribution, risk exposure, internal control management, auditor's report, technology cooperation, branches/outlets adjustments, disposal of NPL, implementation of regulatory opinions, nomination of foreign directors, major project construction, formulation of regulations, change of registered capital and modification of Articles of Association. The Board of Directors set up five special committees as follows:

Strategy Committee,

Related-Party Transaction Committee,

Risk Management Committee,

Audit Committee, and

Nomination & Remuneration Committee.

In the reporting period, the special committees held 13 meetings, with 45 proposals involved, and fulfilled their required duties properly.

Corporate Governance Structure

7.1.5 Supervisors, the Board of Supervisors and special committees

The Board of Supervisors comprises nine supervisors, including three supervisors from legal-person shareholders, one natural person supervisor, three employee supervisors, and two external supervisors. The supervisors diligently discharged their responsibilities by supervising the Board of Directors and Senior Management, with a particular focus on duty performance and financial monitoring. The Board of Supervisors held four regular meetings and two extraordinary meetings, with 15 proposals involved. These proposals related mainly to supervision evaluation, operating risk examination, auditor's report and formulation of regulation. The Board of Supervisors set up two special committees as follows:

Audit Committee and

Nomination Committee.

The special committees held four meetings, with 7 proposals involved, and fulfilled their supervision functions as required.

7.1.6 Information disclosure and transparency

According to the relevant PBOC regulation, the Company established the "Rules for information Disclosure" and disclosed information accordingly. Secretary of Board of Directors is in charge of news disclosure and the bank's board office is responsible for shareholders' visits and consultancy.

7.2 Summary of Attendance of Independent Directors at Board Meetings

Name	Number of Board Meeting	Number of Attendance	Deputed Attendance	Absence
Wu Xing	5	5	-	-
Yan Qifen	5	5	-	-

7.3 Relation with the Holding Shareholder

There are no controlling major shareholders. The Company is completely independent from major shareholders in terms of business operation, personnel, assets, organizations and finance. The Board of Directors, the Board of Supervisors and the various internal departments with integrated business system and independent management mechanism, all operated independently.

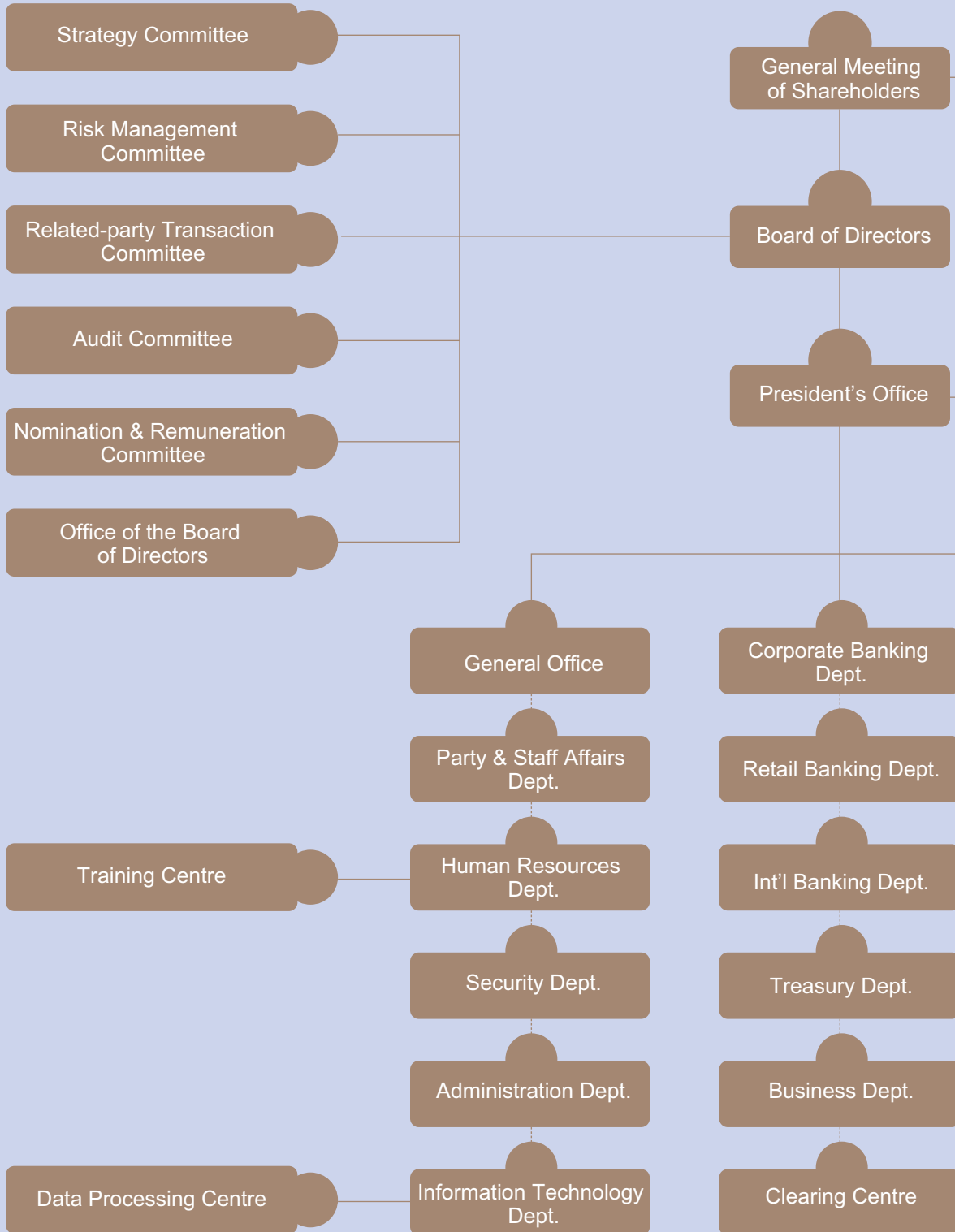
7.4 The Company's Management and Decision-making Process

Shareholders' General Meeting is the highest authority, which authorizes the Board of Directors to execute the functions of decision-making and management, and the Board of Supervisors to perform the function of supervision of the Company. The President, who is appointed by the Board of Directors, has overall responsibility for day to day management and operation of the Company. The Company operates under a single legal entity structure with a centralized accounting system, a tiered management model and a delegation of discretion policy. None of the branches are independent entities in an accounting sense. They operate under the discretion delegated by, and report through to, the head office.

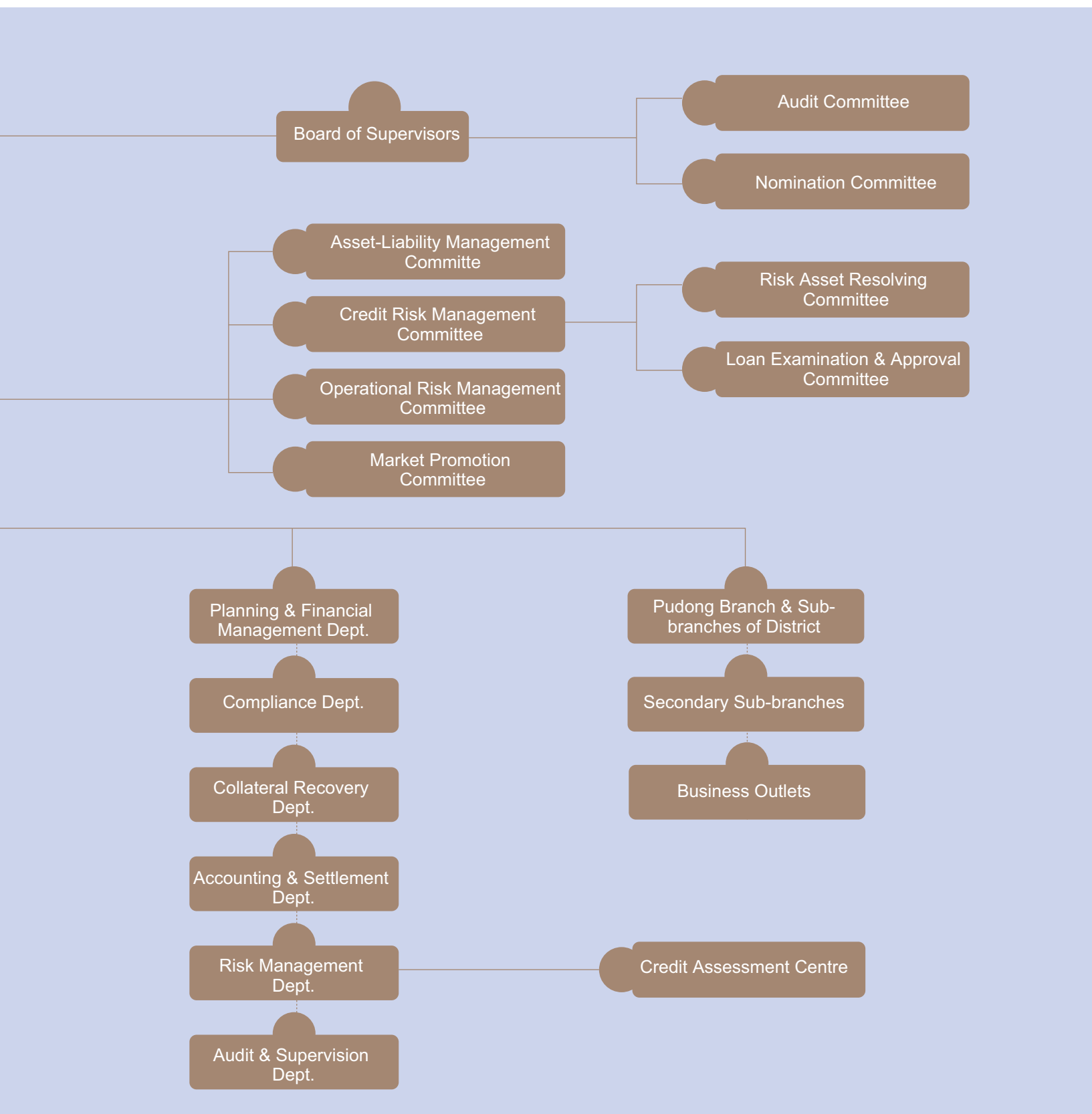
The Company's senior management established policy of collective decision-making system on major issues, and set up 4 special committees, namely, Asset-Liability Committee, Market Promotion Committee, Credit Risk Management Committee and Operational Risk Management Committee.

Corporate Governance Structure

7.5 Organizational Chart



Corporate Governance Structure



Shareholders' General Meeting

8.1 General Meeting of Shareholders

- a. On April 26, 2007, the Company held the 2006 Annual Shareholders' General Meeting, and 69 shareholders and the representatives, representing 2,054.01 million shares, accounting for 68.4602% of the bank's total share capital, attended the meeting. The following proposals were considered and approved on the meeting:

Proposal on 2006 Report of the Board of Directors of SRCB

Proposal on 2006 Report of the Board of Supervisors of SRCB

Proposal on 2006 Financial Results and 2007 Financial Budget of SRCB

Proposal on 2006 Profit Distribution Plan of SRCB

Proposal on Directors Performance Appraisal Method of SRCB

The meeting's agenda items also included hearing

2006 Annual Auditor's Report of SRCB

Report on Implementing Regulatory Opinions issued by China Banking Regulatory Commission, Shanghai Office

2006 Report of Related Party Transactions of SRCB

- b. On October 15th, 2007, the Company held 1st Extraordinary Shareholders' General Meeting. 49 shareholders and representatives attended the meeting, representing 2,002.071 million shares, accounting for 53.45% of total share capital, attended the meeting. The meeting reviewed and approved the proposal to Increase Registered Capital of SRCB and the proposal on Modifying the Articles of Association of SRCB.
- c. On December 26th, 2007, the Company held 2nd Extraordinary Shareholders' General Meeting. 45 shareholders and representatives attended the meeting, representing 2,746.67047 million shares, accounting for 73.3289% of total share capital. The meeting reviewed and approved the proposal on electing Mr. Robert John Edgar as Director of SRCB, the proposal on Electing Mr. Alexander Vincent Thursby as Director of SRCB and the proposal on Modifying Rules of Procedure for Shareholders' General Meeting of SRCB.

8.2 Election and Changes of Directors and Supervisors

On December 26th, 2007, the 2nd Extraordinary Shareholder's General Meeting of SRCB elected Mr. Robert John Edgar and Mr. Alexander Vincent Thursby as Directors.

On February 1st, 2007, the 1st employee representatives meeting of SRCB elected Mr. Feng Baolong as employee supervisor.

Report of the Board of Directors

9.1 Analysis of the Overall Performance During the Reported Period

9.1.1 Operating income, operating profit, net profit, cash and cash equivalents

Unit: thousand RMB

Items	Reported Period	Last period	Variance
Operating income	6,733,177	5,304,547	26.93%
Operating profit	675,849	347,265	94.62%
Net profit	372,157	357,591	4.07%
Increase in cash and equivalents	5,061,146	-1,211,925	-

Key reasons for change

- (1) Increase in operating income is mainly due to the increase in the scale of the business and return on lending assets.
- (2) Increase in operating profit is mainly due to the increase in the scale of business and the increase in operating income.
- (3) Decrease in net profit is mainly due to the substantial increase in income tax.
- (4) Decrease in cash and cash equivalents are due to the frequent raise in deposit reserve ratio by central bank to absorb banks' excess liquidity.

9.1.2 Comparison of total assets, shareholders' equity as at the end of the Period to that as at the beginning of the Period

Unit: thousand RMB

Items	Reported Period	Last Period	Variance
Total assets	157,472,752	136,108,749	15.70%
Shareholders' equity	8,626,538	6,446,112	33.83%

Key reasons for change

- (1) Increase in total assets is mainly due to the increase in the balance of loans, and capital injunction by the strategic investor.
- (2) Increase in shareholders equity is mainly due to the capital injunction by the strategic investor, and retained profit and increase in net profit of the period.

9.2 Overview of the Company's Performance

9.2.1 Scope of business and performance

9.2.1.1 Scope of business

The Company's scope of business approved by PBoC and CBRC include general deposits, short-term, medium-term and long-term loans, domestic and international settlement, draft acceptance and discount, distributing, purchasing and underwriting government bonds, trading government bonds and bank notes, inter-banking financing, cards business, foreign currency deposits, foreign currency loans, foreign currency remittance, international payments, inter-bank foreign currency financing, credit investigation, consultancy and verification service, collection and agent payment service and insurance distribution, safe box service and other businesses approved by CBRC.

9.2.1.2 An overview of the Company's business operation

Key Indicators

In the reporting period, SRCB fostered the scientific outlook on development and carried it out conscientiously as a whole. SRCB insisted on the operating guidelines of "complying with the laws and regulations, operating steadily, aiming for a long-term development, striving to be innovative and cultivating unique features", and ensured that the bank met its mandate to serve agriculture, countryside and farmers and the wider suburban economy. Both business development and risk prevention aims were emphasized. The financial conditions and operation results are summarized as follows:

---By Dec 31st, 2007, the Company's total assets increased by RMB 21.364 billion, or 15.70%, to 157.473 billion.

---Total balance of deposits increased by RMB 12.408 billion, or 10.7%, to RMB 128.317 billion.

---Total outstanding balance of loans increased by RMB 8.988 billion, or 12.19%, to RMB 82.714 billion.

---By the end of reporting year, the Company's non-performing loans (including Sub-standard, Doubtful and Loss) as defined by the five-category loan classification system stood at RMB 1.935 billion, being a decrease of RMB 0.21 billion, or 9.79%. The NPL ratio has thus decreased by 0.57 percentage points as opposed to that of previous year to 2.34%.

