



**CHINA CONSTRUCTION BANK CORPORATION
ANNUAL REPORT 2004**

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1 Important Notice

- ◆ The Bank's Board of Directors and its directors severally and jointly accept responsibility for the truthfulness, accuracy and completeness of the contents of this annual report, and confirm that there are no false representations or misleading statements contained in, or material omissions from, this annual report.
- ◆ China Construction Bank Corporation's Annual Report 2004 was approved at the seventh meeting of the First Session of the Board of Directors.
- ◆ The financial statements contained in this annual report have been prepared as if the Bank had been in existence throughout the period from 1 January 2003 to 16 September 2004. The accounting policies adopted by the Bank are based on the Accounting Standards for Business Enterprises, *the Accounting Regulations for Financial Enterprises* (in 2001) issued by the Ministry of Finance ("MOF"), and other relevant regulations.

The previously issued statutory financial statements of CCB for the year ended 31 December 2003 include the income and expenses for the year then ended and the assets and liabilities as at the date of the businesses succeeded by both the Bank and Jianyin from CCB. These financial statements of CCB were prepared in accordance with accounting policies which conform to the Accounting Standards for Business Enterprises issued by the MOF (limited to those standards effective for all enterprises), *the Accounting Regulations for Financial Enterprises* issued by the MOF and the People's Bank of China ("PBOC") in 1993, and other relevant regulations. Due to the restructuring and the adoption of different accounting policies, the financial information contained in the statutory financial statements of the Bank for the year ended 31 December 2003 in this report are not comparable with the statutory financial statements of CCB for the same period.

- ◆ The Bank's financial statements for the year ended 31 December 2004 and comparatives for the year ended 31 December 2003 have been audited by KPMG Huazhen in accordance with China's Independent Auditing Standards of the Certified Public Accountants, who have issued a standard and unqualified auditors' report.

2 Financial Highlights

Summary of key financials and performance indicators for year 2004

(Expressed in millions of RMB)

Profit before tax	50,216
Total assets	3,904,785
Return on net assets ¹	25.40%
Non-performing loan ratio	3.92%
Capital adequacy ratio	11.29%

¹ Return on net assets = Net profit / [(Net assets at the beginning of the year + Net assets at the end of the year) / 2] * 100%. The Bank's return on net assets for year 2004 reached 25.40%. Excluding the impact of income tax exemption relating to the restructuring, return on net assets was 17.28%.

Key financials and performance indicators for the two reporting years

(Expressed in millions of RMB)

	2004	2003
Operating income	126,953	113,985
Operating expenses	46,737	42,192
Profit before tax	50,216	37,473
Total assets	3,904,785	3,553,070
Loans	2,225,585	1,995,990
Total liabilities	3,710,041	3,366,840
Deposits	3,489,376	3,194,118
Shareholders'/ owner's equity	194,744	186,230
Return on assets ²	1.30%	0.70%
Loan to deposit ratio	63.78%	62.49%
Liquidity ratio	52.23%	44.07%
Cost to income ratio ³	39.17%	41.14%

² Return on assets = Net profit / [(Total assets at the beginning of the year + Total assets at the end of the year) / 2] * 100%. The Bank's return on assets for year 2004 was 1.30%. Excluding the impact of income tax exemption relating to the restructuring, return on assets was 0.88%.

³ Cost to income ratio = General and administrative expenses / (Net interest income + Non-interest income).



Chairman Guo Shuqing

3 Statement of the Chairman

2004 marked a historic milestone for the Bank.

At the end of 2003, a capital injection of US\$ 22.5 billion was received from China SAFE Investments Limited, previously known as Central Huijin Investment Co., Ltd. (“Huijin”), as part of the decision of the State Council of the People’s Republic of China (“the State Council”) to enhance the financial condition and competitiveness of the state-owned commercial banks. In September 2004, CCB was separated and China Construction Bank Corporation was incorporated into a joint stock company with limited liability. With the incorporation of the shareholding company, our modern corporate governance structure began to take shape as Shareholders’ General Meetings were held and a Board of Directors and a Board of Supervisors were formed. We also established several Board Committees, including a Strategy and Nomination Committee, an Audit Committee, a Risk Management Committee, a Compensation and Evaluation Committee and a Related Party Transactions Committee. These achievements have demonstrated that we are fully committed to implementing international modern corporate governance practices.

