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## CORPORATE PROFILE

Our history dates back to 1954 when the People's Construction Bank of China was founded, which was renamed China Construction Bank in 1996, one of the big four commercial banks in China. China Construction Bank Corporation (the "Bank") was formed in September 2004 as a result of a separation of our predecessor, China Construction Bank, and we succeeded to its commercial banking business and related assets and liabilities.

Headquartered in Beijing, as at 31 December 2005, we had a network of 13,977 branches and sub-branches in Mainland China, and maintained overseas branches in Hong Kong, Singapore, Frankfurt, Johannesburg, Tokyo and Seoul, and representative offices in London and New York, with more than 300,000 employees. According to *The Banker* magazine in July 2005, we ranked 25th among the world's top 1,000 banks based on tier-one capital.

Our business consists of three principal business segments:

- corporate banking, which provides various financial products and services to corporations, government agencies and financial institutions, including corporate loans, trade financing, deposit taking, agency services, consulting and advisory services, cash management, remittance and settlement, custody and guarantee services;
- personal banking, which provides financial products and services to individual customers, including personal loans, deposit taking, bank cards, personal wealth management, remittance and securities agency services; and
- treasury operations, which manage our money market activities, consisting of inter-bank transactions and repurchase transactions; manage our investment portfolio, including securities held for both trading and investment purposes; and conduct trading on behalf of customers, including foreign currency and derivatives trading.

Our H shares began trading on the Hong Kong Stock Exchange on 27 October 2005 (Stock Code: 939).



**中国建设银行**  
*China Construction Bank*

## FINANCIAL HIGHLIGHTS

	2005	2004	Variance
	(In millions of RMB)		+ / (-) %
<b>For the year ended 31 December</b>			
Operating income	<b>128,714</b>	113,976	12.9
Profit before tax	<b>55,364</b>	51,199	8.1
Net profit	<b>47,096</b>	49,040	(4.0)
Adjusted net profit <sup>1</sup>	<b>39,248</b>	33,567	16.9
Net profit attributable to shareholders	<b>47,103</b>	49,042	(4.0)
Adjusted net profit attributable to shareholders <sup>2</sup>	<b>39,255</b>	33,569	16.9
<b>Per share</b>			
	(In RMB)		+ / (-) %
Net asset value per share	<b>1.28</b>	1.01	26.7
Earnings per share	<b>0.24</b>	0.26	(7.7)
Final cash dividend per share proposed after balance sheet date	<b>0.015</b>	—	N/A
Final cash dividend per share declared before balance sheet date	—	0.015	N/A
<b>As at 31 December</b>			
	(In millions of RMB)		+ / (-) %
Total equity attributable to shareholders of the Bank	<b>287,579</b>	195,516	47.1
Issued and paid-up capital	<b>224,689</b>	194,230	15.7
Total assets	<b>4,585,742</b>	3,909,920	17.3
<b>Financial ratios</b>			
	(%)	(%)	+ / (-)
<b>Profitability indicators</b>			
Return on average assets <sup>3</sup>	<b>1.11</b>	1.31	(0.20)
Adjusted return on average assets <sup>4</sup>	<b>0.92</b>	0.90	0.02
Return on average equity <sup>5</sup>	<b>21.59</b>	25.86	(4.27)
Adjusted return on average equity <sup>6</sup>	<b>17.99</b>	17.70	0.29
Net interest spread <sup>7</sup>	<b>2.70</b>	2.77	(0.07)
Net interest margin <sup>8</sup>	<b>2.78</b>	2.82	(0.04)
Net fee and commission income to operating income	<b>6.57</b>	5.68	0.89
Cost-to-income ratio <sup>9</sup>	<b>45.13</b>	46.87	(1.74)
<b>Capital adequacy indicators</b>			
Core capital adequacy ratio <sup>10</sup>	<b>11.08</b>	8.57	2.51
Capital adequacy ratio	<b>13.57</b>	11.29	2.28
Total equity to total assets	<b>6.27</b>	5.00	1.27
<b>Assets quality indicators</b>			
Non-performing loan ratio <sup>11</sup>	<b>3.84</b>	3.92	(0.08)
Allowances to non-performing loans <sup>12</sup>	<b>66.78</b>	61.64	5.14
Allowances to total loans <sup>13</sup>	<b>2.57</b>	2.42	0.15