---In accordance with China Banking Regulatory Commission, the Company's net core capital and net capital were reported as RMB 8.048 billion and RMB 7.636 billion respectively. Core capital adequacy ratio and capital adequacy ratio were presented at 9.65% and 9.16%, an increase of 2.04 percentage points and 1.84 percentage points versus the prior year.

Report of the Board of Directors

---The profit before taxation increased by 0.287 billion, or 66.13%, to RMB0.721 billion. The net profit realized increased by 0.014 billion, or 4.07%, to RMB0.372 billion.

Development of Corporate Banking

In response to the pressures arising in 2007 from deposits being diverted away to the equity market, SRCB strengthened its marketing efforts to key customers, and focused heavily on its marketing capabilities. The financing business for small enterprises developed rapidly in the reporting period. By the end of the year, the balance of loans to small enterprises backed by property stood at RMB 13.818 billion, which increased by RMB 8.447 billion, or 157.3%. SRCB strengthened the large loans management, and accelerated the establishment of business platform and the development of new products, with the corporate banking service and Bank-Tax Link service being brought successfully into operation. Revolving loans, domestic factoring service, syndicated loan, forfeiting business, bill pledge, receivable accounts pledge, One-ticket for manufacturer, and overdraft facilities on corporate accounts were all developed and offered to customers. SRCB worked hard to complete guarantee mechanism, perfect the functions of the financial products, and expand the promotion of financial products, so as to provide greater support to farmers and to strengthen the bank's brand and image as a key supporter of agriculture finance requirements in its markets.

Development of Personal Banking

Due to the growth in the equity market, the pace of the individual deposit growth slowed in the reporting year. Savings deposits stood at RMB 56.6 billion, down by RMB 0.49 billion. The Personal assets business developed well with the volume of personal loans increasing by RMB 2.38 billion to RMB 11.8 billion. The circulation of the bank's Ru Yi Card increased by 0.49 million, or 20.1% to 2.92 million. 26 new ATMs, taking the total to 367, were installed, and average transaction per machine makes SRCB the market leader in Shanghai.

1,107 POS machines were installed, an increase of 59.1%, giving a total number of 2,981. SRCB made a breakthrough in outlets construction. A new-style financial service outlet, named Financial Convenience Store (kiosk), opened in the reporting year. SRCB improved the functional service of its customer service centre, such as adding value to a mobile phone via the Ru Yi Card, prompt and efficient information enquiry, and payment of electricity expenses.

Development of Treasure Business

The volume of transactions reached RMB2.5 trillion and the accumulated underwriting of bonds amounted to 100.6 billion in the reporting year. SRCB strengthened its investment portfolio management capability and investment yield on treasury assets has improved continuously. SRCB set up risk measurement models, and modified the structure of its bond investment portfolio accordingly so as to ensure appropriate risk parameters for its bond assets. By the end of the reporting year, bonds issued by central government, central bank and policy banks accounted for over 80% of the total portfolio, and the duration of the bonds decreased by 1.01 years in comparison with the same period of last year. This has lowered the relative risk significantly.

Risk Management

SRCB strengthened the supervision over the loans of certain industries, such as real estate, and focused on speedy development of small enterprise loans business and individual mortgage loans. SRCB also accelerated the building of a centralized review management system for large loans and a quarterly risk evaluation & review process, together with a risk pre-warning system. SRCB achieved an initial milestone with the development of a centralized communication and unified credit management system for loans granted to collective enterprises of countryside, launched the 2nd stage development of the CMIS system based on the review of the credit approval process. SRCB also regulated the credit risk management of the treasury business and carried out detailed risk classification for non-credit assets quarterly.

Internal Control

SRCB modified, in accordance with supervision guidelines of regulatory authority, its regulations of internal control, further defined the responsibilities of various entities in internal control, and detailed the process of internal control. The bank related the effectiveness of internal control to operational performance assessment by developing an internal control assessment, establishing an internal control warning & punishment mechanism in sub-branches and evaluating internal controls. The bank improved internal controls by perfecting systems, strengthening responsibility investigation mechanism, case study and the activity of Learning Regulations, Finding Leaks and Promoting Internal Control. Inspections were emphasized. Special audits over the bill discounting, personal loans, mortgage debt disposal and fraud capital verification were conducted. Investigations on the special central bank bills placement with the NPL's, inspection and risk evaluation of fee-based business, treasury business, information technology and compliance management were conducted.

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Compliance

Firstly, SRCB further strengthened its system construction by formulating and modifying compliance policies, regulations, executive permissions and discretions etc. Secondly, based on process reviews, SRCB established compliance risk evaluation framework and indicator monitoring system, and improved its risk identification capability and measurement processes step by step. Thirdly, SRCB perfected the bank's authorization administration processes. Based on the strengthening of the statutory representative authorization, SRCB established a sub-authorization system and conducted dynamic management and supervision of this process. Fourthly, SRCB further strengthened the employees' compliance recognition and cultivated a compliance atmosphere via compliance lecturing and training, as well as printing compliance briefing, compliance suggestion and compliance risk notification periodically.

IT Developments

In the reporting year, SRCB launched a three-year IT plan, covering IT governance, technology structure, new generation of core business system, database, MIS, channel construction, commercial intelligence system, information security, project management, credit cards system, financial convenience store, rural credit banking system, remittance system, internet settlement of Union Pay, wealth management platform, hoping to provide more products and more convenient services. Developments of a credit administration system (phase 2), finance administration system, OA system, human resource system etc will further improve the bank's operational management and risk control levels. SRCB also strengthened the regulation and standardization of its information system. The bank's IT systems stayed safe and stable, a detailed disaster backup plan simulation was carried out for the whole bank and the overall capacity of the IT system was improved.

Intermediary Business

SRCB's intermediary business increased significantly. Gross commission and fee income for the whole year amounted to RMB 126.76 million, an increase of 43%. This was made up of settlement commission fees (RMB 45.11 million, up 33%), consignment commission fees (RMB 81.53 million - up 48%), and factoring commission fees (RMB 0.12 million). Net income from intermediary business in 2007 amounted to 71.66 million, an increase of 76% from prior year.

Corporate Culture

SRCB continued to foster a corporate culture of humanity and harmony, and insisted on the operation guidelines of complying with laws and regulations, operating steadily, aiming for long-term development, striving to be innovative and cultivating unique characteristics. SRCB carried out an extensive range of activities designed to enhance corporate culture and to further inspire spirit, condense the will of employees, improve the quality of employees and establish good corporate image. In 2007, a series of large modern and meaningful activities, such as 1st Culture & Art Festival, Employee Skill Competition were carried out. Additionally, SRCB also took part in the social activities, representing the brave and confident spirit, which has attracted the focus of public attention.

Corporate Honours and Awards

In 2007, according to the "Top 1000 World Banks" released by the Banker magazine, in terms of tier one capital, SRCB ranked 477th, and ranked 16th among the 31 Chinese banks listed in the Top 500 world banks. In May, 2007, SRCB was awarded the Outstanding Bank for Small Enterprise service, and the bank's property backed loan and revolving loan for small enterprise special were awarded the Elite Brand for Small Enterprise Financing at the 2nd Shanghai Small Enterprise Financial Business Meeting. SRCB was awarded the 2007 China Growing Financial Institution and the 2007 China Most Worthy for Investment Bank at the 4th China International Finance Forum. In 2007, SRCB was also awarded a Special Contribution Prize by Shanghai 6th Farmers' Sports Meeting. Besides, SRCB was awarded 2007 Excellent Book-entry Treasure Bonds Underwriter by Ministry of Finance, Excellent Trader by National Inter-bank Funding Centre, 2007 Excellent Chinese Bonds Assessor by China Government Securities Depository Trust & Clearing Co., Ltd, 2007 Shanghai Commercial Bank Excellent Supervision Spot by CBRC, Shanghai Office.

9.2.1.3 Principal income indicators

	Unit: thousand RMB
Business type	Income
Loans	4,774,252
Interbank lending and borrowing	880,747
Income from investment	940,936
Other operating incomes	137,241
Total	6,733,176

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9.2.1.4 Market share of major product or service

Deposit balances reached RMB 128.3 billion at the end of 2007, 4.75% of Shanghai market share, ranking 8th among all the commercial banks in Shanghai. Loan balances stood at RMB 82.7 billion, 4.98% of Shanghai market share ranking the 8th among commercial banks in Shanghai. Personal loans reached RMB 8.6 billion, 2.8% of market share, ranking the 11th among commercial banks in Shanghai. SRCB's personal loan grew by RMB 1.431 billion, ranking the 8th among commercial banks in Shanghai in terms of increment.

In the 2007 Debt Underwriters List published by the Ministry of Finance and policy banks, the Company ranked the 17th in terms of treasury bonds underwritten, 7th in terms of CDB debt underwritten, and the 13th in terms of the volume of bond trading and repo-trading on the inter-bank bond market, which was RMB 23.7 trillion. It ranked top five in bill re-discount business in Shanghai, which was RMB 35.038 billion.

9.2.1.5 Top 5 industry exposures

No.	Industry	Year-end balance RMB thousand	Percentage (%)
1	Manufacturing	21,015,400	25.41
2	Real estate	15,779,540	19.08
3	Leasing and commercial services	9,613,740	11.62
4	Wholesale and retail	5,721,020	6.92
5	Construction	4,203,330	5.08

Note: Total loan balance is about RMB 82,713,860,000.

9.2.1.6 Major off-balance sheet items and risk management status

Unit: thousand RMB

Item	Balance in the end of 2007	Balance in the end of 2006	Balance in the end of 2005
Interest receivable	544,252	492,190	457,936
Guarantee issued	84,860	165,038	39,776

The Company has a strict policy pursuing recovery even after write-off. Management rules stipulating the process and timeline of the disposing of foreclosed assets have been established, aiming to maximize recovery. Management rules and processes on the issuance of guarantees, bank accepted drafts, letter of credit and other instruments incurring contingent liabilities have been established.

9.2.2 Major equity investments

Unit: thousand RMB

Company name	Term of Investment	Shareholding percentage	Amount of Investment as at the end of Period
China Union Pay	Open	0.18%	3,000
Rural Credit Bank Funds Clearing Centre	Open	6%	6,000

9.2.3 Challenges and strategies

During the Period, some new changes happened in the external economic and financial environments, the government continued to implement substantial macro-control policies. The goals of industrial structure adjustment in Shanghai have been decided. With the incredible development of China's capital market, the Company had to face some ongoing problems in its internal management structure, which might be unfit in some areas, such as product function, profit models, business structure, and market layout and business accession. Therefore, SRCB stipulated a strategy of "business transformation". In dealing with various relations, SRCB further promoted business structural adjustment actively pushed the internal reform and development, so that its percentage in retail and intermediary businesses and the outlets network have been optimized.

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9.3 Summary of Bank Business Data

9.3.1 Branches

No.	Name	Address	Number of Outlets
1	HQ Branch	728 Yan'an Rd (W)	1
2	Pudong Branch	1500 Century Avenue Pudong New Area	47
3	Minhang Sub-branch	61 Xinjian Rd, Xinzhuang Town, Minhang District	26
4	Jiading Sub-branch	386 Tacheng Rd, Jiading District	24
5	Baoshan Sub-branch	1198 Mudanjiang Rd, Baoshan District	23
6	Nanhui Sub-branch	5 Shaonian Rd, Huinan Town, Nanhui District	29
7	Fengxian Sub-branch	9780 Nanfeng Highway, Nanqiao Town, Fengxian District	25
8	Songjiang Sub-branch	405 North Renmin Rd, Songjiang District	27
9	Jinshan Sub-branch	505 Weiqing Rd (W), Jinshan District	24
10	Qingpu Sub-branch	399 Gongyuan Rd, Qingpu District	26
11	Chongming Sub-branch	188 Beimen Rd, Chengqiao Town, Chongming District	33
12	Xuhui Sub-branch	No.3-7, Lane No. 9 Zhaojiabang Rd	11
13	Putuo Sub-branch	599 Xincun Road, Putuo District	12
14	Wujiaochang Sub-branch	2721 Songhuajiang Rd, Hongkou District	13
15	Changning Sub-branch	No.8 Lane No. 555 Gubei Rd	5
16	Huangpu Sub-branch	1st Floor, 500 Guangdong Rd	1

9.3.2 Five-category classification of credit assets

Type	Beginning of the year		End of the year	
	Amount	Percentage	Amount	Percentage
Pass	55,219,380	74.90%	68,235,730	82.50%
Special-mention	16,362,090	22.19%	12,543,420	15.16%
Sub-standard	1,448,070	1.96%	1,314,290	1.59%
Doubtful	688,240	0.93%	558,390	0.68%
Loss	870	0.01%	62,030	0.07%
Total	73,726,480	100%	82,713,860	100%

Unit: RMB thousand

9.3.3 Provisions

Loan loss provisions have been accrued in accordance with PBOC's "Notice of Publishing The Guidelines on Loan Loss Provisioning", MOF's "Notice Publishing the Management Rules on Loan Loss Provisions of Financial Institutions" and MOF's "Notice of the Issues on Loan Loss Provision". Details of the Company's provisions are as follows:

(1) Credit assets provisions include short-term loans, medium to long-term loans, overdue loans, doubtful loans, bad loans, discounted notes and discounted import and export drafts.

(2) Percentage of provision to credit assets: 2% for Special-mentioned Loans, 25% for Sub-standard Loans, 50% for Doubtful Loans and 100% for Loss Loans.

(3) As at 31 December 2007, the balance of total provisions was RMB 4,022 million (including general provision of RMB2,623 million and special provisions appeared as a deduction of credit assets on balance sheet of RMB1,398 million).

9.3.4 Top 10 loan customers and their percentage of total loans

Customer Name	Unit: thousand RMB	
	Loan Balance (RMB 10 thousand)	Total Loan (%)
Shanghai Lingang Economic Development (Group) Co.,Ltd	60,000	0.73
Shanghai Fengxian Land Storing Centre	50,000	0.60
Shanghai Industrial Investment Holdings Co., Ltd	50,000	0.60
Shanghai Yangpu City Construction Investment Co., Ltd	50,000	0.60
Shanghai Jingan Land Development Holding (Group) Co.,Ltd	45,000	0.54
Shanghai Zhangjiang (Group) Co., Ltd	45,000	0.54
Shanghai Jinshan Land Storing Centre	40,000	0.48
Shanghai Chongming Land Development Co., Ltd	40,000	0.48
Shanghai Nanhui City Construction Investment Co., Ltd	39,800	0.48
Shanghai Chemical Industrial Development Co., Ltd	37,700	0.46
Total	457,500	5.53

Note: Total loans stood at RMB 82,713,860,000

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9.3.5 Credit management of group customers

To comply with CBRC's "Guidelines on Credit Risk Management of Group Customers of Commercial Banks" and relevant principles of CBRC Shanghai Office instructions relating to group customer credit, the Company established the "Management Rules and Detailed Implementation Rules on Single Credit Point for Group Customers", which defines a single credit point, regulates the risk control and security structure of existing credit exposures to group customers and the grouping of various loans. A credit information database on private-owned related customers has also been established to assist on-going monitoring of credit risk movement of group customers. In the meantime, the group customer identification function of Credit MIS combined with manual judgement has enabled effective understanding of risk information in order to respond in a timely manner. At the end of the Period, balance of loans to private-owned group customers stood at RMB 4.8 billion, accounting for 5.86% of total loans.

9.3.6 Subsidized loans accounting for over 20% of total loans as at the end of year

Such situation never occurred during the Period.

9.3.7 Restructured and overdue loans

Balance of restructured loans was RMB 11.88 million as at the end of the Period, including RMB 2.5 million restructured loans overdue for more than 90 days.