2004 also marked the first year where the Bank has adopted *the Accounting Regulations for Financial Enterprises* issued (in 2001) by the MOF and the comparative figures have been restated accordingly. In particular, provisions on impaired assets, including loans and advances to customers, have been made where necessary and on a prudent and consistent basis with the newly established guidelines.

We are pleased to report that the Bank’s profit before tax for 2004 reached RMB 50,216 million, an increase of RMB 12,743 million, or 34.0%, over the previous year. Operating costs were controlled through effective cost cutting measures. The cost to income ratio was lowered to 39.17%, a decrease of 1.97 percentage points compared to the previous year. Therefore, our strong financial performance has proved that we have not been steered away from our focus on sustaining a fundamentally sound and successful business.

The completion of the shareholding restructuring programme and continued efforts in maintaining and building a successful business will allow us to complete our long-term strategic goal of transforming the Bank into a modern and internationally competitive financial institution with adequate capital and sound and effective internal controls and operations, which strives for service excellence and delivering shareholder value. We shall continue to build and sustain the growth of our business by increasing our competitiveness through a customer focused strategy, enhancing our brand value, strengthening our capital base, improving the internal controls and risk management environment and investing in our operating capabilities and, most importantly, in our employees.

Finally, the Bank owes its past and future success to the hard work and efforts of every staff member. My sincere gratitude goes to our employees for their loyalty and dedication. I would also like to take this opportunity to express my appreciation to our customers, business partners, peers and the community for their continuing support and encouragement. I trust that we will be able to rely on your continued support and confidence in welcoming further success of the coming year!

Chairman

A stylized, handwritten signature in black ink, consisting of several fluid, connected characters.



President Chang Zhenming

4 Statement of the President

Strong operating results in 2004 were largely attributable to our success in implementing a number of key strategic initiatives. Robust and steady growth was apparent, in particular with our deposit and lending business. This was achieved through effective marketing strategies to raise our overall brand profile and focus on delivering quality service. While maintaining our leading market positions in core products, we were active in exploiting new market opportunities, such as developing our strategic businesses, including credit card and foreign exchange, and electronic banking services with considerable success. We also sustained the rapid growth experienced in our intermediary services. We demonstrated our commitment to continuous product innovation with the launch of a number of new products, such as the pilot launch of the “Happy Investor” wealth management card and the bank-wide unified brand for our foreign exchange structured deposit products, “Profit from Exchange” (“汇得盈”). We became the first domestic commercial bank to launch an independent custodial banking system for securities settlement funds as part of our custodial services.

While a modern corporate governance framework was formed with the establishment of China Construction Bank Corporation, we have remained focused on strengthening our internal control and risk management environment. We believe that all key competencies are essential to executing our strategy and delivering financial performance on a sustained basis. By the end of 2004, our non-performing loan ratio fell to 3.92%. Improvement in the overall level of asset quality reflects our continued efforts to increase the capabilities and quality of our risk management. The Credit Risk Rating and Early Warning System was enhanced by incorporating modern techniques and measures, such as standardised credit risk ratings based on geographical regions, industries and customer types.

During 2004, initiatives were taken to improve the management of capital and the structure of the asset portfolio; we became the first amongst the domestic commercial banks to establish an economic capital driven risk and reward performance system and adopt economic capital budgeting. In 2004, the Bank issued a total of

RMB 40,000 million of subordinated bonds in three tranches in August, September and December which qualified as supplementary capital as approved by the China Banking Regulatory Commission (“CBRC”). Therefore, the capital adequacy ratio in 2004 was significantly strengthened to 11.29%.