1. Calculated by excluding the impact of the tax exemption granted by the People's Republic of China ("PRC") government in relation to the Bank's restructuring from the net profit.
2. Calculated by excluding the impact of the tax exemption granted by the PRC government in relation to the Bank's restructuring from the net profit attributable to shareholders.
3. Calculated by dividing net profit by the average of total assets as at the beginning and end of the year.
4. Calculated by dividing adjusted net profit by the average of total assets as at the beginning and end of the year.
5. Calculated by dividing net profit attributable to shareholders by the weighted average of total equity attributable to the shareholders of the Bank for the year.
6. Calculated by dividing adjusted net profit attributable to shareholders by the weighted average of total equity attributable to the shareholders of the Bank for the year.
7. Calculated as the difference between the average yield on the average interest-earning assets and the average cost on the average interest-bearing liabilities.
8. Calculated by dividing net interest income by average interest-earning assets.
9. Calculated by dividing general and administrative expenses by total operating income.
10. Core capital adequacy ratio and capital adequacy ratio are calculated on a solo basis in accordance with the guideline Regulation Governing Capital Adequacy of Commercial Banks issued by China Banking Regulatory Commission.
11. Calculated by dividing non-performing loans and advances to customers by total loans and advances to customers.
12. Calculated by dividing the allowances for impairment losses on total loans and advances to customers by total non-performing loans and advances to customers.
13. Calculated by dividing the allowances for impairment losses on total loans and advances to customers by total loans and advances to customers.
14. In addition to the allowances for impairment losses, a general reserve included as part of the shareholders' equity was set aside with a balance of RMB 10,332 million as at 31 December 2005. Please refer to note 27 (e) of "Financial Statements" for details.

## FOUR-YEAR FINANCIAL SUMMARY

The table below sets forth the consolidated financial summary of the Bank and its subsidiaries (collectively the "Group") for each of the years ended 31 December:

<b>For the year ended 31 December</b>	<b>2005</b>	2004	2003	2002
		(In millions of RMB)		
Operating income	<b>128,714</b>	113,976	98,604	85,199
Profit before tax	<b>55,364</b>	51,199	37,702	22,402
Net profit	<b>47,096</b>	49,040	22,533	11,334
Net profit attributable to shareholders	<b>47,103</b>	49,042	22,533	11,334
<b>Per share</b>		(In RMB)		
Earnings per share	<b>0.24</b>	0.26	0.12	0.06
<b>As at 31 December</b>		(In millions of RMB)		
Loans and advances to customers <sup>1</sup>	<b>2,395,313</b>	2,173,562	1,943,359	1,576,193
Total assets	<b>4,585,742</b>	3,909,920	3,557,066	2,857,936
Deposits from customers	<b>4,006,046</b>	3,491,121	3,195,673	2,822,744
Total liabilities	<b>4,298,065</b>	3,714,369	3,369,861	2,991,142
Total equity attributable to shareholders of the Bank	<b>287,579</b>	195,516	187,168	(133,206)
<b>Key financial ratios</b>	<b>(%)</b>	(%)	(%)	(%)
Return on average assets	<b>1.11</b>	1.31	0.70	0.42
Cost-to-income ratio	<b>45.13</b>	46.87	51.46	50.12
Non-performing loan ratio	<b>3.84</b>	3.92	4.27	16.97
Loan-to-deposit ratio	<b>61.37</b>	63.80	62.51	63.18

1. The balances are net of allowances for impairment losses.

## IMPORTANT EVENTS

### INITIAL PUBLIC OFFERING

We successfully listed our H shares on the Hong Kong Stock Exchange on 27 October 2005. With the exercise of the over-allotment option in full, we issued a total of 30,459 million shares and raised gross proceeds of HK\$71,578 million. We were the first of the big four PRC commercial banks to list outside Mainland China. Our initial public offering (“IPO”) was the largest IPO in Asia (excluding Japan), the largest in the banking industry globally, and the world’s largest IPO in the past five years.



### INTRODUCTION OF STRATEGIC INVESTORS

We entered into strategic investment and cooperation agreements with Bank of America Corporation (“Bank of America”) on 17 June 2005, and an investment agreement with Asia Financial Holdings Pte. Ltd. (“AFH”), a wholly-owned subsidiary of Temasek Holdings (Private) Limited (“Temasek”), on 1 July 2005. Since September 2005 when the strategic assistance formally began, Bank of America has provided us with technical assistance in a number of areas, including retail banking, information technology and e-banking, global treasury services, and financial and human resources management. As of February 2006, Bank of America has sent 40 experts to work in the Bank, who have focused on key projects such as retail banking and e-banking. We have generally agreed with AFH on the areas and forms of cooperation. We expect this strategic assistance to focus on corporate governance, treasury, institutional banking, small and medium-sized enterprise business and international financing.