9.3.8 Large government bonds held as at the end of the Period

Type of Treasury Bonds	Face Value (10 thousand)	Maturity	Coupon Rate (%)
2001 Book - entry T - Bond	44,000	2008.06-2021.10	2.9-3.85
2002 Book - entry T - Bond	110,000	2009.06-2012.07	2.0-2.93
2003 Book - entry T - Bond	154,000	2010.02-2018.10	2.66-4.18
2004 Book - entry T - Bond	30,000	2009.04-2011.08	4.42-4.89
2005 Book - entry T - Bond	165,000	2008.08-2010.04	1.93-3.3
2006 Book - entry T - Bond	288,000	2009.04-2016.03	2.12-2.89
2007 Book - entry T - Bond	458,000	2010.07-2014.11	2.77-4.35
2006 certificate T - Bond	1,826	2009.11-2011.11	3.39-3.81
2007 certificate T - Bond	20,743	2010.03-2012.09	3.6-5.74
Total	1,271,568		

9.3.9 Non-performing loans as at the end of the year and actions taken

At the end of 2007, total loans were RMB 82.714 billion.

Based on Five-category loan classification, pass loans was RMB 68.236 billion, accounting for 82.50% of total loans. Special-mentioned loans were RMB 12.543 billion, accounting for 15.16%. Loans under the other three categories were RMB 1.935 billion, or 2.34% of the total loans, representing RMB 210 million or 57 points reduction from previous year. Sub-standard loans decreased by RMB 104 million. Doubtful loans decreased by RMB 129 million and loss loans increased by RMB 53 million.

As at the end of 2007, foreclosed assets across the Bank is RMB 809.51 million in total, representing a RMB 105.86 million decrease from the previous year.

RMB 30.2176 million NPL was written off during the year of 2007.

The following actions have been taken to tackle the NPL problem and reduce NPLs:

Firstly, to improve the quality of new loans by centralizing credit approval at head office, adjusting loan portfolio and term structure, and improving the security of loan fund;

Secondly, to screen all the NPLs on a case-by-case basis and develop recovery plans accordingly, to speed up the recovery of non-performing assets by loan restructuring and judicial proceedings. Proceed with legal action on overdue and deteriorating loans in a timely manner.

Thirdly, to improve the management of legal work. Internal discretion of approving litigation action was defined. Legal resource allocation was rationalized. Agents were engaged to resolve historical and difficult cases.

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9.3.10 No overdue payments have occurred during the Period of the Report.

9.3.11 Risks and countermeasures

SRCB mainly faced the following risks: credit risk, liquidity risk, market risk, operational risk and compliance risk.

Credit Risk

Firstly, SRCB paid close attention to the macro economy and studied the influence of macro economic policy concerning currency, exchange rates, land, property market, stock market on the credit loans and business developments, to ensure the security of credit loans. SRCB strictly controlled the admittance of project loans and no loans will be granted to the project of “two high one low”, namely high energy consumption, high pollution and low efficiency. Attention was also paid to the influence of appreciation of RMB on customer's product competition capability and the profitability of export-oriented enterprises. For loans backed by property, the 1st repayment source and the future cash inflow was emphasized. SRCB ensured the validity of mortgage, monitored the risk arising from the disposal of over valued guarantee, controlled the proportion of medium & long-term loans and took efforts to ensure that the trends in this regard remained consistent with the banks risk appetite.

Secondly, SRCB deepened its system development of credit loan administration, and improved its risk management capability. SRCB, taking advantage of the 2nd phase development of its CMIS system, optimized the management structure for credit management, mechanism, business procedures, customer grading, loans classification, and restructured the customer credit grading according to the underlying industries, thus enhancing efforts to provide automated methods to evaluate the Probability of Default and Loss Given Default. SRCB also established annual credit inspections and unified credit management for large customers and groups, and prevented excessive credit extension. SRCB set up a pre-warning risk grade system, which was confirmed with reference to the nature of the risk and its degree. The responsibility of various management levels was defined and timely forecast, scientific precaution and appropriate measures were ensured.

Thirdly, SRCB continued to perfect the loans guiding policy and risk assets weighting policy, and established clear business development and road map according to the requirements of retail bank construction and business transformation.

Liquidity Risk

SRCB paid close attention to the accumulated influence of the increased statutory deposit reserve ratio, and paid close attention to the influence on deposits from developments in the capital market and subsequent diversification of individual's investments. Management of assets and liabilities gap profile was strengthened with measures taken to minimise impacts on SRCB's business.

Market Risk

SRCB implemented the market risk administration system, technology and instruments, and improved the capability of risk identification, evaluation and precaution of market risk. SRCB paid close attention to the influence on short-term financing business by the securitisation of commercial drafts discounting rates and strengthened its focus on loans pricing mechanism.

Operational Risk

SRCB established a statistic system of operational risk, detailed statistical factors, set up an operational risk database, and ensured regular analyse. SRCB also linked its operational risk database to its audit database to help perfect the mechanism of risk monitoring, precaution and evaluation, and compiled, based on reviews of business procedures, key points of risk management for business with deemed higher operational risks, so as to strengthen management in those areas.

Compliance Risk

Firstly, SRCB strengthened the compliance team, and improved the specialization and capability of the compliance personnel in the district and county-level branches. SRCB also compiled instruction manuals for compliance personnel, perfected the operational procedure and performance standards, held regular compliance meetings, and improved its compliance risk analysis reporting mechanism. Secondly, SRCB, based on its GRC process management system, improved its compliance risk supervision indicator system and has been establishing a compliance risk administration model and database, so as to improve the compliance risk management and thus detect and correct any observed behaviour at variance with compliance. Thirdly, SRCB traced the latest development of applicable laws, rules and regulations, and duly reported the compliance risk notification to business departments via compliance briefings and the GRC process management system. SRCB also established a product development and business management process, in which compliance played a key role, of new products and business, so as to ensure provision of compliance support to business operations. Fourthly, SRCB improved its legal affairs administration, and strengthened legal review and guidance of perceived weak procedures.

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9.4 Financial Position

9.4.1 Major financial index variance

Item	31 Dec 2007	31 Dec 2006	Variation	Key Reason
Total assets	157,472,752	136,108,749	15.70%	Increase in business scale
Long term equity investment	828,045	473,779	74.77%	Increase in equity investment
Long term bond investment	29,618,420	25,580,690	15.78%	Increase in long-term bond holdings
Fixed assets	1,391,356	1,319,144	5.47%	Increase in investment of fixed assets
Total liabilities	148,846,214	129,662,638	14.79%	Increase in deposit
Long term liabilities	15,945,072	18,891,110	-15.59%	Decrease in long term savings deposit
Shareholders Equity	8,626,538	6,446,112	33.83%	Introducing strategic investor and net profit available in the current year
Principal operating profit	675,849	347,265	94.62%	Increases in business scale and interest margin
Investment income	940,936	738,952	27.33%	Increase in market yield
Net profit	372,157	357,591	4.07%	Increases in business scale and interest margin

9.5 The company has incurred no major loss due to joint liabilities incurred by issuing guarantees to external parties

9.6 Changes of Operating Environment, Macro Economic Policy and Impacts

With the rapid growth in the National Economy, GDP and CPI in 2007, the government formulated a comprehensive range of policies to prevent the economy from overheating. PBoC increased deposit reserve ratios 10 times by a cumulative 6.5%, and also adjusted the benchmark interest rates of RMB deposits and loans for six times. Both quantitative and price-type approaches were frequently used.

Observing the government's macro-economic policy and PBoC's credit guidelines to its actual credit lending strategy, the Company in 2007 enhanced its control on credit growth thus slowing rapid loan expansion and adjusting the loan portfolio. The scale of lending was well controlled during the whole year.

In accordance with the latest benchmark interest rates policy of deposit and loan issued by the People's Bank of China, SRCB adjusted the published deposit and loan interest rates and internal interest rate pricing policy accordingly. The central bank's increases in deposit and loan benchmark interest rates positively influenced SRCB

by improving loan yields and interest payments on deposit, with the former increasing faster than the latter.

In 2007, PBoC raised the deposit reserve ratio by a total of 6.5 percent, and as a result SRCB placed liquidity reserves amounting to RMB 7.5 billion with PBoC. Within this context, SRCB continuously strengthened its liquidity management and liquidity risk management mechanisms in order to ensure appropriate implementation of commercial liquidity management policies set forth by PBoC.

9.7 Business Development Plan for the Forthcoming Year

9.7.1 Guideline for development of the forthcoming Year

In the new year, SRCB will have a clear and open mind towards grasping opportunities and making bold innovations. Generally, SRCB will insist on a scientific approach to the development of its business look to continue its business transformation agenda, speed up time to market and further solidify the management base and strengthen risk controls, as it maintains its efforts to achieve its planned transformation into a retail and SME bank and build the solid foundation for sustained development of SRCB.

9.7.2 Operating targets

Operating profit shall reach RMB1.75 billion after RMB1.2 billion provision

By Five-category loan classification, Non-Performing Loans (in the last three categories) are not to exceed RMB2.15 billion. NPL ratio is within 3%.

Daily average balance of deposits is not less than RMB130 billion. Balance as at the end of the period is not less than RMB140 billion, of which personal savings reach RMB 60 billion.

Capital adequacy ratio is not less than 8.3%.

9.7.3 Major development measures for 2008

Corporate Banking

SRCB will strengthen management of loans to corporations, strictly control the volume and pace of new loans, and optimize its credit resources by supporting only high quality projects based on their total return rate. Marketing aimed at advanced manufacturers, urban industries capable of independent innovation, energy saving industries and modern service industries such as trading, logistics and exhibition industry will be strengthened and the loans to projects featuring low production capability, high energy consumption and high pollution will be reduced. SRCB will speed up the development of new products and new business, and work up a range of superior products

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and services including mortgage loan secured by real property, trade finance products based on corporate good credit standing, and an integrated service supported by financial management. SRCB also strives to provide great support to the farmers operating in its natural Shanghai suburban market.

Personal Banking

SRCB will emphasize the risk control of its personal loans business, implement control policies, and adopt a strategy aimed at steady development. SRCB, by adopting cross-sell and diversified marketing strategy, will also strive to expand and stabilize its source of deposit savings, and to speed up development of personal wealth management products and fund distribution. SRCB will continue to enhance its ATM proposition and further develop its financial convenience store (kiosk) model. SRCB will also launch its personal internet banking offering, increase the functions offered by its customer service centre and improve service quality and efficiency, so as to enhance its reputation in respect to personal banking.

International Business

SRCB will actively look to develop its foreign exchange business based around its trade finance offering. Pursuant to its strategy of a flat organisational structure, SRCB will launch reform on the trade finance structure, management process and business teams to significantly accelerate the development of its trade business. SRCB will make full use of its regional positioning advantage and its significant SME RMB business relationships to find and develop those customers requiring international banking products and services, so as to boost fee-based revenues.

Treasury Business

2008 will still see great uncertainty and much tighter monetary policies instituted by the authorities leading to SRCB implementing steady treasury business strategies and strengthening its treasury operation management in order to improve the risk profile of its treasury business. In terms of its bond investments, SRCB will divide the portfolio into four categories in accordance with the new accounting regulations and optimize the products and term structures of its bond portfolio in order to improve the rate of return whilst tightly controlling risk. SRCB will continue to improve and strengthen its traditional treasury business, meanwhile will further the development of new products and widen the scope of its trading options thus we can meet the objectives of growing the treasury business significantly whilst maintaining tight focus on risk objectives.

Intermediate Business

SRCB will further develop its fee-based and intermediate businesses. Combining the company's actual status with customers' requirements, SRCB will both improve its traditional business offering whilst exploring new high-value-added products, such as consignment business, information consultation, credit cards, guarantee business,

e-banking business, and other businesses. SRCB will evaluate and prevent risk arising from fee-based business effectively thus ensuring this business is developed in a risk conscious manner.

Risk Management

Taking advantage of the implementation of its CMIS II system, SRCB will further perfect and improve the credit management structure, loan management mechanism, business process and customer evaluation and loan classification structure. SRCB will also rebuild the credit risk evaluation system according to customers' industry classification, establish risk pre-warning grading system, study the influence of macro-control policies on the company's credit and business development and control project loans admittance strictly. SRCB will monitor credit to ensure that money is not used for speculative purposes and will control the proportion of medium & long-term loans ensure that trends in this regard are in accordance with bank strategies and objectives. SRCB will continue to perfect its credit guidance and risk asset weighted policies.

Compliance Management

In 2008, SRCB will continue to take best practice in compliance risk management from international leading banks, further enhance the validity of compliance policies and ensure they are effective long-term mechanisms. Firstly, system restrictions will be enhanced. SRCB will look to have consistency in its compliance management processes and put all businesses within the scope of restriction of systems, compliance rules and process monitoring. Secondly, risk control shall be institutionalised. SRCB need to improve its relationship between the process and business development, so as to perfect its Governance, Risk and Compliance (GRS) process management system, featuring support to farmers. Thirdly, the compliance communication mechanism will be improved via the strengthening of the interaction between compliance management and business development units. Fourthly, compliance culture will be embedded in the organisation and we will make efforts to ensure that there is obvious linkage between compliance development and business value realization. Fifthly, legal processes will be enhanced, so as to treat the relationship between compliance management and legal affairs management appropriately.

Internal Control

SRCB will further optimize the operations of internal control management departments in different levels, and perfect the internal control management network covering various businesses and different levels. SRCB will also formulate the system and procedures that can identify, assess, monitor and control the credit risk, market risk, operational risk and liquidity risk, introduce the quantitative risk assessment model and further perfect the internal control regulation system and business operational procedures by implementing internal control measures in different business fields. In addition, SRCB endeavors constantly to optimize various management information systems to improve the effectiveness of the information exchange and feedback mechanism. Besides, SRCB

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strives to perfect the vertical management for audit staff and to transfer the work focus from compliance audit to risk audit. SRCB will launch the comprehensive assessment over internal control roundly and deeply and continue to carry out the self-check of risk assessment. SRCB will perfect the examination system for internal control indicators, exercise the inspiring function of operation performance assessment over internal control and continue to deepen its campaign of cracking down on banking cases to strictly prevent the occurrence of various law cases and significant risk events.

Technology

In accordance with the three-year IT construction plan, SRCB, viewing from IT governance, strives to implement the major projects and to realize the established goals, and to change SRCB from a bureaucratic bank to a process-oriented bank. Simultaneously, the organization of technology department will be optimized. In accordance with the requirements of regulatory authority and SRCB's own needs, SRCB will improve the level of the internal risk control management, perfect various regulations and perfect database centre management, so as to explore to establish a forward-looking management mechanism. Whiling launching the construction of new generation core business system, the Company will continue the construction of database, and perfecting the construction of the disaster recovery centre, IT governance structure and organization system of technology department. SRCB will also accelerate the construction of various intermediate businesses, wealth management business and managerial projects.

Network

SRCB will continue to consolidate and expand the market share in the suburban, and appropriately adjust the business strategy along with the change of regional economy. Based on the proper calculation of volume, cost and profit, SRCB will advance the branch construction in the central district. SRCB will also strive to find the deficiency of current services and provide banking service at staggered time, promote the construction of new type outlet, namely financial convenience store and uniform the identification of all the branches.

Talent Management

SRCB, inosculating the development strategy of retail bank, will launch a three-year HR plan. SRCB will adopt the employer branding strategy, promote the HR management level, perfect the HR system, so as to create a fine policy environment for the business management. SRCB will adopt a pilot project of human resource management reform, to promote the changes of HR management system, put HR MIS (2nd Course) into operation and improve the management efficiency. SRCB will also explore multi-level incentive mechanism, make tailored plan for individual talent, establish more effective recruitment model to improve the recruitment quality substantially, and launch the competition appointment mechanism and working with eligible certificates to inspire the enthusiasm of

employees. SRCB will also launch the management trainee plan to speed up the maturity of the young employees, and establish rapid response mechanism to improve the problem management capability.