By building on our competitive strengths, we plan to concentrate our resources and efforts in the following key strategic initiatives for the year 2005:

— *Continue to promote brand awareness and a customer focused strategy:*

We intend to maintain and enhance our leading position in key products and services, such as medium and long-term corporate lending as well as residential mortgages, by continuing our active marketing efforts to raise our overall brand profile. We shall also strive to capture significant growth opportunities in terms of target customer groups with growth and profit potential, fast developing businesses and geographical regions. We believe that continued focus on delivering service excellence and quality services will create a sustainable competitive edge. Service capabilities will be enhanced through further consolidation and rationalisation of our distribution channels and improved utilisation of alternative service delivery channels, such as electronic banking services. Customer relationship management will be improved by meeting and responding to customers’ needs through innovative products and services.

— *Strengthen corporate governance to increase the effectiveness of our risk management capabilities:*

Following the establishment of a modern corporate governance framework, our next step is to further improve our risk management system by implementing a number of measures. We are currently establishing a vertical reporting line for our risk management function that directly reports to the Chief Risk Officer. Independence of our internal controls will be improved by establishing an internal audit structure that reports directly to the Board of Directors and its Audit Committee, myself and the Board of Supervisors. We are also introducing advanced risk management tools to strengthen how we measure, control and manage risks inherent in our business as well as to enhance our ability to better price our products. In particular, our pilot trials of the Credit Risk Rating and Early Warning System for corporate borrowers have been successful and we intend to have the system gradually implemented throughout the bank. To improve our ability to control operational risks, we plan to start implementing our risk management platform project on a bank-wide basis in 2005.

— **Implement advanced information technology systems to support the development of our business operations:** We believe that sophisticated information technology systems are critical for us to effectively manage our business in an increasingly competitive environment. We intend to develop systems that will help improve our decision making process, client relationship management, operational management, credit risk management and asset and liability management. We are currently in the process of completing our core business processing systems to create an efficient and real-time operational platform.

— **Promote accountability and a performance-driven culture:** We recognise that our ability to compete largely depends on our ability to attract, retain and motivate high quality employees. We are refining the Economic Value Added performance evaluation system as a core management tool to measure the performance of our branches. Our Performance Assessment and Incentive System will be enhanced whereby our performance measurement tools will be centred around key performance indicators for our branch managers and other employees. Performance will be linked to our compensation system to establish a performance and shareholder value oriented corporate culture. Furthermore, we will maintain a number of on-going employee training programmes to improve and upgrade the skill sets of our senior management and key professionals.

Our success to date and a proven business model have built a solid strategic platform, and we recognise the challenges and opportunities ahead of us as a result of the shareholding restructuring programme. I believe that we can accomplish these goals with the continuing support and encouragement of our colleagues, customers, business partners and the community.

President

The image shows a handwritten signature in black ink. The signature consists of three characters: '李' (Li), '振' (Zhen), and '明' (Ming), which together read 'Li Zhenming'. The characters are written in a fluid, cursive style.



Chairman of the Board of Supervisors Xie Duyang

5 Key Corporate Information

- 1 **Legal name in Chinese:** 中国建设银行股份有限公司
Legal name in English: CHINA CONSTRUCTION BANK CORPORATION
Abbreviated name in Chinese: 中国建设银行
Abbreviated name in English: CCB
- 2 **Registered address and office**
of the company: No. 25, Finance Street, Beijing, China
Postcode: 100032
Telephone: 86-10-67597114
Fax: 86-10-66212862
Internet website: www.ccb.cn
- 3 **Legal representative:** Guo Shuqing
- 4 **Secretary to the Board of**
Directors: Xuan Changneng
- 5 **Newspapers for information**
disclosure: Financial News, China Securities Journal
Annual report available at: The Office of China Construction Bank Corporation's Board of Directors
- 6 **Appointed auditor:** KPMG Huazhen
Registered address: 8th Floor, Tower E2, Oriental Plaza, No.1, East Chang'an Avenue, Beijing
Postcode: 100738
- 7 **Other related information**
Date of registration: 17 September 2004
Place of registration: State Administration for Industry & Commerce of the People's Republic of China
Business license registration
number: 1000001003912
Tax registration number: Jing Guo Shui Xi Zi No.110102100004447
Di Shui Jing Zi No.110102100004447000
- 8 **This report is produced in both Chinese and English versions. Should there be any discrepancies in interpretation between the two versions, the Chinese version will prevail.**

6 Shareholders' Information and Shareholders' General Meetings

6.1 Shareholders' information

As at the end of the reporting period, the Bank had a total of 5 shareholders, all of which were promoters.