## Awards in 2005



- We were awarded “Bank of the Year” in China by *The Banker* in 2005.
- We were awarded “Best Domestic Bank” in China by *The Asset* for 2005.
- We were awarded “House of the Year, China” by *Asia Risk* for 2005.
- We were awarded “Domestic Top Rated” custodian in China for 2005 by *The Global Custodian*, ranking first among PRC custodians.

## IMPORTANT EVENTS

### ESTABLISHMENT OF CCB PRINCIPAL ASSET MANAGEMENT CO., LTD.

We established CCB Principal Asset Management Co., Ltd. in September 2005 as a joint-venture funds management company with the Principal Financial Services, Inc and China Huadian Group Corporation, with the Bank holding 65% and the other two parties holding 25% and 10% respectively. The business scope of CCB Principal Asset Management Co., Ltd. includes the establishment of funds, funds management, and other businesses approved by China Securities Regulatory Commission (“CSRC”).

CCB Principal Asset Management Co., Ltd. launched its first fund on 7 November 2005 — Jianxin Permanent Value Equity Fund, with 6,202 million units sold. The issuance set the record for a domestic equity fund completing the biggest issuance size within the shortest time in 2005.

### MORTGAGE-BACKED SECURITISATION

The Bank, as a promoter, successfully issued “Jianyuan 2005-1 Residential Mortgage-Backed Securities” on 15 December 2005. It was one of the first pilot projects for credit assets securitisation, and the first ever residential mortgage-backed securitisation in China, with a total issuance value of RMB 3,017 million.

- Our residential mortgage-backed securitisation was recognised by *The Banker* as “Deal of the Year” in China for 2005.
- *The Asset* awarded our residential mortgage-backed securitisation “Best Domestic Securitisation” for 2005.
- *The Asset* awarded our IPO “Best Issuer of 2005”, “Best Deal of 2005”, “Best Equity of 2005” and “Best IPO of 2005”.
- Our IPO received 5 major awards from *FinanceAsia*: “Deal of the Year”, “Best Equity Deal”, “Best IPO”, “Best Privatisation” and “Best China Deal”.
- *International Financing Review Asia* (IFR Asia) awarded our IPO “Equity Deal” for 2005.
- *Asiamoney* awarded our IPO “Best Hong Kong Deal of the Year 2005”.





# **Far-sighted Management**



## CHAIRMAN



2005 has been a significant year for our Bank, one that saw not only our landmark listing on the Hong Kong Stock Exchange on 27 October 2005 but also our continuing development into a modern and internationally competitive financial institution.

## CHAIRMAN'S STATEMENT

2005 has been a significant year for our Bank, one that saw not only our landmark listing on the Hong Kong Stock Exchange on 27 October 2005 but also our continuing development into a modern and internationally competitive financial institution.

Our global public offering was a success by every measure: the first public listing of the big four PRC commercial banks; the largest IPO ever for a bank; and the largest IPO globally for the past five years. Our successful listing marked another milestone in our transformation into a world class commercial bank, after the completion of our restructuring in 2003, our establishment as a joint-stock bank in 2004 and the sale of equity stakes to strategic investors in 2005. The strong demand for shares of the Bank demonstrates investors' confidence in the prospects for financial services industry reform in China and our ability to be at the forefront of China's continued development. The proceeds from the IPO have enabled us to strengthen our capital base, and pursue new areas of business.

In 2005, we further improved our corporate governance by reinforcing the checks and balances among the shareholders' general meeting, board of directors, board of supervisors and management. Our business development strategy was better understood across the Bank. We established our vision, and developed our business and market positioning strategy, enabling us to achieve a long term steady and sustainable growth. Committed to implementing a customer-focused culture, we improved our operating processes and service quality. Our execution capability and market penetration were significantly enhanced as a result of further reforms of our internal operation and management. While maintaining the strengths in our traditional business, we actively expanded our personal financial services, small and medium-sized enterprises financial services and fee and commission based services, and introduced new financial products and services.

We are pleased to report that our net profit attributable to our shareholders in 2005 amounted to RMB 47,103 million with earnings per share of RMB 0.24. Return on average assets and return on average equity reached 1.11% and 21.59% respectively. The directors propose a final dividend of RMB 0.015 per share.