9.8 Routine Work of the Board of Directors

9.8.1 On 25 January 2007, the Company held the 6th session of 1st Board of Directors' meeting, reviewed and approved the following resolutions:

Report on Business Operation for 2006 and Operating Plan & Priorities for 2007 of SRCB

Proposal on Approval of the Share Transfer of Some State-owned Company Shareholders

Proposal on Approval of the Disposal of Aijian Security Company's Non-performing Assets

Proposal on Approval of the Disposal of Huaxin Security Company's Non-performing Assets

Report on Performance Appraisal of Chairman of the Board and Senior Management in 2006

Report on Directors' Duty Performance in 2006

Proposal on Draft of Directors' Performance Appraisal Method of SRCB

9.8.2 On 29 March 2007, the Company held the 7th session of 1st Board of Directors' meeting, reviewed and approved the following resolutions:

Report on the Annual Financial Results for 2006 and Financial Budget of SRCB for 2006

Proposal on Profit Distribution Plan for 2006 of SRCB

Working Report on the Board of Directors for 2006 of SRCB

Proposal on Capital Management Plan for 2007 & Long-term Capital Program Allocation of SRCB

Proposal on Approval of Auditor's Report of SRCB for 2006

Proposal on Approval of 2006 Annual Report of SRCB,

Proposal on Outlets Adjustment Plan of SRCB for 2007

Proposal on Holding the 2006 Shareholders' General Meeting of SRCB

The meeting also debriefed the following topics:

Report on Implementing Opinions Issued by CBRC Shanghai Office

Report on Internal Audit on 2006 Information Technology System Risk Assessment of SRCB

Report of the Board of Directors

Report on Supplementary Explanation to The Auditing Work of 2006 Annual Report of SRCB

Report on Examination Opinion of 2006 Related Party Transactions Management of SRCB

Report on 2006 Risk Management of SRCB

Report on 2006 Internal Control Management of SRCB

Report of 2006 Compliance Risk Management of SRCB

9.8.3 On 8 August 2007, the Company held the 8th session of 1st Board of Directors' meeting reviewed and approved the following resolutions:

Report on Business Operation in the First Half of 2007 and Working Plan & Priorities for the second half of 2007 of SRCB

Proposal on Modifying the Compliance Policies of SRCB

Proposal on Opening Technology Supporting Fund Account in Shanghai Branch of ANZ

Proposal on Provisional Measures of Market Risk Management of SRCB

Proposal on Establishing Operational Risk Management Policy of SRCB

Proposal on Disposal of Treasury Bills of Yinhe Security Company

Proposal on Reappointing Wan Long (Shanghai) Certified Public Accountants Co., Ltd. as the Auditor for the 2007 Financial Statements of SRCB

Proposal on Appointing PWC to Conduct Trail Audit on 2007 Financial Statements of SRCB

The meeting also heard report on Risk Classification for Non-credit Assets, report on External Audit on Information System Risk and report on Opinions of Shanghai Office of CRBC on Follow-up Inspection of Capital Adequacy Ratio and Site Inspection of Corporate Governance.

9.8.4 On 21 September 2007, the 1st extraordinary Board of Directors' meeting was held by means of correspondence, reviewed and approved the proposal on Registered Capital Increase of SRCB, the proposal on Modifying Articles of Association of SRCB, the proposal on Holding the 1st Extraordinary Shareholders' General Meeting of 2007 of SRCB.

9.8.5 On 4 December 2007, the Company held the 9th session of 1st Board of Directors debriefed Report on Business Operation of SRCB from January to September in 2007 and Report on Credit Risk of Credit Assets of SRCB from January to September in 2007. The meeting also reviewed and approved the following proposal:

Proposal on Nominating Mr. Robert John Edgar as Candidate Director of SRCB

Proposal on Nominating Mr. Alexander Vincent Thursby as Candidate Director of SRCB

Proposal on Modifying Rules of Procedure for Shareholders' General Meeting of SRCB

Proposal on Modifying Internal Control Regulations of SRCB

Proposal on Modifying Regulation Administration Method of SRCB

Proposal on Launching New Generation Core Business System Construction of SRCB

Proposal on Purchasing Land in Zhangjiang Bank Cards Zone to Establish Back Counter Centre of SRCB

Proposal on Establishing Cash Management Centre of SRCB

Proposal on Writing off Plan for Non-performing Assets of 2007 of SRCB

Proposal on Consigning ANZ Issuing Stand-by Letter of Credit for the Access to MasterCard International of SRCB

Proposal on Holding 2nd Extraordinary Shareholders' General Meeting in 2007

9.9 Execution of Resolutions of Shareholders' General Meeting by the Board of Directors

According to the resolution approved by the Shareholders' General Meeting, the Board has executed the 2006 profit distribution scheme.

9.10 Preliminary Proposal on Profit Distribution and Transfer of Capital Surplus to Share Capital

The Company plans for profit distribution based on audited financial statements. According to the financial statements verified by an unqualified opinion from Wan Long Certified Public Accountants, Co., Ltd., the Company's 2007 annual profit after taxation is RMB372.157 million. Accumulated undistributed profit from previous year is RMB266.228 million. Total profit available for distribution to shareholders is RMB 638.384 million.

Report of the Board of Directors

The proposed profit distribution in 2007 is as follows:

- (1) Transfer 10% of current year profit after taxation of RMB37.215 million to statutory surplus reserve
- (2) Transfer 10% of total profit available to shareholders of RMB63.838 million to discretionary surplus reserve.
- (3) Make dividend payment of RMB 257.177 million (including tax) at 8% of registered share capital.

After these allocations, surplus undistributed profit will be carried forward to the next year.

The above plan shall be reviewed by the Shareholders' General Meeting and executed upon approval.

10.1 Activities of the Board of Supervisors during the Period of the Report

10.1.1 Meetings held by the Board of Supervisors

- a. On 25 January 2007, the Company held the 6th session of 1st Board of Supervisors' meeting reviewed and approved Working Report on the Board of Supervisors of SRCB for 2006, Report on the Work Plan of the Board of Supervisors of SRCB for 2007.
- b. On 15 March 2007, the Company held the 1st extraordinary Board of Supervisors' meeting, reviewed and approved the Supervision and Evaluation Report on the Work of SRCB for 2006.
- c. On 29 March 2007, the Company held the 7th session of 1st Board of Supervisors' meeting reviewed and approved Working Report on the Board of Supervisors of SRCB for 2006, Proposal on Establishing Supervisors' Performance Appraisal Method of SRCB, Proposal on Amending Working Rules for Nomination Committee of the Board of Supervisors of SRCB, Proposal on Modifying Working Rules of Audit Committee of the Board of Supervisors of SRCB, Proposal on Approval of the 2006 Auditors' Report of SRCB, Proposal on Approval of the 2006 Annual Report of SRCB, and Proposal on Adjusting Members of Audit Committee of the Board of Supervisors.
- d. On 8 August 2007, the Company held the 8th session of 1st Board of Supervisors' meeting, reviewed and approved the Monitoring Report on the Operating and Financial Statements for the First Half of 2007 of SRCB. The meeting also debriefed the Working Report of the Board of Supervisors of SRCB for the first half of 2007, and the Researching Report of the Board of Supervisors of SRCB for the first half of 2007.
- e. On 16 August 2007, the Company held the 2nd extraordinary Board of Supervisors' meeting, reviewed and approved the Proposal on Establishing the Managerial Rules of Supervisor Election of SRCB (Trial Edition).
- f. On 4 December 2007, the Company held the 9th session of 1st Board of Supervisors' meeting, reviewed and approved the Proposal on Modifying Administrative Method of SRCB's Regulations.

10.1.2 Attendance of Shareholders' General Meetings

Supervisors have attended all the Shareholders' General Meetings.

10.1.3 Attendance of the meetings of Board of Directors as nonvoting delegates

Supervisors have attended all the meetings of Board of Directors as nonvoting delegates.

Report of the Board of Supervisors

10.1.4 Lawful supervision of the performance of the Board of Directors, directors and senior management

The Board of Supervisors is of the opinion that the Board of Directors, directors and senior management have strictly complied with laws and regulations in executing the resolutions of the Shareholders' General Meeting. The bank and its shareholders' interest have been applied to guide their daily operation, and their respective rights and responsibilities have been carried out in a careful manner to enable the Company's development in compliance with laws and regulations.

10.2 Independence Opinions of the Supervisory Board

10.2.1 Financial analysis

The Board of Supervisors of SRCB conducted dynamic supervision over the SRCB's operation and financial conditions in the 1st half year of 2007 in July, 2007. It was found that the various businesses of SRCB had all achieved healthy development in the 1st half year of 2007. Assets, Liabilities and fee-based businesses all achieved robust growth to different extents. Asset quality improved steadily, profit increased significantly and almost all the objectives set out at the beginning of the year have been met in the report year. Meanwhile, the Board of Supervisors put forward the following issues as areas of focus. Firstly for the capital adequacy ratio, at the end of June, the capital adequacy ratio was 7.22%, lower than 8%, which was required by the supervision authority. Secondly for the concentrated ratio of loans, the ratios of credit granted to the largest single group customer, the top 10 customers, and the largest customer to total credit granted had all exceeded the pre-warning level set by the supervision authority. Thirdly for the development of fee-based business, notwithstanding the remarkable achievement in the income growth of fee-based businesses, the ratio of intermediate business income to total income remains relatively low, in comparison with that of other banks. Fourthly for the operational risk management, operational risk had been controlled to some extent after treatments by case study in the consecutive three years; however, the underlying risk still requires close attention.

Therefore the Board of Supervisors put forward the following suggestions:

- a. further improving capital management and increasing capital adequacy ratio
- b. strengthening comprehensive credit management and lowering loan centralization
- c. improving SRCB's ability to launch new products and new service to achieve sustainable development
- d. strengthening operational risk and NPL management to improve profitability

10.2.2 Special inspection and follow-up inspection

- a. SRCB launched a special review of the financial annual report of 2006. In March 2007, the Board of Supervisors conducted special inspection over 2006 financial annual report and final accounts, and put forward suggestions to assist in further improving management of authorization and development of authority and proposed branches should prepare detailed implementation rules of authorization in accordance with the related regulations issued by the headquarters.
- b. SRCB launched a special inspection on the loans secured by operating properties. The Board of Supervisors conducted a special inspection over the loans secured by operating properties of corporations, and put forward suggestions for greater granularity in classification for the aforesaid loans and in providing instructions for various conditions for branches in June, 2007.
- c. SRCB launched post inspection over the loans granted. In September, 2007, the Board of Supervisors conducted special post inspection over the loans granted and put forward the suggestions of establishing definite responsibilities for post loan inspection and appointing professional post inspection personnel so as to ensure the implementation of appropriate post inspection over loans.
- d. SRCB launched special anti-money laundering inspection. In October, 2007, the Board of Supervisors conducted a special inspection over the work of anti-money laundering in 2007.
- e. SRCB launched follow-up inspection after the special inspection. The Board of Supervisors conducted follow-up inspection for the special inspection conducted in the lagged quarter to observe the correction results.

The four follow-up inspections indicated that the senior management thought highly of the problems raised and suggestions of the Board of Supervisors. The inspection results were noted throughout SRCB and persons were designated to correct the problems raised and to take measures to improve. The effectiveness of these remedial solutions met the requirement of the Board of Supervisors.

10.2.3 Use of the funds raised by SRCB

The funds rose from the private placement, totalling RMB 745.39 million shares, to ANZ amounted to RMB 1,982,807,710.20, all of which was used to reinforce the capital and expand the assets of SRCB, which was consistent with purpose of private placement stated.

Report of the Board of Supervisors

10.2.4 Assets purchased and sold

In the reporting year, SRCB sold all the legal-person shares investment held in recent years, gaining investment revenue of RMB 59.564 million. In accordance with the investment policy of SRCB, SRCB does not conduct legal-person equity investment actively, and the existing legal-person shares are obtained from the former rural cooperatives in districts and counties. In 2007, given the background of the split share structure reform, most of the legal-person shares held by SRCB were tradable and the tradable shares were sold out. Such equity investment is expected to decline in the future.

10.2.5 Related parties transactions

In the reporting year, related parties transactions were found to be fair and reasonable, and no transactions were found infringing on the interests of shareholders or SRCB.

10.2.6 Internal control

SRCB established a sound, reasonable and effective internal control system.

10.2.7 Auditor's report

Wan Long (Shanghai) Certified Public Accountants issued an auditors' report with unqualified opinions.

10.2.8 Execution of Resolutions of the Shareholders' General Meeting

Members of Board of Supervisors attended the meetings of the Board of Directors and Shareholders' General Meeting as nonvoting delegates, and agreed with reports and proposals submitted at these meetings.

The Board of Supervisors has monitored the execution of all resolutions of the Shareholders' General Meeting and believed that all these resolutions could be carefully executed by the Board of Directors.

11.1 Top Ten Shareholders and Changes during the Period

Refer to “Shareholding of top 10 shareholders”

11.2 Significant Litigation or Arbitration Events

11.2.1 Non-credit litigation or arbitration

From Jan 1st to Dec 31st, 2007, SRCB had 25 cases under non-credit litigation or arbitration. The amount involved was RMB 94.498 million.

11.2.2 Litigation and arbitration issues concerning credit

During the reporting period, SRCB had filed 304 lawsuits concerning the corporate loans to relevant courts that had jurisdiction, involving a total amount of RMB 756.9687 million. During the period, verdicts were passed to enable the collection of funds amounting to RMB 441.5737 million by lawsuit.

By the end of the reporting period, SRCB had filed 331 lawsuits concerning loans to courts that had not yet reached verdicts, involving RMB 603.0705 million. During the period, however, funds were collected on these cases amounting to RMB 38.4509 million.

In 2007, the top 10 lawsuits concerning loans that had not yet had verdicts made are listed as follows, ranked by litigation amount.

No.	Borrower	Guarantee	First Loan Date	Overdue Date	Litigation Object (RMB 10 thousand)	Litigation Retrieval (RMB 10 thousand)	Litigation Date
1	Shanghai Huasheng Group Co., Ltd.	--	2001/03/12	2006/04/13	5100.00	0.00	2007/08/07
2	Shanghai Ziwang Real Estate Development Corp.	--	2005/06/29	2007/05/15	3500.00	0.00	2007/10/18
3	Shanghai Shengfeng Industrial Co., Ltd	Shanghai Tianting Hotel Co.,Ltd.& Shanghai Chenfeng Trade Co.,Ltd	2003/05/28	2005/11/25	3000.00	0.00	2005/12/20

Significant Events

In 2007, the top 10 lawsuits concerning loans that had not yet had verdicts made are listed as follows, ranked by litigation amount.(continued)

No.	Borrower	Guarantee	First Loan Date	Overdue Date	Litigation Object (RMB 10 thousand)	Litigation Retrieval (RMB 10 thousand)	Litigation Date
4	Shanghai Ziwang Real Estate Development Corp.	--	2005/12/12	2007/04/18	1960.00	1200.00	2007/10/18
5	Shanghai Jinyin Industrial Development Co., Ltd	Shanghai Minghuang Industrial Development Co., Ltd& Wang Mingde &Zhang Yanmei	2007/05/11	2008/05/11	1352.44	0.00	2007/11/08
6	Shanghai Kendun Industrial Co.,Ltd	--	2005/05/24	2006/05/24	1110.00	454.99	2006/06/15
7	Minghuang Industrial Development Co.,Ltd	Shanghai Yinshi Welding Material Co.,Ltd& Wang Mingde &Zhang Yanmei	2007/01/10	2008/01/10	1059.29	0.00	2007/11/08
8	Shanghai Shengfeng Industrial Co., Ltd	Shanghai Tianting Hotel Co., Ltd. & Shanghai Chenfeng Trade Co.,Ltd	2003/08/21	2004/11/25	1000.00	20.00	2005/12/20
9	Shanghai Bosheng International Trade Co.,Ltd	Shanghai Huayi Technology Investment Co.,Ltd., Suzhou Zhengcheng & Ye Meng & Zhou Weiyong & Ye Quanyong	2005/03/08	2005/09/05	990.00	0.00	2006/03/03
10	Shanghai Minghuang Industrial Development Co.,Ltd	Shanghai Quanyin Industrial Co.,Ltd	2007/05/14	2008/05/14	940.00	0.00	2007/11/07

11.3 Increase and Decrease of Registered Capital, Separation and Merger

In 2008, SRCB introduced a strategic investor ANZ Bank, and issued 745,391,470 shares to ANZ, and an amount of RMB 1,982,807,710.20 was raised therefore. This expanded the company's registered capital to RMB 3,745,685,776.