Name of shareholder	Capital contribution (RMB '000)	Number of shares ('000)	Proportion	Legal representative	Registered capital (RMB '000)
China SAFE Investments Limited, previously known as Central Huijin Investment Co., Ltd. ⁴	165,538,000	165,538,000	85.228%	Guo Shuqing	372,465,000
China Jianyin Investment Limited	20,692,250	20,692,250	10.653%	Wang Jianxi	20,692,250
State Grid Corporation of China	3,000,000	3,000,000	1.545%	Liu Zhenya	200,000,000
Shanghai Baosteel Group Corporation	3,000,000	3,000,000	1.545%	Xie Qihua	45,800,000
China Yangtze Power Co., Ltd.	2,000,000	2,000,000	1.030%	Li Yongan	7,856,000
Total	194,230,250	194,230,250	100%		

⁴ On 19 April 2005, it was agreed at the tenth meeting of the Board of Directors of China SAFE Investments Limited that Mr. Guo Shuqing was to resign from the roles of director and Chairman of China SAFE Investments Limited.

China SAFE Investments Limited

China SAFE Investments Limited, previously known as Central Huijin Investment Co., Ltd., is an investment company wholly owned by the government of the People's Republic of China ("PRC") and was established with the approval of the State Council under *the PRC Company Law*. Huijin is wholly owned by the PRC government, which has designated Huijin to exercise the legal rights and obligations as a shareholder of certain core financial enterprises, including the Bank and Bank of China, on its behalf. Huijin was established to hold certain equity investment as authorised by the State Council and it does not engage in any other commercial business.

China Jianyin Investment Limited

China Jianyin Investment Limited ("Jianyin") is an investment company wholly owned by the PRC government as approved by the State Council. It has a registered capital of RMB 20,692 million and its principal activities are investment in enterprises, asset management and conducting other businesses as approved by the PRC government.

State Grid Corporation of China

State Grid Corporation of China ("State Grid") was founded based on businesses formally owned by State Power Corporation of China. The company was established and registered as a mega-sized state-owned enterprise with the approval of the State Administration for Industry and Commerce of the PRC. As a state-holding investment entity authorised by the State Council and a pilot wholly state-owned company with a registered capital of RMB 200,000 million, State Grid mainly engages in purchasing and selling power and trading and dispatching of power among grids in responsible areas. State Grid is also responsible for carrying out investment, construction and operation of power transformation and exchange across provinces, and is currently the largest domestic enterprise in the power industry.

Shanghai Baosteel Group Corporation

Shanghai Baosteel Group Corporation ("Shanghai Baosteel") is a state-holding investment entity authorised by the State Council and a pilot wholly state-owned company with a registered capital of RMB 45,800 million. The company is the largest and most modernised steel conglomerate offering the widest variety of products in China and has consistently ranked first in the domestic steel industry in recent years.

China Yangtze Power Co., Ltd.

China Yangtze Power Co., Ltd. ("Yangtze Power") was founded as a joint stock limited liability company by Three Gorges Project Corporation with five other entities: Huaneng Power International, Inc.; China National Nuclear Corporation; China National Petroleum Corporation; China Gezhouba Water Resources and Hydropower Engineering Group Co., Limited; and Changjiang Water Resource Commission's Changjiang Institute of Survey, Planning, Design and Research. The company has a registered capital of RMB 7,856 million and is the largest listed company engaging in hydroelectric generation in China. At the end of 2004, the company owned Gezhouba Hydroelectric Power Plant and the first 4 generator units in operation for the Three Gorges Project, and the total installed capacity was 5,515MW.