Continuing economic development in China in the coming year will further drive the growth of the banking industry. As a public corporation with worldwide investors, we will be committed to developing our business, with a stronger sense of mission and responsibility, and measuring ourselves at higher standards. We believe that, with our steady operational strategy, strong asset quality, extensive customer base, improved management ability and close cooperation with our strategic investors, the Bank is well positioned to take advantage of the opportunities ahead, provide the best service to our customers, maximise shareholder value and provide excellent career opportunities to our employees.

Finally, on behalf of the board of directors, I would like to express our appreciation to our shareholders, customers and business partners for their support and trust. Our gratitude also goes to the management and staff of the Bank for the efforts and the contributions they have made in this momentous year.



*Chairman*

6 April 2006

## PRESIDENT



Vice Chairman,  
Executive Director and President  
**Mr. Chang Zhenming**

In 2005, not only did we successfully introduce strategic investors and list in Hong Kong, but also made great progress in reforming the Bank's risk management, internal control and management systems, improving service quality and exploiting new markets.

## PRESIDENT'S REPORT

I am pleased to report on another fruitful year for the Bank. Not only did we successfully introduce strategic investors and list in Hong Kong, but also made great progress in reforming the Bank's risk management, internal control and management systems, improving service quality and exploiting new markets.

We set ourselves ambitious targets over the past three years and I am pleased to report that we have achieved them. The Bank has completed its legal restructuring from a wholly state-owned commercial bank to a publicly listed joint-stock company. We have strengthened our risk management and corporate governance, and improved our asset quality and capital adequacy.

We are proud that our achievements have been broadly recognised both at home and abroad: we were awarded "Bank of the Year" for China by *The Banker* magazine, and "House of the Year, China" by *Asia Risk* magazine in 2005.

### FINANCIAL HIGHLIGHTS

Profit before tax rose to a record RMB 55,364 million, up 8.1% compared with 2004, attributable to the continuing increase in net interest income and net fee and commission income. As the income tax exemption in relation to our restructuring expired on 30 June 2005, income tax rose correspondingly. Thus, net profit slightly decreased by 4.0% to RMB 47,096 million. Excluding the income tax exemption in relation to our restructuring, our net profit increased by RMB 5,681 million, or 16.9%, compared to that of 2004 on the same basis.

Net interest income increased by 14.8% to RMB 116,551 million, which was mainly attributable to the stable growth in our lending business. The increase in interest-earning assets was greater than that of interest-bearing liabilities due to the proceeds from the IPO, and this increase offset narrower net interest spread, resulting in a relatively stable net interest margin.

We were committed to diversifying our fee and commission based services, and expanded the range of services during the year. Net fee and commission income increased by 30.7% to RMB 8,455 million and now contributes 6.6% of total operating income, as compared to 5.7% in 2004 and 4.6% in 2003.

General and administrative expenses rose by 8.7% to RMB 58,092 million mainly as a result of the increase in staff costs due to improving business performance. We are working to create a culture of cost control across the Bank, and the cost-to-income ratio was driven down further from 46.87% to 45.13%.

Our loan book continued to grow, with an increase of 10.4%, or RMB 231 billion, to RMB 2,458 billion. Strong growth has been seen in lending to infrastructure industries such as transportation and electricity generation, and to industries with large growth potential such as petrochemicals. Despite the PRC government's macroeconomic measures to dampen speculation in the property market, we increased our market share in the residential mortgage market by promoting our strong brand, superior customer service and product innovation. Compared with that as at 31 December 2004, personal mortgage loans increased by 12.5% as at 31 December 2005. In the meantime, we expended significant effort in improving our credit risk monitoring and credit operation processes and enhancing risk management techniques. Accordingly, overall loan portfolio quality has improved, with the non-performing loan ratio further dropping to 3.84% at 31 December 2005.

The Bank's capital adequacy ratio as at 31 December 2005 was 13.57% compared with 11.29% a year earlier, largely due to net proceeds of RMB 72,550 million from our IPO.

### OPERATION REVIEW

The Bank entered into agreements with two strategic investors, Bank of America and AFH, for comprehensive cooperation in a number of key areas. We look forward to implementing best practices in these areas to add to the progress we made in the past several years.

## PRESIDENT'S REPORT

In 2005, we made good progress with innovations in products and services and introduced a series of new credit products targeting small and medium-sized enterprises. As part of our expansion of fee and commission based services, we have established CCB Principal Asset Management Co., Ltd. to provide fund management services to investors. In addition, we are the first to provide RMB denominated financial derivative products among the big four commercial banks in China with our "Profit from Interest". We also launched customised financial products, such as personal gold trading and "Lucky Bankbook".