11.4 Related Party Transactions

At the end of the reporting year, there were two types of related party transactions, namely, related credit granting and other related party transactions. The balance for related party transactions saw RMB 538.55 million, among which related credit granting balance represents RMB 516.55 million, including 4 related corporations (RMB 498 million) and 20 related natural persons (RMB 18.55 million) and 2 other related party transactions (RMB 22 million).

The total related party transactions accounted for 6.81% of SRCB's net capital (RMB 7904.93 million) which was the balance by the end of September 2007. The related credit balance of the biggest related party, namely, Shanghai Shenghui Investment Management Co., Ltd, stood at RMB 270 million, accounting for 3.42% of SRCB's net capital. The related credit granting balance of the biggest single related corporation, being Shanghai Greenland Group, stood at RMB 130 million, accounting for 1.29% of SRCB's net capital.

SRCB's Related Party Transactions			Unit: RMB million	
Customer	Loan Balance at end of 2007	Five-Category Classification	Guarantee	
Shanghai Shenghui Investment Management Co.,Ltd	270	Pass	Pledge	
Shanghai Shanxin Property Co.,Ltd	98	Pass	Pledge	
Shanghai Greenland Car Service (Group) Co., Ltd.	70	Pass	Pledge	
Shanghai Greenland Commercial (Group) Co., Ltd.	60	Pass	Pledge	

Significant Events

11.5 Shareholders' Loans

11.5.1 Shareholders with a single loan balance exceeding 1% of net capital or total loan balances to single borrower exceeding 5% of net capital

None occurred during the reported period.

11.5.2 Status of loans to shareholders with the outstanding balance RMB 30 million or above as of the end of the year

a. Shanghai Shanxin Property Co., Ltd

By the end of 2007, the balance of outstanding loans, for medium-term real estate project, amounted to RMB 98 million, which was secured by property. The mortgage ratio was 56% and it was classified as Pass category.

b. Shanghai Malu Assets Operation Co., Ltd

By the end of 2007, the balance of outstanding loans, for working capital, amounted to RMB 33.50 million, which was secured by guarantee. It was classified as Special-mention category,

c. Shanghai Jianbang Assets Operation Co., Ltd

By the end of 2007, the balance of outstanding loan, for working capital, amounted to RMB 46 million, of which RMB 18 million of which secured by pledge was classified as pass category, and RMB 28 million secured by guarantee was classified as special-mention category.

d. Shanghai Xuhang Assets Operation Co., Ltd

By the end of 2007, the balance of outstanding loans, for working capital, amounts to RMB 30 million, of which RMB 6.4 million was secured by pledge and RMB 23.60 million was secured by guarantee. Both were classified as Special-mention category.

e. Shanghai Bokang Industrial Co., Ltd

By the end of 2007, the balance of outstanding loans, for working capital, amounted to RMB 34.95 million, which was secured by pledge. The loan was classified as Pass category.

f. Shanghai Fengxian Construction Investment Co., Ltd

By the end of 2007, the balance of outstanding loans, for certain project, amounted to RMB 50 million, which was secured by guarantee. The loan was classified as Pass category.

g. Shanghai Zhezhong (Group) Co., Ltd

By the end of 2007, the balance of outstanding loans, for working capital, amounted to RMB 200 million, of which RMB 130 million was secured by guarantee and RMB 70 million was secured by pledge. Both were classified as Pass category.

h. Shanghai Putuo State-owned Assets Operation Co., Ltd

By the end of 2007, the balance of outstanding loans, for certain project, amounted to RMB 300 million, which was secured by guarantee. The loan was classified as Pass category.

i. Shanghai Wujiaochang (Group) Co., Ltd

By the end of 2007, the balance of outstanding loans, for working capital, amounted to RMB 38.80 million, which was secured by pledge. The loan was classified as Pass category.

j. Shanghai Dongni (Group) Co., Ltd

By the end of 2007, the balance of outstanding loans, for working capital, amounted to RMB 45 million, which was secured by guarantee. The loan was classified as Special-mention category.

k. Shanghai Beicai Assets Management Co., Ltd

By the end of 2007, the balance of outstanding loans, for working capital, amounted to RMB 31.50 million, which was secured by guarantee. The loan was classified as Special-mention category.

l. Shanghai Sanlin Collective Assets Investment Operation Co., Ltd

By the end of 2007, the balance of outstanding loans, for certain project, amounted to RMB 70 million, which was secured by pledge. The loan was classified as Pass category.

11.5.3 NPL by shareholders in accordance with the five-category classification system

None of the loans borrowed by shareholders was classified as NPL during the reported period.

11.5.4 NPL by shareholders and related parties

None of the loans borrowed by shareholders and related parties was classified as NPL during the reported period.

Significant Events

11.6 Significant Contracts and Implementation

No significant trusteeship, contract or lease issues occurred during or continued into the reporting period. Apart from the financial guarantee business which falls within SRCB's business scope approved by CBRC within the reporting period, SRCB had no other significant guarantee issues requiring disclosure. SRCB had not entrusted any party to manage its funds during the reporting period.

SRCB's various business contracts were implemented normally during the reporting period, and no dispute over any significant contracts occurred, excluding the lawsuits concerning loans (refer to significant litigation or arbitration events).

11.7 Appointment or Dismissal of Auditors

SRCB appointed Wan Long (Shanghai) Certified Public Accountants Co., Ltd. as the domestic auditor of the Company's annual report under PRC GAAP.

11.8 Penalty Imposed on the Company, the Board of Directors, the Board of Supervisors and Senior Management

During the reported period, none of the Company, the Board of Directors, the Board of Supervisors or any member of senior management was subject to any punishment

11.9 Other Matters to be Publicized

None matters need to be publicized during the period of report

11.9.1 Change of Board of Directors and Board of Supervisors

See the "Change of SRCB's Directors, Supervisors and Senior Management"

11.9.2 Post-date event

None

11.10 Change of Corporation Name during the Reported Period

None

Financial Statement, List of Documents Available for Inspections

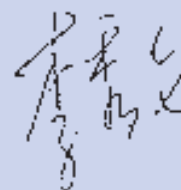
Financial Statement

1. Auditors' Report (see appendix)
2. Financial Statements (see appendix)

List of Documents Available for Inspections

1. Annual report signed by the Chairman and financial statement signed by the Chairman, directors and accounting institution principal
2. The original auditors' report signed and sealed by the accounting firm and certified public accountants
3. Annual report signed by the Chairman
4. All formal and original copies of the documents publicly disclosed by the Company during the reported period
5. The Articles of Association of Shanghai Rural Commercial Bank Co., Ltd.

Chairman: Li Xiulun



Board of Directors of

Shanghai Rural Commercial Bank Co., Ltd

March 27, 2008

Financial Statement, List of Documents Available for Inspections

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2007 Financial Report Appendix

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- 80 Cash Flow Statement

AUDITORS' REPORT

WAN LONG (2008) No.1820

To: All shareholders of Shanghai Rural Commercial Bank Co., Ltd.

We have audited the attached financial statements of Shanghai Rural Commercial Bank (referred as SRCB), which comprise the Balance Sheet as at 31 December 2007, the Income Statement, the Statement of Changes in the Owners' (or Shareholders') Equity as well as Cash Flow Statement for the year ended, and notes to the above financial statements.

I. Responsibility of the Senior Management for the Financial Statements

The senior management of SRCB is responsible for the preparation of these financial statements in accordance with "Accounting Standards for Business Enterprises" and "Implementing Rules for Financial Management of Rural Credit Cooperatives". The responsibility includes: (1) Designing, implementing and maintaining the internal control related to the preparation of financial statements to avoid material misstatements due to fraud or error; (2) Choosing and adopting proper accounting policies; and (3) Making reasonable accounting evaluation.

II. Responsibility of the Certified Public Accountants

We are responsible for providing audit opinion of financial statements based on our audit. We performed our audit in accordance with the Audit Standards for Chinese Certified Public Accountants. The Audit Standards required us to comply with the professional codes, plan and implement our audit to obtain the reasonable assurance of whether the financial statements are free of material misstatements.

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 risk assessments, we consider the internal control relevant to the entity's preparation of the financial statements in order to design the appropriate audit procedures, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the top management, as well as evaluating the overall presentation of the financial statements.

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

III. Audit Opinion

In our opinion, the combined financial statements present fairly, in all material aspects, the financial position of SRCB as at 31st December 2007, and the results of its operations and its cash flows for the year 2007 in accordance with "Accounting Standards for Business Enterprises" and "Implementing Rules for Financial Management of Rural Credit Cooperatives".

IV. Focused Events

In addition, we remind the users of financial statements to pay attention to, as is stated in Note 1 of the financial statement appendix 5.13, the significant uncertainty of the retrieval of SRCB's long-term government bond investments as of Dec 31, 2007.

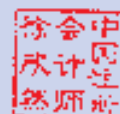
WAN LONG CPA Co., Ltd.

Beijing, China



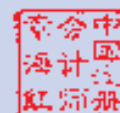
Certified Public Accountants

徐欣然



Registered in the People's Republic of China

李海



12th March 2008

Balance Sheet

Produced by: Shanghai Rural Commercial Bank

Unit: RMB

Items	Notes	2007-12-31	2006-12-31
Liquid Assets			
Cash in hand	V.1	1,284,735,020.35	871,916,030.15
Due from the Central Bank	V.2	21,461,311,994.75	12,792,350,356.37
Special notes from the Central Bank	V.3	2,121,850,000.00	2,121,850,000.00
Special Subsidies from the Central Bank		0.00	0.00
Placements with financial institutions	V.4	3,481,621,083.99	1,652,673,893.55
Intra-bank deposit receivable		17,268,839.27	15,777,235.51
Due from other banks	V.5	5,181,282,850.63	3,384,781,554.00
Due from financial companies		0.00	0.00
Purchase of resale assets	V.6	1,696,040,000.00	3,069,400,000.00
Short-term loans	V.7	31,020,947,616.29	27,500,534,431.36
Foreclosed assets in suspense	V.8	809,506,765.27	915,370,925.51
Accounts receivables		14,046,050.28	5,743,711.12
Funds distributed from Working capitals		0.00	0.00
Other accounts receivables	V.9	61,179,185.76	110,653,898.04
Discounted bills	V.10	3,275,718,278.37	5,558,645,526.52
Short-term investments	V.11	2,700,253,357.60	6,525,007,228.36
Net loss of current assets in suspense		0.00	0.00
Long-term investments maturing within one year		2,410,174,988.60	1,798,521,406.76
Expected assets		1,662,453,178.01	745,942,721.61
Total Current Assets		77,198,389,209.17	67,069,168,918.86

Financial Statements

Balance Sheet (continued)

Produced by: Shanghai Rural Commercial Bank

Unit: RMB

Items	Notes	2007-12-31	2006-12-31
Long-term Assets			
Medium and long-term loans	V.7	47,324,035,196.60	39,442,551,804.78
Overdue loans	V.7	98,641,956.20	117,984,696.38
Dull loans	V.7	932,983,759.57	1,103,041,798.61
Bad loans	V.7	61,530,372.32	3,734,772.32
Less: provision for loan losses	V.12	1,398,632,958.67	1,206,312,741.47
Long-term placement in banks		0.00	0.00
Long-term investments	V.13	27,962,028,262.74	24,212,865,135.63
Original value of fixed assets	V.14	1,391,355,680.77	1,319,144,087.66
Less: accumulated depreciation	V.14	594,430,696.83	581,546,373.45
Net value of fixed assets		796,924,983.94	737,597,714.21
Disposal of fixed assets		-24,071,506.84	0.00
Construction in progress	V.15	141,365,650.13	171,788,213.19
Net loss of fixed assets in suspense		0.00	0.00
Total Long-term Assets		75,894,805,715.99	64,583,251,393.65
Intangible and Deferred Assets			
Intangible assets	V.16	4,328,130,724.95	4,436,859,481.85
Deferred assets		51,426,294.05	19,469,307.69
Total Intangible and Deferred Assets		4,379,557,019.00	4,456,328,789.54
Total Assets		157,472,751,944.16	136,108,749,102.05

Balance Sheet (continued)

Produced by: Shanghai Rural Commercial Bank

Unit: RMB

Items	Notes	2007-12-31	2006-12-31
Current Liabilities			
Short-term deposits	V.17	64,124,673,914.36	52,267,807,996.90
Short-term savings deposits	V.17	10,318,094,040.53	9,283,400,796.92
Public finance deposit	V.17	96,871,018.73	12,558,751.45
Loans from Central Bank		0.00	0.00
Special purpose notes from Central Bank		0.00	0.00
Due to other banks	V.18	3,053,561,204.77	1,050,460,826.63
Intra-bank deposits		0.00	0.00
Money market takings		0.00	0.00
Sale of repurchase assets		3,440,000,000.00	400,000,000.00
Due to financial companies		0.00	0.00
Remittance payable		718,948,410.39	637,420,376.85
Outward remittance		6,270,260,041.15	6,403,919,600.84
Accounts payable	V.19	4,011,835,461.36	3,753,579,372.81
Funds distributed into working capitals		0.00	0.00
Other accounts payables	V.21	1,641,488,120.86	1,091,833,907.03
Salary payables		89,892,867.24	94,524,585.07
Withholding interest tax payable		17,150,362.36	30,302,901.01
Welfare payable		4,139,006.67	60,536,721.77
Tax payable	V.20	235,137,546.93	83,237,898.15
Profit payable	V.22	51,059.47	21,037,926.02
Accrued expenses		0.00	0.00
Short-term bonds		0.00	0.00
Long-term liabilities maturing within one year	V.17	37,216,585,121.41	34,834,963,313.41
Expected liabilities		1,662,453,178.01	745,942,721.61
Total Current Liabilities		132,901,141,354.24	110,771,527,696.47

Financial Statements

Balance Sheet (continued)

Produced by: Shanghai Rural Commercial Bank

Unit: RMB

Items	Notes	2007-12-31	2006-12-31
Long-term Liabilities			
Long-term deposits	V.17	464,768,053.82	270,790,930.81
Long-term savings deposits	V.17	14,394,898,218.13	18,122,763,191.82
Margin deposit		1,079,490,379.75	491,658,413.30
Long-term bonds		0.00	0.00
Long-term borrowing		0.00	0.00
Long-term accounts payable		5,915,606.61	5,897,332.93
Pending changeover assets value		0.00	0.00
Total Long-term Liabilities		15,945,072,258.31	18,891,109,868.86
Total Liabilities		148,846,213,612.55	129,662,637,565.33
Shareholders' equity			
Paid-in capital	V.23	3,745,685,776.00	3,000,294,306.00
Capital reserve	V.24	1,241,923,196.68	4,506,956.48
Surplus reserve	V.25	377,241,304.90	278,848,258.95
Including: public welfare fund		0.00	0.00
General provision	V.26	2,623,303,628.67	2,617,823,628.67
Retained profits	V.27	638,384,425.36	544,638,386.62
Less: accumulated net Losses from previous years		0.00	0.00
Total Shareholders' Equity		8,626,538,331.61	6,446,111,536.72
Total Liabilities and Shareholders' Equity		157,472,751,944.16	136,108,749,102.05