6.2 The notification, convening and holding of Shareholders' General Meetings

During the reporting period, the First Shareholders' General Meeting of the Bank was held in Beijing on 15 September 2004. The First and Second Extraordinary Shareholders' General Meetings of year 2004 were held in Beijing on 29 November 2004 and 27 December 2004 respectively. The three meetings were attended by shareholders and shareholders' proxies representing 194,230.25 million shares, equivalent to 100% of the total number of shares. The Shareholders' General Meetings have been notified, convened and held, and shareholders have voted, in accordance with the relevant requirements of *the PRC Company Law* and *the Articles of Association of China Construction Bank Corporation*.

6.3 Resolutions passed or vetoed at Shareholders' General Meetings

First Shareholders' General Meeting

The First Shareholders' General Meeting examined and approved the following proposals:

the Report on the Preparation for the Incorporation of China Construction Bank Corporation;

the Report on the Cost of the Incorporation of China Construction Bank Corporation;

the Proposal on the Incorporation of China Construction Bank Corporation and Capital Contribution of Promoters;

the Articles of Association of China Construction Bank Corporation;

the Proposal on the Election of the Members of the First Session of the Board of Directors of China Construction Bank Corporation;

the Proposal on the Election of the Members of the First Session of the Board of Supervisors of China Construction Bank Corporation;

the Rules and Procedures for Shareholders' General Meeting of China Construction Bank Corporation;

the Rules and Procedures for the Board of Directors of China Construction Bank Corporation;

the Rules and Procedures for the Board of Supervisors of China Construction Bank Corporation;

the Proposal on China Construction Bank Corporation's Appointment of Auditor;

the Proposal on the Authorisation for the Board of Directors of China Construction Bank Corporation to Register for the Business License; and

the Proposal on the Authorisation of the Board of Directors of China Construction Bank Corporation to sign "the Separation Agreement of China Construction Bank".

First Extraordinary Shareholders' General Meeting of year 2004

The First Extraordinary Shareholders' General Meeting of year 2004 examined and approved the following proposals:

the Proposal on the Amendments to "the Articles of Association of China Construction Bank Corporation";

the Proposal on the Examination of Amendments to the Rules and Procedures for the Board of Directors of China Construction Bank Corporation;

the Implementation Procedures for the Management of Related Party Transactions of China Construction Bank Corporation;

the Implementation Procedures for the System of Independent Directors of China Construction Bank Corporation;

the Proposal on the Election of Directors and Independent Directors of China Construction Bank Corporation; and

the Proposal on the Examination of Allowances for China Construction Bank Corporation's Independent Directors.

Second Extraordinary Shareholders' General Meeting of year 2004

The Second Extraordinary Shareholders' General Meeting of year 2004 examined and approved *the Profit Distribution Policy 2004 of China Construction Bank Corporation.*

6.4 Elections and changes of directors and supervisors

At China Construction Bank Corporation's First Shareholders' General Meeting on 15 September 2004, Mr. Zhang Enzhao, Mr. Chang Zhenming, Ms. Liu Shulan, Mr. Zhao Lin, Mr. Zhu Zhenmin, Mr. Jing Xuecheng, Ms. Wang Shumin, Mr. Wang Yonggang, Mr. Song Fengming and Mr. Yashiro Masamoto were elected as members of the First Session of the Board of Directors, among whom Mr. Song Fengming and Mr. Yashiro Masamoto were independent directors. Mr. Xie Duyang, Ms. Liu Jin, Mr. Jin Panshi and Ms. Chen Yueming were elected as members of the First Session of the Board of Supervisors.

At China Construction Bank Corporation's First Extraordinary Shareholders' General Meeting on 29 November 2004, Mr. Liu Xianghui, Mr. Zhang Xiangdong and Mr. Tse Hau Yin were elected as additional members of the First Session of the Board of Directors, among whom Mr. Tse Hau Yin was an independent director.

At the Extended Meeting of the Working Committee of the Labour Union of China Construction Bank Corporation on 15 December 2004, Ms. Cheng Meifen was elected as the Staff Representative Supervisor of the First Session of the Board of Supervisors of China Construction Bank Corporation by an anonymous ballot.