To attain our strategic goals, the Bank is in the process of reorganising and reforming several key areas such as risk management and human resources. We have invested heavily in technology, and our data processing centres and management systems have allowed us to better manage our business and implement changes. We are moving towards a more business-unit focused style of management and have optimised our organisational structure to react to the market more efficiently and effectively.

These changes have enhanced and will continue to enhance our capabilities, enabling us to achieve our objectives in coming years.

### THE YEAR AHEAD

We are operating in a dynamic market and will face many challenges in 2006. More stringent regulatory requirements, greater competition from domestic banks and the foreign banks entering China under the WTO, and liberalisation of interest rates and RMB exchange rate will test our ability to react and adapt to changes. We are confident that with the changes implemented over the past several years we are well equipped to realise our strategic goals to maximise returns to shareholders, better serve customers, reward our staff and contribute to society. The Bank intends to focus its resources and efforts on the following areas in the year ahead:

- We are committed to implementing a customer-focused and market-oriented culture in the Bank to increase the quality of and innovation in our products. By providing better services and tailor-made products, we aim to increase brand awareness and market share.
- We will focus marketing efforts in our core lending business on targeting quality customers and developing businesses in more developed geographical regions and key industries. Lending to infrastructure projects and small and medium-sized enterprises are key growth areas, and we will continue to build on the progress we have made in growing our personal lending business and fee and commission based services.
- Internally, we will strengthen our asset and liability management and treasury operations, continue reforms of key management processes and information systems, and develop our expertise in disposing of non-performing assets. We also plan to reform our human resources, performance and remuneration policies by improving resource allocation and actively exploring ways to increase incentives for staff.

Looking forward, I believe in the coming year, led by Mr. Guo Shuqing, with concerted efforts throughout the Bank, further cooperation with strategic investors and the support of the board, employees, customers and business partners, we will be able to make further progress after our listing.



*Vice Chairman, Executive Director and President*

6 April 2006

## CHAIRMAN OF THE BOARD OF SUPERVISORS



The Bank continued to improve its corporate governance in 2005. With the introduction of strategic investors, and successful listing in Hong Kong, the bank's businesses developed in a healthy manner, operating efficiency grew steadily, and financial position improved further with non-performing assets maintained at a low level.



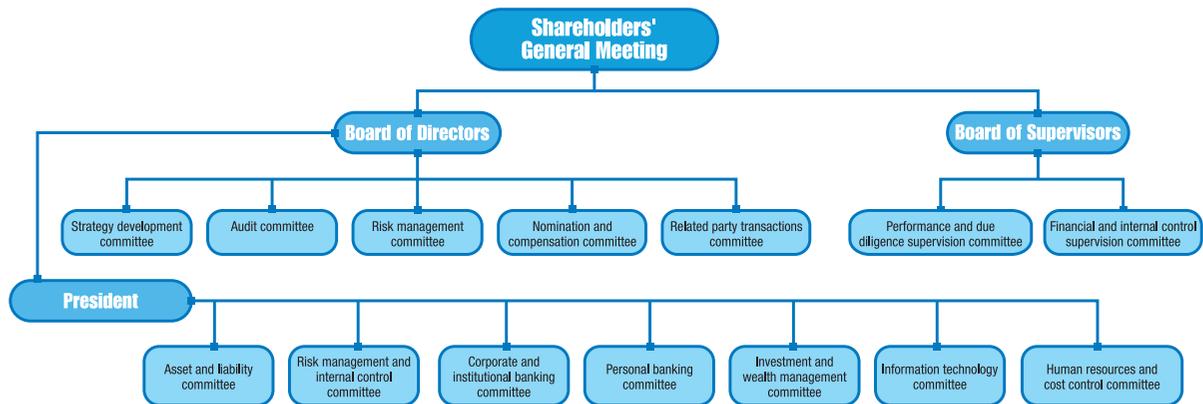


# Strong Corporate Governance

## CORPORATE GOVERNANCE REPORT

### CORPORATE GOVERNANCE FRAMEWORK

The following chart illustrates our current corporate governance framework:



### CORPORATE GOVERNANCE PRACTICES

We believe that upholding the principles and practices of good corporate governance and adopting international standards of corporate governance is crucial for the Bank to become an internationally competitive modern commercial bank. Therefore, we abide strictly by the laws and regulations of the jurisdictions in which we operate, and observe the guidelines and rules issued by regulatory authorities such as the Hong Kong Monetary Authority (“HKMA”), the Hong Kong Securities and Futures Commission and the Stock Exchange of Hong Kong Limited. We also adopt international and domestic corporate governance best practices.