Legal representative: Li Xiulun President: Hou Funing Accounting Institution Principal: Cheng Yihua Organizer: Zhu Shengpei

Income Statements

Produced by: Shanghai Rural Commercial Bank

Unit: RMB

Items	Notes	2007	2006
I. Operating Income		5,792,240,747.37	4,565,594,734.14
Interest income		4,774,252,213.77	3,778,921,961.96
Income from financial institutions		880,747,372.55	691,724,323.09
Fee and commission income		126,761,197.54	88,910,467.25
Other operating income		10,479,963.51	6,037,981.84
II. Operating Expenses		5,897,643,561.30	4,831,053,169.64
Interest expense		2,109,714,232.27	1,662,867,065.89
Expense paid to financial institutions		215,227,861.89	144,765,653.26
Fee and commission expense		55,100,771.80	48,222,420.84
Administrative expense		1,555,633,558.57	1,475,867,992.59
Other operating expense		1,961,967,136.77	1,499,330,037.06
III. Business Tax and Surcharges		159,684,121.53	126,228,557.80
IV. Operation Profit		-265,086,935.46	-391,686,993.30
Plus: Investment Income	V.28	940,935,938.43	738,951,679.90
Plus: Non-operating income	V.29	76,548,976.28	73,847,414.04
Less: Non-operating expense	V.30	31,122,787.87	3,579,135.04
Plus: Previous years adjustment			16,877,535.29
V. Profit before Tax		721,275,191.38	434,410,500.89
Less: Profit tax		349,118,448.31	76,819,967.76
VI. Net Profit		372,156,743.07	357,590,533.13

Legal representative: Li Xiulun President: Hou Funing Accounting Institution Principal: Cheng Yihua Organizer: Zhu Shengpei

Financial Statements

Statement of Changes in Owners' (or Shareholders') Equity

Produced by: Shanghai Rural Commercial Bank

Unit: RMB

Items	Line	Paid-in capital	Capital reserve	Surplus reserve
	--	1	2	3
I Balance as at end of 2006	1	3,000,294,306.00	4,506,956.48	278,848,258.95
Plus: Change of accounting policy	2			
Error correction for previous period	3			
Others	4			
II Balance as at beginning of 2007	5	3,000,294,306.00	4,506,956.48	278,848,258.95
III Variation amount for 2007 ("-" for reduce)	6	745,391,470.00	1,237,416,240.20	98,393,045.95
i Net profit	7			
ii Profit and Loss recognized directly in owners' equity	8		1,237,416,240.20	
1 Net changes in fair value of available-for-sale financial assets	9			
2 Impact of other owners' equity changes of invested enterprise under equity method	10			
3 Impact of income tax related to items recognized in owners' equity	11			
4 Others	12		1,237,416,240.20	
Net profit and gain/loss recognized directly in owners' equity	13		1,237,416,240.20	
iii Shareholders' capital input and withdrawal	14	745,391,470.00		
1 Capital input of shareholders	15	745,391,470.00		
2 Share-based payment recognized in owners' equity	16			
3 Others	17			
iv Profit distribution	18			98,393,045.95
1 Extraction of surplus reserve	19			98,393,045.95
Including: Statutory surplus reserve	20			39,844,130.30
Discretionary surplus reserve	21			58,548,915.65
2 Extraction of general risk provision (reported by financial institution)	22			
3 Owners' (or Shareholders') distribution	23			
Including: Common shares dividends	25			
Ordinary shares dividends converted to shares (capital)	26			
4 Others	27			
IV Balance as at end of 2007	28	3,745,685,776.00	1,241,923,196.68	377,241,304.90

Legal representative: Li Xiulun President: Hou Funing Accounting institution principal: Cheng Yihua Organizer: Zhu Shengpei

Statement of Changes in Owners' (or Shareholders') Equity (continued)

Produced by: Shanghai Rural Commercial Bank

Unit: RMB

Items	Line	General provision	Retained profit	Total
				shareholders' equity
	--	4	5	6
I Balance as at end of 2006	1	2,617,823,628.67	585,489,156.53	6,486,962,306.63
Plus: Change of accounting policy	2			
Error correction for previous period	3		-40,850,769.91	-40,850,769.91
Others	4			
II Balance as at beginning of 2007	5	2,617,823,628.67	544,638,386.62	6,446,111,536.72
III Variation amount for 2007 ("-" for reduce)	6	5,480,000.00	93,746,038.74	2,180,426,794.89
i Net profit	7		372,156,743.07	372,156,743.07
ii Profit and Loss recognized directly in owners' equity	8	5,480,000.00		1,242,896,240.20
1 Net changes in fair value of available-for-sale financial assets	9			
2 Impact of other owners' equity changes of invested enterprise under equity method	10			
3 Impact of income tax related to items recognized in owners' equity	11			
4 Others	12	5,480,000.00		1,242,896,240.20
Net profit and gain/loss recognized directly in owners' equity	13	5,480,000.00	372,156,743.07	1,615,052,983.27
iii Shareholders' capital input and withdrawal	14			745,391,470.00
1 Capital input of shareholders	15			745,391,470.00
2 Share-based payment recognized in owners' equity	16			
3 Others	17			
iv Profit distribution	18		-278,410,704.33	-180,017,658.38
1 Extraction of surplus reserve	19		-98,393,045.95	
Including: Statutory surplus reserve	20		-39,844,130.30	
Discretionary surplus reserve	21		-58,548,915.65	
2 Extraction of general risk provision (reported by financial institution)	22			
3 Owners' (or Shareholders') distribution	23		-180,017,658.38	-180,017,658.38
Including: Common shares dividends	25		-180,017,658.38	-180,017,658.38
Ordinary shares dividends converted to shares (capital)	26			
4 Others	27			
IV Balance as at end of 2007	28	2,623,303,628.67	638,384,425.36	8,626,538,331.61

Legal representative: Li Xiulun President: Hou Funing Accounting institution principal: Cheng Yihua Organizer: Zhu Shengpei

Financial Statements

Cash Flow Statements

Produced by: Shanghai Rural Commercial Bank

Unit: RMB

Items	2007
I. Cash Flows from Operating Activities	
Interests income	5,646,697,247.16
Fee and commissions income	126,761,197.54
Net demand deposits increase	12,826,300,026.79
Term deposits increase	77,110,802,127.36
Withdrawal of medium and long-term loans	12,778,741,843.76
Net deposits due to banks	1,987,299,817.98
Net intra-bank deposits	-113,764,069.65
Borrowing from Central Bank	
Net borrowing from other financial institutions	4,312,898,703.37
Net cash inflow from trust deposits and loans	2,732,528.72
Recovery from loans Written-off previously	11,393,659.09
Cash received from financial leases	
Cash received from other operating activities	636,799,217.88
Sub-total of Cash Inflows	115,326,662,300.00
Interest expenses	2,066,682,632.16
Fee and commission expenses	55,100,771.80
Net increase of short-term loans	3,790,327,866.67
Medium-long term loans drawn	20,191,774,523.50
Net bills discounting	-2,282,927,248.15
Net import and export bills purchase	-6,078,479.18
Term deposit principal paid	77,443,130,455.63
Net statutory deposits with the Central Bank	8,616,662,063.40
Repayment to Central Bank	
Cash paid to and on behalf of employees	948,676,644.74
Business tax paid	199,423,468.27
Income tax paid	157,201,646.97
Other taxes paid expect business tax and income tax	9,609,002.25
Other operating cash outflow	558,258,837.53
Sub-total of Cash Outflows	111,747,842,185.59
Net Cash Flows from Operating Activities	3,578,820,114.41

Cash Flow Statements (continued)

Produced by: Shanghai Rural Commercial Bank

Unit: RMB

Items	2007
II. Cash Flows from Investing Activities	
Cash received from investment return	592,069,147,203.37
Cash received from distribution of dividends or profits	59,563,503.52
Cash received from interest income of bond	883,262,736.19
Net cash received from disposal of fixed assets, intangible assets and other long-term assets	84,047,312.66
Other cash received relating to investing activities	36,947,168.03
Sub-total of Cash Inflows	593,132,967,923.77
Cash paid to acquire fixed assets, intangible assets and other long-term assets	208,939,238.73
Cash paid for equity investment	
Cash paid for debt investment	593,157,819,214.46
Other cash payments relating to investing activities	66,261,640.34
Sub-total of Cash Outflows	593,433,020,093.53
Net Cash Flows from Investing Activities	-300,052,169.76
III. Cash Flows from Financing Activities	
Cash received from issuing shares	745,391,470.00
Cash received from issuing bonds	
Other cash received relating to financing activities	1,242,896,240.20
Sub-total of Cash Inflows	1,988,287,710.20
Cash repayments of amounts borrowed	
Cash payments for financing expenses	
Cash payments for distribution of dividends and profits	201,004,524.93
Cash payments for interest expenses	
Other cash payments relating to financing activities	
Sub-total of Cash Outflows	201,004,524.93
Net Cash Flows from Financing Activities	1,787,283,185.27

Financial Statements

Cash Flow Statements (continued)

Produced by: Shanghai Rural Commercial Bank

Unit: RMB

Item	2007
IV . Effect of Foreign Exchange Rate Changes on Cash Flow	-4,905,109.16
V . Net Increase/(Decrease) in Cash and Cash Equivalents	5,061,146,020.76
1. Non-cash investing and financing activities	
Investment in the form of fixed assets	
Share converted from debt	
Non-cash donation received	
2. Reconciliation of net profit/(loss) to cash flows from operating activities	
Net profit	372,156,743.07
Plus: Provision for bad debt or bad debt write-off	1,800,000,000.00
Depreciation of fixed assets	79,334,388.33
Amortization of deferred assets	13,289,584.68
Amortization of intangible assets	113,807,387.90
Decrease in deferred expenses (deduct: increase)	
Increase in prepaid expenses (deduct: decrease)	
Losses on disposal of fixed assets, intangible assets and other long-term assets (deduct: gains)	-17,259,015.70
Losses on scrapping of fixed assets	
Financing expenses	
Losses arising from investments (deduct: gains)	-874,674,298.09
Deferred tax credit (deduct: debit)	
Decrease in loans (deduct: increase)	-11,203,360,546.41
Increase in deposits(deduct: decrease)	12,667,118,576.36
Decrease in deposit reserves(deduct: increase)	-8,616,662,063.40
Decrease in discount(deduct: increase)	2,282,927,248.15
Decrease in import and export bill purchase (deduct: increase)	6,078,479.18
Net balance with banks and other financial institutions (deduct: decrease)	4,312,898,703.37
Decrease in operating receivables (deduct: increase)	143,035,470.32
Increase in operating payables (deduct: decrease)	378,279,456.65
Others	2,121,850,000.00
Net Cash Flows from Operating Activities	3,578,820,114.41
3. Net increase/(decrease) in cash and cash equivalents	
Cash balance at end of year	8,498,733,903.99
Less: Cash balance at beginning of year	4,649,672,386.52
Plus: Cash equivalents balance at end of year	4,070,110,000.00
Less: Cash equivalents at beginning of year	2,858,025,496.71
Net Increase/(Decrease) in Cash and Cash Equivalents	5,061,146,020.76

Legal representative: Li Xiulun President: Hou Funing Accounting institution principal: Cheng Yihua Organizer: Zhu Shengpei

Financial Statements

Notes to the financial statements 2007

Amounts in thousands of RMB, unless otherwise stated

1. General Information

Shanghai Rural Commercial Bank Company Limited (hereinafter refer to as "SRCB"), a joint-stock commercial bank, was reconstructed from former Shanghai Rural Credit Cooperatives, including 1 municipal cooperative, 14 district/county-level cooperatives and 219 credit cooperatives sub-agencies. SRCB was granted the Financial Licence of the People's Republic of China with the institution number G10312900H0001 by China Banking Regulatory Commission on Aug. 22, 2005. On Aug 23, 2005, SRCB was granted the Business Licence for Enterprise as Legal Person with the registration number 3100001007291 by Shanghai Administration of Industry and Commerce. The registered capital of RMB 3,000,294,306.00 has been audited by Wan Long (Shanghai) Certified Public Accountants Co.,Ltd. and a Capital Verification Report WKYZ (2005) No.1738 has been provided.

In accordance with YJF (2007) No. 356, "Approval on Shanghai Rural Commercial Bank Company Limited Absorbing Shareholding Investment from Australia and New Zealand Banking Group Limited" issued by China Banking Regulatory Commission, the registered capital of SRCB was increased to RMB 3,745,685,776.00, which has been audited by Wan Long (Shanghai) Certified Public Accountants Co.,Ltd. and a Capital Verification Report WKYZ (2007) No. 1149 has been provided. A replaced Business License for Enterprise as Legal Person (No. 310000000088142) was issued by Shanghai Administration of Industry and Commerce on 14 January 2008, with the legal representative Li Xiulun, corporate type joint stock limited (not listed) and registered address No. 981 Pudong Avenue, Pudong, Shanghai stated.

SRCB's business scope covers: absorbing public deposits, short-term, medium-term and long-term loans advancing, domestic and abroad settlements, draft acceptance and discount, floatation, cashing and underwriting of government bonds as agent, trading government bonds and financial bonds, inter-bank borrowing/lending, cards business, foreign currency deposits, loans and remittance, international settlements, inter-bank foreign currency borrowing/lending, credit investigation, consultancy and verification service, receipt and payment by proxy, safe cabinet service, sale and purchase of foreign currency (versus RMB) and other businesses approved by China Banking Regulatory Commission.

As of December 31, 2007, besides the Head Office and its Business Department, SRCB manages Pudong Branch, 14 district/county-level sub-branches and 326 secondary sub-branches.

Financial Statements

2. Basis of Financial Statements Preparation

2.1 Accounting system

SRCB follows Chinese Accounting Standards for Business Enterprises, Accounting Basic System for Rural Credit Cooperatives, Implementation Measures of Rural Credit Cooperatives Financial Management and refers to the Accounting System for Financial Institutions and other accounting stipulations.

2.2 Basis of SRCB's consolidated financial statements preparation

The individual financial statements of Financial & Planning Department, Clearing Centre, International Banking Department and Business Department of Head Office, Pudong Branch and District/County-Level sub-branches and other financial materials are consolidated, during which the internal significant transactions and their balances have been offset.

3. Principal Accounting Policies and Accounting Estimates

3.1 Accounting year

The accounting year of SRCB is from 1st January to 31st December.

3.2 Recording currency and presentation currency

The financial statements are recorded and presented in Renminbi ("RMB").

3.3 Recording basis and accounting principles

Unless otherwise stated, the recording is on accrual basis and follows the historical cost convention.

3.4 Foreign currency business accounting and translation of financial statements in foreign currency

SRCB sets separate accounts for businesses denominated by different currencies, and the accounting documents, account books and financial statements are recorded in the original currency. At the end of period, the balances denominated in foreign currencies are translated into US Dollars at the exchange rates promulgated by the People's Bank of China or other exchange rates accepted by the national authority, and financial statements denominated in USD are consolidated and prepared and are then translated into RMB to form a consolidated financial statement denominated in RMB with the financial statements originally denominated in RMB by the end. The differences arising from translation are recognized as exchange gains or losses in the income statements.

3.5 Cash and cash equivalents

The cash recognized in cash flow statements comprises cash holding and bank deposit payable. Cash equivalents refers to the highly liquid investments which have a short term, generally maturing within three months when acquired, which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, including general deposit reserve in central bank, due from other banks, and other monetary assets like time deposits from other banks (with original maturity less than 3 months), short investments and purchase of resale assets.