At China Construction Bank Corporation's First Extraordinary Shareholders' General Meeting of year 2005 on 16 March 2005, the resignation of Mr. Zhang Enzhao as a director of China Construction Bank Corporation due to personal reasons was approved.

At the Second Extraordinary Shareholders' General Meeting of year 2005 on 25 March 2005, Mr. Guo Shuqing was elected as a director of China Construction Bank Corporation, and Mr. Cui Jianmin and Mr. Guo Feng were elected as external supervisors of the First Session of the Board of Supervisors.

7 Directors, Supervisors, Executive Management and Employees

7.1 Directors, Supervisors and Executive Management

Board of Directors

Name	Title	Gender	Age	Start of the term of office
Guo Shuqing	Chairman	Male	48	2005.3
Chang Zhenming	Vice Chairman	Male	48	2004.9
Liu Shulan	Executive director	Female	59	2004.9
Zhao Lin	Executive director	Male	50	2004.9
Zhu Zhenmin	Non-executive director	Male	55	2004.9
Jing Xuecheng	Non-executive director	Male	59	2004.9
Wang Shumin	Non-executive director	Female	49	2004.9
Wang Yonggang	Non-executive director	Male	48	2004.9
Song Fengming	Independent director	Male	58	2004.9
Yashiro Masamoto	Independent director	Male	76	2004.9
Liu Xianghui	Non-executive director	Male	51	2004.11
Zhang Xiangdong	Non-executive director	Male	47	2004.11
Tse Hau Yin	Independent director	Male	57	2004.11

Secretary to the Board of Directors

Name	Title	Gender	Age	Start of the term of office
Xuan Changneng	Secretary to the Board of Directors ⁵	Male	38	2004.11

⁵ In accordance with the Articles of Association of China Construction Bank Corporation, the Secretary to the Board of Directors is a member of the Executive Management.



President Chang Zhenming
(front middle)

Vice President Liu Shulan
(front first from right)

Vice President Zhao Lin
(front first from left)

Vice President

Chief Compliance Officer

Assistant President

Assistant President

Luo Zhefu
(back second from right)

Xin Shusen
(back second from left)

Chen Zuofu
(back first from right)

Fan Yifei
(back first from left)

Board of Supervisors

Name	Title	Gender	Age	Start of the term of office
Xie Duyang	Chairman of the Board of Supervisors	Male	56	2004.9
Liu Jin	Supervisor	Female	40	2004.9
Jin Panshi	Supervisor	Male	40	2004.9
Chen Yueming	Supervisor	Female	48	2004.9
Cheng Meifen	Staff Representative Supervisor	Female	49	2004.12
Cui Jianmin	External Supervisor	Male	72	2005.3
Guo Feng	External Supervisor	Male	42	2005.3

Executive Management

Name	Title	Gender	Age	Start of the term of office
Chang Zhenming	President	Male	48	2004.9
Liu Shulan	Vice President	Female	59	2004.9
Zhao Lin	Vice President	Male	50	2004.9
Luo Zhefu	Vice President	Male	52	2004.9
Xin Shusen	Chief Compliance Officer	Female	55	2004.9
Chen Zuofu	Assistant President	Male	50	2004.9
Fan Yifei	Assistant President	Male	40	2004.9

Annual remuneration

The annual remuneration of the Executive Management's senior executives is determined by the results of a comprehensive evaluation of their performance by the Board of Directors in accordance with the relevant requirements of the Bank. During the reporting period, a total of 12 directors, supervisors and senior executives received remuneration from the Bank. 13 did not receive any allowances from the Bank.

Resigned directors, supervisors and senior executives

During the reporting period, Mr. Zheng Zhijie resigned from the position of Vice President of China Construction Bank Corporation in accordance with the resolution passed at the second meeting of the First Session of the Board of Directors of China Construction Bank Corporation on 29 November 2004.

At the First Extraordinary Shareholders' General Meeting of year 2005 and the fourth meeting of the First Session of the Board of Directors on 16 March 2005, it was approved that Mr. Zhang Enzhao was to resign from the roles of director and Chairman of China Construction Bank Corporation due to personal reasons.