We have established a formal corporate governance framework, defined the rights and responsibilities of the shareholders’ general meeting, board of directors (or “Board”), board of supervisors and senior management and put in place solid decision-making, implementation and supervision mechanisms that operate independently subject to a system of checks and balances. We have also established the strategy development committee, audit committee, risk management committee, nomination and compensation committee and related party transactions committee under our board, and performance and due diligence supervision committee and financial and internal control supervision committee under the board of supervisors. The Board, board of supervisors and their respective committees also assess and review their working procedures and effectiveness regularly in accordance with their respective working rules. We have applied the principles set out in the *Code on Corporate Governance Practices* (“Model Code”) in Appendix 14 of the *Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited* (“Listing Rules”) to our corporate governance framework. In particular, the articles of association of the Bank (“Articles of Association”) and the rules of procedure of the shareholders’ general meeting, the Board and each of the committees under the Board reflect the principles and provisions of the Model Code.

With the exception of the two deviations set out below, we have complied with the code provisions of Model Code since our listing in 2005:

- Rule A.5.4 of the Model Code requires the board to establish written guidelines on no less exacting terms than the *Model Code for Securities Transactions by Directors of Listed Issuers* in Appendix 10 of the Listing Rules for relevant employees in respect of their dealings in the Bank’s securities. However,

## CORPORATE GOVERNANCE REPORT

we have not yet established formal written guidelines in respect of such relevant employees. As our shares are listed in the form of H shares in Hong Kong, and most of our employees are located in Mainland China, there are strict limitations on their ability to trade in our shares.

- Rule B.1.3(b) of the Model Code requires the Board to delegate the responsibility to determine the specific remuneration package of all executive directors and senior management, including benefits in kind, pension rights and compensation payments (including any compensation payable for loss or termination of their office or appointment) to the compensation committee. Our board has not delegated such duties to the nomination and compensation committee for the following reasons: first, any resolution on remuneration may not be submitted to the board for approval unless it has already been considered by the nomination and compensation committee; second, according to the rules of procedure of the nomination and compensation committee, an executive director must withdraw when his/her personal remuneration is considered and a senior executive should not participate in the discussion at the board of directors' meeting relating to his/her personal remuneration either. We believe that these arrangements and mechanisms provide sufficient protection against any potential bias in the process of determining remuneration.

### BOARD OF DIRECTORS

#### Composition of board of directors

Our board includes 15 directors, comprising four executive directors, namely Mr. Guo Shuqing, Mr. Chang Zhenming, Ms. Liu Shulan and Mr. Zhao Lin, seven non-executive directors, namely Mr. Zhu Zhenmin, Mr. Jing Xuecheng, Ms. Wang Shumin, Mr. Wang Yonggang, Mr. Liu Xianghui, Mr. Zhang Xiangdong and Mr. Gregory L. Curl, and four independent non-executive directors ("INEDs"), namely Mr. Song Fengming, Mr. Yashiro Masamoto, Mr. Tse Hau Yin, Aloysius and Ms. Elaine La Roche.

A list of our directors and their dates of appointment are set out in "Report of the Board of Directors". The biographies of our directors are set out in "Profiles of Directors, Supervisors and Senior Management". The information can also be found on our website at [www.ccb.cn](http://www.ccb.cn). In accordance with Rule A.3.1 of the Model Code, our INEDs are expressly identified in all corporate communications that disclose the names of our directors.

#### Appointment and re-election of directors

Rule A.4.1 of the Model Code stipulates that non-executive directors should be appointed for a specific term, subject to re-election. Rule A.4.2 of the Model Code stipulates that all directors, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

The term of office of our directors is three years (commencing from the date of their appointment by election and ending on the date of the annual general meeting of the final year of the term of their office), and they may be re-elected upon expiration of their three years term.

#### Responsibilities and operation of the Board

The primary roles of the Board are to determine the objectives, strategies, policies and business plans of the Bank, supervise and control operations and financial performance as well as formulate appropriate risk control policies to ensure that our strategic objectives can be achieved. There are five committees established under the Board, each of which has its respective terms of reference. Each of the committees reports its work to the Board regularly and makes suggestions on the matters under discussion as appropriate.