3.6 Loans

- a. Loans originated by SRCB are initially recorded at the amount granted. On the interest settlement date, the interest is calculated by principal and applicable interest rate. Principal and interest of loans are accounted respectively.

Priority loans and entrusted loans made by SRCB are accounted separately. The priority loans are those loans granted by SRCB with its own decision. The risk of these loans rests with SRCB, and SRCB is entitled to recover the principal of such loans and collect interest accrued thereon. Entrusted loans are those loans granted on behalf of clients. Rather than by SRCB, the terms and conditions of such loans, such as borrower(s), use of funds, amount, term of borrowing, interest rates etc., are specified by the clients. The use of entrusted loans by the borrower(s) shall be monitored by SRCB, and SRCB shall assist the clients in the recovery and collection of such loans. For entrusted loans granted, SRCB is only entitled to commissions from clients, and shall not make any advances thereon. The net value of assets and liabilities arising from entrusted loans and entrusted investments shall be recognized in the consolidated Balance Sheet.

- b. Classification of loans

- I .Short, medium and long-term loans

Loans originated by SRCB are divided by loan term. Loans with a maturity of no more than 1 year are classified as short term loans. Loans with a maturity of greater than 1 year are classified as medium to long term loans.

- II .Overdue loans

Overdue loans refer to any loans which fail to repay on agreed due day, including any approved extensions, which is agreed upon the contract; or the forced advance made by SRCB resulting from the acceptor failing to pay the discounted bill in a timely manner due to insufficiency of funds in the acceptor's account, or the forced advance made by SRCB resulting from an applicant's deposit with SRCB failing to sufficiently cover the Bank

Financial Statements

Acceptance on the due date; These loans or advances are all recognized as overdue loans from the due day. Those being overdue for more than 90 days are recognized as idle loans.

III. Idle loans

Loans being overdue for more than 90 days

IV. Bad loans

After all possible measures have been resorted to and all necessary procedures have been performed, the loans that yet cannot be recovered as scheduled by SRCB, in accordance with Stipulations on Financial Institutions Writing-off Bad Loans released by the State Ministry of Finance of the People's Republic of China (CJ [2005] No.50), are reported as bad loans.

3.7 Accounting method of provisions for loan losses

- a. Allowance method is adopted for accounting for bad debts. Loan losses provisions are drawn to cover the potential loan losses arising from: short-term loans, medium to long-term loans, overdue loans, idle loans, bad loans, discounting of bills, import and export bill purchase, etc.
- b. Provisions for above credit assets are made in accordance with the notice of publishing the Guidance on Provisioning for Loan Losses [YF (2002) No.98] issued by PBoC, Notice of publishing the management rules on loan loss provision of Financial Institutions [CJ (2005) No.49], and Notice of Issues on loan loss provision [CJ (2005) No. 90] issued by the Ministry of Finance.
- c. Credit assets of SRCB are classified into following five categories: Pass, Special Mention, Sub-standard, Doubtful and Loss.
 1. Pass refers to loans whose borrowers are currently in meeting commitments, and full and timely repayment of interest and principal is not in doubt.
 2. Special Mention refers to loans whose repayment of principal or interest may be adversely affected by specific factors, although borrowers are capable of repaying principal and interest currently.
 3. Sub-standard refers to loans whose borrowers are displaying an obvious weakness that is likely to jeopardize repayment and full repayment of principal and interest is improbable if solely relying on available business revenue, and some loss of principal or interest are possible even taking account of the collateral.
 4. Doubtful refers to loans whose collection in full is definitely improbable, and significant losses will be incurred even taking account of the collateral.

5. Loss refers to loans whose principal and interest cannot be recovered or only a small portion can be recovered after taking all possible measures and exhausting necessary legal proceedings.

SRCB assesses the possible loss for each loan according to the credit assets risk classification, with enough consideration of borrower's repayment ability, repayment records, valuation of collateral and guarantor's support, and appropriate provisions are then made.

Loan losses are written off against provisions already made. And if the bad loans written off are recovered later, the related credit losses provision written off will be restored accordingly.

No provision for special loan losses is made, since there is no such conditions occurred.

3.8 Bills discounting

Discounted bills are recognized as their par values. Interest income, representing the difference between the amounts of cash advanced and the par value is recognized into the current income statement.

3.9 Investment

a. Short-term investment

- I. Short-term investment is recorded at the initial investment cost on acquisition.
- II. The difference between book value and cash received is recognized in current investment profit/loss when dealing with short-term investment.

b. Long-term bond investments

- I. The long-term bond investment is recorded at the purchase cost net of surcharges such as taxation, commission fee and the interest accrued over the period from the bond issue date to the purchase date included therein. Interest income is recognized on accrual basis, and the premium/discount paid for the long-term bond investment is amortized by using straight-line method within holding period.
- II. Interest from long-term bond investment is recognized on an accrual basis.
- III. The difference between par value and cash received is recognized in current investment profit/loss at the disposal of long-term bond investment.

c. Long-term equity investment

The equity method is used to account for long-term equity investments when SRCB can control, jointly control or has significant influence over the invested enterprise. In this case, long-term equity investment is recorded at its initial cost on acquisition, and mark to market adjustments will be made in line with the investment in the invested enterprise's equity proportionately.

Financial Statements

Cost method is used to account for long-term equity investments when SRCB does not have control, joint control or significant influence over the invested enterprise. In this case, long-term equity investment is recorded at its initial cost on acquisition, and the investment income is recognized when the invested enterprise announces distribution of profit or cash dividends.

3.10 Fixed assets accounting method

a. Recognition criteria of fixed assets

Fixed assets are defined as tangible assets whose useful life is more than 1 year and the asset unit value exceeds RMB 2,000. Fixed assets are classified into the following categories: buildings and construction, electronic equipment, transportation facilities and machinery & other equipment. Low-value consumables including personal computers and printers are excluded.

b. Fixed assets are depreciated on a straight-line basis over their estimated useful lives, and the depreciation rates for each category are calculated based on the original cost less estimated residual value and estimated useful lives. Other fixed assets are recognized in the current fees account on acquisition. The depreciation rates for each category of fixed assets are set out as follows:

Asset category	Service years	Annual depreciation rate	Residual rate
Buildings	20 years	4.8%	4%
Machinery	10 years	9.5%	5%
Electronic equipment	5 years	19.4%	3%
Transportation equipment	5 years	19.4%	3%
Other equipment	5 years	19.4%	3%

3.11 Construction in progress accounting method

Construction in progress refers to any capital assets that are being built or installed, including those being in preparation period, or being constructed, or having been completed but not yet delivered for use. Construction in progress is recognized as its actual cost, including cost of direct construction and purchase cost of relevant assets, foreign currency gains or losses and interest expenditure of financing for the project during construction, instalment and test, from which any revenue realized before delivery has been deducted. Construction in progress is recognized at the cost incurred. Total construction cost is capitalized as fixed assets and other relevant assets upon the construction in progress reaching its expected usable condition.

3.12 Long-term deferred charges

Long-term deferred charges refer to those expenses that have been paid out, but will be amortized for more than 1 year. The deferred charges are recognized at the actual cost, and are amortized as follows:

- a. Rental is amortized on straight-line basis over actual duration of lease.
- b. Other expenses are amortized on straight-line basis over beneficial life.

When any long-term project is confirmed to no longer bring future economic benefits to SRCB, any un-amortized balance of it shall be transferred to the income statement in the relevant period.

3.13 Valuation and amortization for intangible assets

- a. Intangible assets shall be recorded at the actual purchase price paid.
- b. The cost of an intangible asset shall be amortized on straight-line basis. The details are as follows:
 - I. Land use rights are amortized over 50 years starting from the acquisition month.
 - II. Computer software expense is amortized over 5 years starting from the acquisition month.

3.14 Accounting method for foreclosed assets in suspense

- a. Foreclosed assets in suspense shall be recorded at the aggregate of principal with the actual foreclosed amount and accrued interest which has been recognized.
- b. At disposal, if the net recoverable amount is more than the carrying amount of the assets, the surplus shall be recognized in non-operating income. If the net recoverable amount is lower than the carrying amount of the assets, the shortfall shall be recognized as bad loan and offset against provision for bad loans, and the difference between the principal of loans and the carrying amount of the assets shall be offset against current interest income. Custody fees that have arisen shall be recognized as the non-operating expenditure. Expenses arising from the disposal shall be deducted from disposal revenue.

3.15 Valuation and accounting method for purchase of resale assets and sale of repurchase assets

Purchase of resale assets refers to inter-bank lending involving debt securities and bills purchased from a counter-party with an obligation to re-sell to the counter-party at a pre-determined price on a specified future date under a resale agreement. Sales of repurchase assets refers to inter-bank borrowing involving debt securities and bills sold to counter-party with an obligation to repurchase them at a pre-determined price on a specific future date under a repurchase agreement.

Purchase of resale assets and sale of repurchase assets are recognized at the actual amount paid or received and are recorded in the relevant accounts named Purchase of Resale Assets and Sale of Repurchase Assets. Discounted bills and bonds under Sale of Repurchase Assets are presented in the relevant accounts under Assets.

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3.16 The principal of revenue recognition

a. Interest revenue

- I Interest revenue for loans shall be measured based on outstanding principal and applicable interest rate, with reference to the residual time length of the loan, on an accrual basis, with an exemption for loans for farmers, where the interest is to be repaid together with principal on due day. In cases where loans are overdue for more than 90 days, recognition of interest on such loans shall cease and be transferred to off balance sheet. In the case of principal being overdue for more than 90 days or interest receivable being overdue for more than 90 days, any interest already accrued shall be written off, and shall be transferred to an off balance sheet account. The interest revenue thereon is recognized when it is actually received.
- II Interest for inter-banking lending shall be recognized along with the principal.

b. Commission income

Revenue from commission income is recognized on a cash receipt basis.

c. Other operating revenues

Other operating revenues, including income on purchase and sale of debentures, income on guarantee and other income, are recognized upon the receipt of the funds by SRCB.

3.17 Recognition of interest expenses

Interest expenses are recognized on an accrual basis. For current deposits and inter-banking deposits, the interest are settled quarterly; for current savings, interest is accrued quarterly; for term deposits, the interest is accrued quarterly at the interest rate prevailing on the deposit day; for time savings and negotiation deposits, the interest are accrued quarterly at the interest rates stated on the deposit receipt and the deposit contracts respectively; the interest on interest-bearing-liabilities such as sale of repurchase assets is accrued quarterly at the contract interest rates.

3.18 Accounting for income taxes: adopting taxes payable method

3.19 At the end of this year, no enterprise is controlled, joint controlled or significantly influenced by SRCB, therefore no consolidated financial statements are prepared.

3.20 Profit distribution

In accordance with the Company Law of PRC and Articles of Association, SRCB appropriates 10% of net profit to statutory surplus reserve, until the reserve reaches 50% of the registered capital of SRCB, and to the statutory welfare reserve respectively.

In accordance with Notice on the Relevant Enterprise Financial Treatments after the Implementation of the Company Law [CQ(2006) No. 67] issued by the Ministry of Finance, effective from January 1, 2006, no more statutory welfare reserve will be drawn up and transferred to surplus reserves.

In accordance with the Accounting System for Financial Institutions and Notice on Administration of Provisioning for Bad Loans by Financial Enterprises [CJ (2005) No.49] issued by Ministry of Finance People's Republic of China, SRCB is required to set aside a general reserve of at least 1% of its total risk-weighted assets at year end from net profit and the general reserve shall form part of the Shareholder's equity. Discretionary surplus reserve and dividends distribution shall then be drawn up upon the profit net of general reserve.

The general reserve of SRCB is not lower than 1% of total risk-weighted assets by the end of year; therefore, no general reserve for 2007 is required to set aside.

The distribution of profit shall be subject to the approval of Board of Directors and General Meeting of Shareholders.

4. Taxation

The taxes and surcharges applicable to SRCB and their applicable rates for 2007 were as follows:

Taxes/surcharges	Basis of tax and surcharge	Rates
Business tax	Taxable operating revenue	3%
City maintenance and Construction tax	Business tax payable	1%, or 5%, or 7%
Education surcharge	Business tax payable	3%
River channel construction and maintenance cost	Business tax payable	1%
Corporate income tax	Taxable income	33%

In accordance with Notice on Relevant Tax Policies Issues of Rural Credit Cooperatives in the Extended Pilot Areas [CS(2004) No. 177] issued by the Ministry of Finance and the State Administration of Taxation, effective from 1 January, 2004, finance and insurance taxable revenue realized by the rural credit cooperatives in the pilot areas will be taxed on by 3% as the business tax.

Financial Statements

5. Notes to the Financial Statements

(Amounts in the tables are presented in thousands of RMB)

5.1 Cash and revolving fund

Category	2007-12-31	2006-12-31
Cash	1,284,735	871,916
Total	1,284,735	871,916

5.2 Due from Central Bank

- a. SRCB is required to place a general statutory deposit reserve, which is not permitted to be for general business use, with the central bank. Deposit reserve shall cover deposit from government units & social organizations, deposit from fiscal off-budget, individual deposit, enterprise's deposit, the credit balance of entrusted business from liabilities items net of assets items, and other deposits. The statutory reserve ratio for deposits denominated in RMB was 8% on 10 January, 2007, and the ratio raised to 8.5%, 9%, 9.5%, 10%, 10.5%, 11%, 11.5%, 12%, 13%, 14% on 20 February, 10 April, 10 May, 20 May, 31 May, 10 August, 20 September, 20 October, 20 November, 20 December, 2007. The statutory reserve ratio for deposits denominated in foreign currency before and after 15 May, 2007 are 4% and 5% respectively.
- b. General deposit with the central bank refers to the funds paid in by SRCB to ensure withdrawal of customers' deposit and business operation, with the special purpose funds such as statutory deposit reserve excluded.

Category	2007-12-31	2006-12-31
General statutory deposit reserve	17,725,050	9,014,206
General deposit with the Central Bank	3,735,964	3,777,088
Financial deposit with the Central Bank	298	1,056
Total	21,461,312	12,792,350

5.3 Special notes of Central Bank

Category	2007-12-31	2006-12-31
Central Bank notes	2,121,850	2,121,850
Total	2,121,850	2,121,850

5.4 Placements with financial institutions

Category	2007-12-31	2006-12-31
Deposits with intra-banks	18,470	21,613
Deposits with other banks	3,384,568	1,575,135
Deposits with foreign banks	78,583	55,926
Total	3,481,621	1,652,674

5.5 Due from other banks

Category	2007-12-31	2006-12-31
Due from commercial banks	810,000	360,000
Rediscounting of resale bills	4,371,283	2,724,782
Transference of resale credit assets	0	300,000
Total	5,181,283	3,384,782

As of 31st December, 2007, no inter-bank placements were extended to the shareholders holding 5% or more of SRCB's shares.

5.6 Purchase of resale assets

Category	2007-12-31	2006-12-31
Other commercial banks	1,240,700	2,466,100
Insurance companies		303,300
Other companies		
Security companies	155,100	50,000
Credit cooperatives	300,240	250,000
Total	1,696,040	3,069,400

5.7 Loans

Category	2007-12-31	2006-12-31
Short-term loans	31,020,948	27,500,534
Medium to long-term loans	47,324,035	39,442,552
Overdue loans	98,642	117,985
Idle loans	932,984	1,103,042
Bad loans	61,530	3,735
Total	79,438,139	68,167,848

As of 31st December, 2007, the balance of loans to shareholders holding 5% or more of SRCB's share amounted to RMB 498,000,000. Refer to 6.2 for details.