7.2 Employees

At the end of the reporting period, the Bank had a total of 310,391 employees, of which 254,689 were on medium to long-term employment contracts and 55,702 were on short-term contracts. Amongst the employees on medium to long-term employment contracts, there were 38,174 managers, 15,100 professional and technical personnel, 169,823 business staff, and 31,592 other personnel; in terms of educational background, there were 3,436 holding master degrees or above, 177,488 holding diplomas or bachelor degrees and 73,765 with below tertiary level education. At the end of 2004, the number of retired employees totalled 24,745. In 2004, the Bank's salaries, staff welfare and insurance expenses totalled RMB 20,714 million.



CORPORATE GOVERNANCE CCB ANNUAL REPORT 2004

> China Construction Bank Corporation Annual Report 2004 >

8 Corporate Governance

8.1 Overview

Corporate governance is the system by which business organisations are managed and controlled. The corporate governance structure specifies the authority and accountability of the different participants within the corporation, including the shareholders, the directors, the Executive Management, other management personnel and other stakeholders, and spells out the rules and procedures for making decisions on corporate affairs.

The Bank continues to be committed to business integrity and achieving international standards of modern corporate governance in order to continue delivering value to our customers and shareholders. We consider that implementing modern corporate governance practices is central to achieving our objective of becoming an internationally competitive and modern commercial bank.

As part of the shareholding restructuring programme, the Bank was incorporated into a joint stock company with limited liability. This was followed by the establishment of a new modern corporate governance framework which defined the various authorities and responsibilities of the Shareholders' General Meeting, the Board of Directors, the Board of Supervisors and the Executive Management. Our objective is to ensure there is adequate segregation of duties and powers between the Shareholders' General Meeting, the Board of Directors, the Board of Supervisors and the Executive Management. Therefore, this has established a sound and efficient structure for policy making, enforcement and oversight, ensuring that independence and effective checks and balances are in place between the supervisory levels.

Shareholders' General Meetings

The Bank convenes and holds the Shareholders' General Meetings in strict accordance with its *Articles of Association* and relevant laws and regulations. Shareholders' General Meetings represent approval authority for important events of the Bank's management, including approving profit distribution policies, annual

financial forecasts and strategy, changes in share capital, issuances of debt securities, mergers, separations and any amendment to the *Articles of Association*.

Board of Directors

Our Board of Directors, which consists of 13 members, was elected at the Shareholders' General Meetings in accordance with the *Articles of Association*. Among them, three are independent directors. The term of office of a director is 3 years and is renewable upon re-election, of which the term of an independent director cannot exceed 6 years.

The Board of Directors reports to the shareholders at the Shareholders' General Meetings and is responsible for implementing the resolutions of Shareholders' General Meetings in accordance with relevant laws, regulations, procedures and the Bank's *Articles of Association*. All directors have the duty to actively participate in the decision-making process of all the Bank's important events and protect the interests of the Bank and its shareholders.

The roles of the Chairman of the Board of Directors and the President of the Executive Management are segregated with a clear division of responsibilities. The President exercises all the rights that may be delegated to him by the Board of Directors.

Board Committees

The Board has set up five specialised Board Committees to ensure the efficiencies of the policies agreed on at the Shareholders' General Meetings:

The Strategy and Nomination Committee, chaired by Mr. Guo Shuqing, the Chairman of the Board, is responsible for formulating medium to long-term strategic development plans, recommending timely changes to the Bank's strategy to the Board of Directors; formulating and proposing procedures and criteria for the selection and appointment of directors and senior officers to the Board of Directors; and proposing candidates for the positions of director, president, chief auditor and secretary to the Board of Directors.

The Audit Committee, chaired by Mr. Tse Hau Yin, an independent director, is responsible for overseeing, examining, supervising and assessing the Bank's financial and internal control functions; and proposing the appointments or removals as well as monitoring the external auditors.

The Risk Management Committee, chaired by Mr. Zhang Xiangdong, a director of the Board, is responsible for building our risk management and internal control systems; formulating the risk strategy and approving the risk management policies; and assessing the effectiveness of the implementation of the risk management organisational structure, reporting lines and working procedures for risk management as well as proposing relevant recommendations.