## CORPORATE GOVERNANCE REPORT

The Board has regular meetings, generally not less than four times per year, and extraordinary meetings are arranged, if and when required. Directors may attend meetings in person or participate via other means of communication. The secretary to the board assists the chairman in preparing the meeting agenda. Board papers and background materials are usually circulated to directors and committee members fourteen days and seven days in advance of board and committee meetings, respectively.

At board meetings, an open environment exists in which directors can put forward alternative views and major decisions are only made after a full discussion. Directors acknowledge their responsibility to act in the interests of the Bank. The Board and each director have separate and independent access to the senior executives in order to raise enquiries on management issues.

The functions of the non-executive directors, as stated in the terms of reference of the board of directors, have included the functions as specified in Rules A.5.2(a) to (d) of the Model Code. The non-executive directors also play an important role in corporate governance. Not only do they provide their independent opinions on matters relating to strategy, policy, corporate performance, accountability and resources at the meetings of the board, they also attend president executive meetings as non-voting attendees and visit branches to investigate and make inquiries in order to assess whether our performance meets set corporate targets and objectives. Our president reports his work to the non-executive directors on a regular basis, and is supervised by the non-executive directors. Other senior management are from time to time invited to attend board meetings to make presentations or answer the board's questions.

In accordance with Rule A.1.6 of the Model Code, detailed minutes of board meetings are kept, and minutes are circulated to all attending directors for review after the meeting. Directors are required to provide comments within one week after receiving the minutes. After the minutes have been approved, the secretary to the Board sends the finalised minutes to all directors promptly. Detailed minutes are also kept for the board committee meetings.

In accordance with Rule A.1.8 of the Model Code, if any director has material interests in a matter proposed by the Board, the director concerned is not counted in the quorum of the meeting and must abstain from voting on the relevant resolution.

In accordance with Rule A.1.4 of the Model Code, all directors have access to the advice and services of the secretary to the board and company secretary, with a view to ensuring compliance with board procedures and all applicable rules and regulations. The secretary to the board is responsible for assisting the board in its daily operations, supervising the preparation of documents presented to the Board and the shareholders' meeting, and advising the Board on compliance matters. Minutes of the Board and committee meetings are kept by the secretary to the Board and are open for inspection by directors from time to time.

## CORPORATE GOVERNANCE REPORT

### Board meetings

Twelve board meetings were held in 2005 with an attendance rate of 100%. Individual attendance records of the directors are set out as follows:

Director	Meetings held during the appointment period	Number of meetings attended	Attendance Rate
Guo Shuqing	10	10	100%
Chang Zhenming	12	12	100%
Liu Shulan	12	12	100%
Zhao Lin	12	12	100%
Zhu Zhenmin	12	12	100%
Jing Xuecheng	12	12	100%
Wang Shumin	12	12	100%
Wang Yonggang	12	12	100%
Liu Xianghui	12	12	100%
Zhang Xiangdong	12	12	100%
Gregory L. Curl	3	3	100%
Song Fengming	12	12	100%
Yashiro Masamoto	12	12	100%
Tse Hau Yin, Aloysius	12	12	100%
Elaine La Roche	6	6	100%

### Measures for fulfilment of directors' responsibilities

Induction programs are organised to provide training for new directors and to assist them in becoming familiar with our management, operations and governance practices. We periodically organise training for all directors, and encourage them to participate in continuing professional development seminars and courses organised by qualified institutions to ensure that they continually update their skills and are kept abreast of the latest development or changes to the laws and regulations, Listing Rules and corporate governance practices required to enable them to properly discharge their responsibilities. The Bank will bear all related training expenses.

In accordance with Rule A.1.7 of the Model Code, the Board and its committees are provided with sufficient resources to discharge their duties including, inter alia, the retention of outside advisers, as the Board and its committees may deem necessary at the Bank's expense. Individual directors may also retain outside advisers, at our expense, to provide advice on any specific matters.

Senior management provides appropriate and sufficient information to directors and committee members in a timely manner to keep them apprised of the latest developments of our Bank and enable them to discharge their responsibilities.

According to the Articles of Association, we may establish a director liability insurance system to reduce the risks that may be incurred by directors in the performance of their duties. Our Board has passed a resolution in relation to the director liability insurance arrangements.

### Delegation by the Board

The division of power between the Board and senior management is in strict compliance with our Articles of Association and other corporate governance documents.