5.8 Foreclosed assets in suspense

Category	2007-12-31	2006-12-31
Foreclosed assets in suspense	809,507	315,371
Total	809,507	915,371

Financial Statements

5.9 Other account receivables

Classification by account aging

Category	2007-12-31	2006-12-31
Less than 1 year	46,309	98,858
1-2 years	5,982	4,790
2-3years	2,154	
over 3 years	6,734	7,006
Total	61,179	110,654

Classification by use

Category	2007-12-31	2006-12-31
Advance for litigation and attorney fees	4,949	
Disposal fee of NPL replacement	4,678	
Prepayment for houses and land	6,687	1,719
Transferable intra-city bills	28,584	76,765
Prepaid printing fees	2,278	2,975
Temporary payment to company and individual	8,989	361
Security for housing renting	3,498	
Other account receivables	1,516	28,834
Total	61,179	110,654

5.10 Discounting

Category	2007-12-31	2006-12-31
Bills purchased	316,934	545,979
Bank's acceptance bill	826	2,513
Commercial acceptance bill	9,812	7,373
Total	327,572	555,865

5.11 Short-term investments

Category	2007-12-31	2006-12-31
Treasury bills	693,148	736,175
Central bank bills	194,560	3,192,132
Financial bonds	1,213,446	1,517,145
Enterprise bonds	599,099	1,079,555
Total	2,700,253	6,525,007

5.12 Provisions for bad loans

Opening balance	1,206,313
Provision made in the reporting year	1,800,000
Other funds transferred in the reporting year	3,000
Writing-offs in the reporting year	1,622,073
Recovery in the reporting year	11,393
Closing balance	1,398,633

Note: Refer to 12.1 for other funds transferred in

5.13 Long-term investments

Category	2007-12-31	2006-12-31
Legal person shares investment	4,387	17,121
Other long-term equity investment	744,626	413,576
Other bond investment	17,501,778	8,667,027
Long-term treasury bill investment	12,121,412	16,913,663
Total	30,372,203	26,011,387

Note1: As of 31st December, 2007, an amount of RMB 116.6147 million long-term treasury bill investment entrusted in Nanfang Security Co., Ltd, of RMB 3,331.0174 million treasury bill investment entrusted in Fuyou Security Co., Ltd, and of RMB 109.1224 million treasury bill investment entrusted in Dapeng Security Co., Ltd, which aggregates to RMB 3,556.7545 million, are at significant risk of possible loss, since these security companies have been declared to be cancelled or closed by China Securities Regulatory Commission.

Collection of the Treasury bill investment entrusted in Yinhe Security Co., Ltd (RMB 1,134.9534 million), Huaxin Security Co., Ltd (RMB 1,209.3254 million), Minzhu Security Co., Ltd (RMB 6.0339 million), Hualong Security Co., Ltd (RMB 43.3145 million), which aggregates to RMB 2,393,627,200.00, in full remains highly uncertain, since all of these treasury bills have been sold by the aforesaid securities.

Note2: Long-term investments maturing within one year:

Category	2007-12-31	2006-12-31
Other bond investment	1,253,283	726,000
Long-term treasury bill investment	1,156,892	1,072,521
Total	2,410,175	1,798,521

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5.14 Fixed assets and accumulated depreciation

5.14.1 Original value of fixed assets

	Buildings	Transportation facilities	Electronic equipments	Machinery equipments	Other equipments	Total
2006-12-31	967,867	87,530	181,040	75,609	7,098	1,319,144
Purchase in the reported year	2,871	3,055	19,990	6,485	1,932	34,333
Transfers from construction in progress in the reported year	111,721	858	18,996	4,798	338	136,711
Other additions in the reported year		2,401		82	549	3,032
Disposal and transfer in the reported year	34,950	50,390	10,587	5,438	293	101,658
Other reduction in the reported year			19	182	5	206
2007-12-31	1,047,509	43,454	209,420	81,354	9,619	1,391,356

5.14.2 Accumulated depreciation

-	Buildings	Machinery equipments	Electronic equipments	Transportation facilities	Other equipments	Total
2006-12-31	340,261	58,903	124,105	54,442	3,836	581,547
Increase in the reported year	45,860	11,104	21,016	4,039	1,985	84,004
Decrease in the reported year	12,808	42,247	10,539	5,247	279	71,120
2007-12-31	373,313	27,760	134,582	53,234	5,542	594,431

5.15 Construction in progress

Opening balance	171,788
Additions in the reported year	147,938
Transfers to fixed assets in the reported year	136,711
Other deduction	41,649
Closing balance	141,366

5.16 Intangible assets

Category	Land-use right	Software	Total
Method of acquisition	Replacement of asset(*)	Purchase	
Original cost	4,521,417	12,175	4,533,592
2006-12-31	4,430,989	5,870	4,436,859
Additions in the reported year		5,079	5,079
Amortization and transfer out in the reported year	112,119	1,688	113,807
Accumulated amortization and transfer out	202,547	2,914	205,461
2007-12-31	4,318,870	9,261	4,328,131

* Land use rights, amounting to RMB 4,510,576,623.00, were appropriated by the Shanghai Government and used to replace certain designated SRCB non-performing assets in order to support the reform of Shanghai Rural Credit Cooperatives. The aggregate of land use rights, amounting to RMB 4,510,576,623.00, and evaluation expenses of land use rights, amounting to RMB 10,840,000.00, are recognized as intangible assets.

5.17 Deposits

Deposit category	2007-12-31	2006-12-31
Short-term deposits	64,124,674	52,267,808
Short-term savings deposits	10,318,094	9,283,401
Fiscal deposits	96,871	12,559
Long-term liabilities due within one year	37,216,585	34,834,963
Long-term deposits	464,768	270,791
Long-term savings deposits	14,394,898	18,122,763
Total	126,615,890	114,792,285

5.18 Due to financial institutions

Category	2007-12-31	2006-12-31
Due to domestic bank	3,053,561	1,050,425
Due to domestic security companies	0	36
Total	3,053,561	1,050,461

5.19 Accounts payable

Category	2007-12-31	2006-12-31
Interest payable accrued from time savings deposit	3,903,388	3,678,156
Interest payable accrued from time deposit	108,447	75,423
Total	4,011,835	3,753,579

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5.20 Taxes payable

Category	2007-12-31	2006-12-31
Business tax payable	39,828	32,446
Income tax payable	192,136	47,925
City construction tax payable	1,491	1,641
Other tax payable	1,683	1,226
Total	235,138	83,238

5.21 Other account payables

Category	2007-12-31	2006-12-31
Receipt of principal and interest of replaced NPLs	1,033,797	712,265
Other payables	17,969	197,222
Salary payable for prior years	92,916	80,135
Educational and training fees payable	39,803	39,803
Return remittance in suspense and collection	135,234	22,114
Unclaimed deposits in long suspense	33,837	35,400
Custody of fund		214
Cashier discrepancy to be settled	42	17
Clearing fund to be transferred	100,317	
Temporary receipt of foreclosed assets	31,285	
Social insurance premium payable	16,385	
Withholding personal income tax	6,086	
Interest of rediscounted bills for the next year	54,104	
Withholding interest tax for 2007	20,000	
ANZ technology cooperation fund	39,147	
Provisional receipt fund	13,170	
Entrust and proxy business	7,396	4,664
Total	1,641,488	1,091,834

5.22 Profit payable

Category	2007-12-31	2006-12-31
Dividends to shareholders	51	38
Dividends to employees	0	21,000
Total	51	21,038

5.23 Paid-in capital

Category	2006-12-31	Increase in the reported year	Decrease in the reported year	2007-12-31
Share capital	3,000,294	745,391	0	3,745,686
Total	3,000,294	745,391	0	3,745,686

Notes: In accordance with YJF (2007) No. 356, "Approval on Shanghai Rural Commercial Bank Company Limited Absorbing Shareholding Investment from Australia and New Zealand Banking Group Limited" issued by China Banking Regulatory Commission, private placement was conducted to Australia and New Zealand Banking Group Limited. The fund raised amounts to RMB 1,982,741,310.20, among which RMB 745,391,470 was registered as the paid-in capital and RMB 1,237,349,840.20 was recognized as the share capital premium. The changed registered capital of SRCB has been audited by Wan Long (Shanghai) Certified Public Accountants co.,Ltd. and a Capital Verification Report numbered WKYZ (2007) No. 1149 has been provided. A replaced Business License for Enterprise as Legal Person (No. 310000000088142) was issued by the Shanghai Administration of Industry and Commerce on 14 January 2008.

5.24 Capital reserve

Category	2006-12-31	Increase in the reported year	Decrease in the reported year	2007-12-31
Tax refund from sub-branches	4,507	66	0	4,573
Share capital premium	0	1,237,350	0	1,237,350
Total	4,507	1,237,416	0	1,241,923

Note: Refer to 5.23 for detailed share capital premium in this reporting year.

5.25 Surplus reserve

Category	2006-12-31	Increase in the reported year	Decrease in the reported year	2007-12-31
Statutory surplus reserve	32,756	39,844	0	72,600
Discretionary surplus reserve	246,092	58,549	0	304,641
Total	278,848	98,393	0	377,241

5.26 General provision

Category	2006-12-31	Increase in the reported year	Decrease in the reported year	2007-12-31
General provision	2,617,824	5,480	0	2,623,304
Total	2,617,824	5,480	0	2,623,304

Note: Refer to 12.2 for detailed general provision increase in the reported year.

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5.27 Undistributed profit

Category	2007-12-31
Balance of undistributed profits at the beginning of the year	585,489
Add: Change of accounting policy	
Adjustment of accounting error	-40,851
Other adjustment factors	
Opening balance of this year	544,638
Net profit for 2007	372,157
Less: Extraction of statutory surplus reserve	39,844
Extraction of discretionary surplus reserve	58,549
Dividends to employees	
Dividends to shareholders	180,018
Undistributed profits at the end of the year	638,384

Notes1: In accordance with the resolution of General Meeting of Shareholders for 2006, SRCB extracted an amount of RMB 39.844 million and RMB 58.549 million to the statutory surplus reserve and the discretionary surplus reserve respectively, and declared a cash dividend distribution of RMB 180.018 million, amounting to 6% of the share capital.

Notes2: Accounting error adjustments are represented principally in other long-term investments. Cost method was adopted to account for the long-term investment to Shanghai Huyang Highway Development Co., Ltd and Shanghai South-east Circle Highway Investment Development Co., Ltd before, and in this year, equity method was adopted, which resulted in decreasing in the investment profit and long-term investment of last year by RMB 43.082 million. Operating expenses for prior years (RMB 2.509 million) received this year decreased the operating expenses of last year, and business taxes and surcharges (RMB 0.278 million) resulting from the taxation clearance increased the business taxes and surcharges of last year accordingly.

5.28 Investment incomes

Category	Year of 2007	Year of 2006
Interest income from bonds	561,866	425,760
Investment profit (income from equity investment)	23,614	-37,770
Interest income from treasury bills	312,202	200,883
Income from asset-backed securities	13,965	1,644
Other investment income	29,289	145,435
Total	940,936	738,952

5.29 Non-operating incomes

Category	Year of 2007	Year of 2006
Income from fixed assets, inventory surplus, and disposal	19,321	3,748
Lease income	16,330	13,550
Income from disposal of unclaimed deposits in long suspense	0	677
Net income from disposal of foreclosed assets	30,473	29,985
Other non-operating income	10,425	25,887
Total	76,549	73,847

5.30 Non-operating expenses

Category	Year of 2007	Year of 2006
Loss from fixed assets, inventory shortage and disposal	2,062	460
Penalty from cashier	10	8
Donation		180
Refund of unclaimed deposits in long suspense		370
Custody fee for foreclosed assets		46
Net loss from disposal of foreclosed assets	22,579	
Other non-operating expenses	6,472	2,515
Total	31,123	3,579

6. Disclosure of Related Parties and Transactions

6.1 Related parties without effective control

Name of enterprises	Relationship
Shanghai Dragon Investment Co., Ltd	Shareholder
Shanghai State-owned Assets Operation Co., Ltd	Shareholder
Shanghai International Group Co., Ltd.	Shareholder
Shanghai Greenland Group Co., Ltd.	Shareholder
Jinjiang International Holdings Co., Ltd	Shareholder
Shanghai SITICO Investment Management Co., Ltd	Shareholder
Shanghai Shanxin Property Co., Ltd	Shareholder
Orient International (Holding) Co., Ltd	Shareholder
Shanghai Qingpu Assets Operation Co., Ltd	Shareholder
Shanghai Zhezhong Group Co. Ltd	Shareholder

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6.2 Transactions with related parties without effective control

Name of enterprises	2007-12-31		2006-12-31		Notes
	Balance of loans	Balance of Bank's acceptance bills	Balance of loans	Balance of Bank's acceptance bills	
Shanghai Shenghui Investment Co., Ltd	270,000		270,000		Subsidiary company of Shanghai Dragon Investment Co., Ltd
Shanghai Greenland Auto Service Group Co., Ltd	70,000		70,000		Subsidiary company of Shanghai Greenland Group Co.,Ltd.
Shanghai Greenland Commercial Group Co., Ltd	60,000		56,000		Subsidiary company of Shanghai Greenland Group Co.,Ltd.
Shanghai Greenland New Development Real Estate Co., Ltd			60,000		Subsidiary company of Shanghai Greenland Group Co', Ltd.
Shanghai Yunfeng Group Co., Ltd				32,000	Related party of Shanghai Greenland Group Co.,Ltd.
Shanghai Shanxin Property Co., Ltd	98,000		98,000		The legal representative is the supervisor of SRCB
Total	498,000		554,000	32,000	

7. Contingent Item

Category	2007-12-31	2006-12-31
Guarantee issuance	84,860	165,038
Total	84,860	165,038

8. Non-adjust Post Balance Sheet Events

As of the issuing date of the financial statements, there were no significant non-adjusted post balance sheet events that had an impact on the reading and understanding of the financial statements.

9. Debt Restructuring

As of the date of the balance sheet, there were no significant debt restructuring events that required disclosure.

10. Non-monetary Transaction Events

As of the date of the balance sheet, there were no significant non-monetary transaction events that required disclosure.

11. Significant Litigation or Arbitration Issues

11.1 Litigation or arbitration issues concerning credit

At the end of the reporting period, SRCB had filed 304 lawsuits concerning the loans to relevant courts that had jurisdiction, involving a total amount of RMB 756.9687 million. During the period, verdicts were passed enabling the collection of funds amounting to RMB 441.5737 million by lawsuit.

By the end of the reporting period, SRCB had filed 331 lawsuits concerning loans to courts that had not yet reached a verdict, involving RMB 603.0705 million. During the period however monies were collected on these cases amounting to RMB 38.4509 million.

11.2 Litigation or arbitration issues concerning non-credit

By the end of the reporting period, lawsuits concerning non-credit that had no verdict amounted to 25, involving RMB 94.498 million.

12. Other Significant Matters

12.1 In accordance with the cooperation memorandum with Shanghai Agriculture Industry Office signed on 13 May 2006, the two parties agreed that financial support should be provided to the specialized cooperatives for farmers recommended by Shanghai Agriculture Industry Office by “Compensation fund to loans risk diversification”. In the reporting year, an amount of RMB 3 million was transferred to SRCB from Shanghai Agriculture Industry Office, which was recognized as the provisions for bad loans.

12.2 In accordance with the Notice on Subsidy Measures for Rural Credit Cooperatives Value-preserved Savings issued by Ministry of Finance, SRCB received subsidy for value-preserved savings, with an amount of RMB 5.48 million, which was recognized as general provision.

12.3 In accordance with the resolutions passed by the 9th Session of the 1st Board of Directors meeting, the assets which had suffered loss were written off in 2007, involving the amount of RMB 1,622.07 million. The written-offs have been submitted to taxation authority for approval.

12.4 The corporate income tax for 2007 has not yet been liquidated and the taxable income will be subject to the amount audited by taxation authority.

Shanghai Rural Commercial Bank Co., Ltd.

12 March 2008



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