The Compensation and Evaluation Committee, chaired by Mr. Yashiro Masamoto, an independent director, is responsible for drafting and examining the performance evaluation procedures and the compensation system and packages of the directors, supervisors and senior executives of the Bank; and monitoring and reviewing the performance evaluation and compensation systems.

The Related Party Transactions Committee, chaired by Mr. Song Fengming, an independent director, is responsible for identifying related parties, approving or filing general related party transactions, and reviewing material related party transactions, then seeking approval from the Board of Directors as well as reporting to the Board of Supervisors.

Board of Supervisors

The PRC Company Law requires a joint stock limited liability company to establish a Board of Supervisors. China Construction Bank Corporation's Board of Supervisors represents the supervising body of China Construction Bank Corporation, which reports to the Shareholders' General Meetings. The Board of Supervisors is responsible for monitoring the Bank's financial status and protecting shareholders' interests by supervising the legitimacy and compliance of the conduct of the Board of Directors, the President and the Executive Management.

Supervisors representing the shareholders and external supervisors were elected at the Shareholders' General Meetings, the Staff Representative Supervisor was elected at the meeting of the Labour Union and the Chairman was elected by the Board of Supervisors. Members of the Board of Supervisors cannot be represented by the Bank's directors, the President or other management personnel of the Bank. The term of office of a supervisor is 3 years and is renewable upon re-election. At the end of the reporting period, the Board of Supervisors consisted of 4 supervisors representing the shareholders and 1 supervisor representing the employees. On 25 March 2005 at the Second Extraordinary Shareholders' General Meeting of year 2005, 2 external supervisors were elected.

Executive Management

China Construction Bank Corporation's Executive Management includes the President, the Vice Presidents, the Chief Compliance Officer, the Chief Finance Officer, the Chief Risk Officer, the Chief Information Officer, the Chief Auditor, the Secretary to the Board of Directors, the Assistant Presidents and other management personnel appointed by the Board of Directors. At the end of the reporting period, the Executive Management consisted of 8 members.

The Executive Management has overall responsibility for making and implementing strategic decisions and managing and controlling the Bank. The President primarily follows laws, regulations, procedures and the Bank's *Articles of Association*, as well as delegated responsibilities from the Shareholders' General Meetings and the Board of Directors. His actions are bounded by the *Detailed Guidelines on the roles and responsibilities of the President of China Construction Bank Corporation*.

8.2 Independent directors and their fulfilment of duties

A system of independent directors is in place to ensure decisions made are efficient, fair and reasonable. This is an important safeguard to ensure that the Bank's policies are in the interests of shareholders. All independent directors are members of the five Board Committees under the Bank's Board of Directors, and three out of the five committees are chaired by independent directors. During the year, three independent directors attended the Board meetings and the meetings of the Board Committees and contributed actively to the development of the Bank, thereby promoting the effectiveness of the roles of the Board of Directors. The effectiveness of the independent director system is assured by the *Implementation Procedures for the System of Independent Directors of China Construction Bank Corporation* and the *Detailed Implementation Guidelines* of each committee.

8.3 Performance assessment and incentive system

The Executive Management of the Bank is evaluated and monitored by the Board of Directors, and regulated by the CBRC. The Bank aims to further improve its overall corporate governance structure and provide long term and sustainable returns for its shareholders. Therefore, it has begun building a long-term compensation scheme by engaging an international leading consulting firm to design an incentive programme which will be directly linked to the Bank's business performance.

8.4 Information disclosure and transparency

The Bank is committed to improving and increasing the level of transparency in its information disclosure. The Bank has in place the *Information Disclosure Guidelines for China Construction Bank Corporation*, which have standardised the contents and clearly set out the roles and responsibilities of the work relating to information disclosure. During the year, the Bank adopted for the first time *the Accounting Regulations for Financial Enterprises* issued (in 2001) by the MOF. Therefore, prior year's financials have been revised retrospectively. This has enhanced the accuracy, completeness, authenticity and timeliness of the information disclosed by the Bank.