## CORPORATE GOVERNANCE REPORT

In particular, decisions on the following matters are made by the Board: our business plans and investment proposals; our investment in equity interests, bond investment, asset acquisition, asset write-off, asset mortgage and other non-commercial banking related guarantee within the scope of authority granted by the shareholders' general meeting; establishment of internal management structure; establishment of domestic tier-one branches and overseas branches; appointment and dismissal of the president, chief auditor and secretary to the board and determination of their remuneration, bonuses and penalties.

By virtue of the authority conferred on him by the Board, the president decides operational, management and decision-making issues within his scope of authority. Specifically, his scope of authority includes: overseeing the operation and management of the Bank; initiating the implementation of board resolutions; proposing operational plans and investment proposals of the Bank to the Board and initiating the implementation of such plans or proposals upon approval by the Board; developing proposals for establishment of the internal management departments within the Bank; developing the general management system for the Bank; formulating specific rules and regulations for the Bank; proposing to the Board the appointment or dismissal of vice presidents and other senior management officers (excluding the chief auditor and the secretary to the board); engaging or dismissing the responsible heads of various functional departments and branches and sub-branches of the Bank (other than those who are engaged or dismissed by the board); granting authorisation to the senior management (excluding the chief auditor and the secretary to the board) and the heads of the internal functional departments and branches and sub-branches for the purposes of carrying out business activities; setting up a system of accountability to the president and conducting performance evaluation on managers of the business departments and functional departments as well as the managers of branches and sub-branches; and proposing to convene extraordinary board meetings.

### **Accountability of the directors in relation to the financial statements**

The directors are responsible for overseeing the preparation of the financial statements for each fiscal period. In preparing the financial statements for the year ended 31 December 2005, which give a true and fair view of the state of affairs of the Group and of the results and cash flow for that period, the directors have selected appropriate accounting policies and applied them consistently, and made judgements and estimates that are prudent and reasonable.

In accordance with the Listing Rules, we have announced our annual financial results within four months after the end of the relevant period.

### **Internal control**

In accordance with relevant laws and regulations stipulated by the regulatory authorities, we have formulated and implemented a series of internal control rules, procedures and methods to ensure the quality of accounting information and the safety and completeness of our assets. These include systems for identifying, measuring and reporting financial and accounting indicators, procedures for verification, inspection and supervision of accounts, and measures for quality assessment of accounting work and for awards and punishments and so forth. We have also applied information technology to realise automatic control in our computer systems as required for internal control with a view to enhancing our risk control capacity.

The Board is responsible for our internal control system and reviews the effectiveness of the relevant systems through the risk management committee and audit committee. In 2005, the Board approved a joint resolution proposed by the risk management committee and the audit committee to undertake an

## CORPORATE GOVERNANCE REPORT

assessment of our internal control systems. The overall objective is to review the internal control environment of the Bank, standardise systems and procedures, and further strengthen our risk control and internal control practices.

The internal control system assessment project shall be led primarily by the Board's risk management committee and the audit committee, and the overall process will be under the supervision of the board of supervisors. The internal control system assessment project shall be conducted with reference to the five components under the framework of the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"), namely, control environment, risk assessment, control activities, monitoring, and information and communication. The board of directors is currently leading the relevant departments in preparation of a draft assessment plan for these five segments, and pushing forward other relevant projects.

### **Independence and qualification of independent non-executive directors**

In compliance with Rule 3.10(1) of the Listing Rules, there are four INEDs on our board. All of our INEDs have a wide range of business and financial experience, making them well-qualified, regarding the complexity and breadth of the commercial banking environment in which we operate. One of our INEDs, Mr. Tse Hau Yin, Aloysius possesses professional accounting qualifications, in full compliance with Rule 3.10(2) of the Listing Rules.

The Bank has received from each of its INEDs the annual confirmation of his/her independence pursuant to Rule 3.13 of the Listing Rules. The Bank considers the existing INEDs are in compliance with the independence guidelines set out in Rule 3.13 of the Listing Rules, and are accordingly independent.

During the period in which board meetings were held, the INEDs held separate meetings to discuss and assess issues of corporate governance reform and submitted their relevant opinions to the board and the chairman of the board.

### **COMMITTEES UNDER THE BOARD OF DIRECTORS**

There are five committees established under the Board: the strategy development committee, audit committee, risk management committee, nomination and compensation committee and related party transactions committee. Among these committees, the positions of chairmen of the audit committee, nomination and compensation committee and related party transactions committee are held by our INEDs, and more than half of the committee members are INEDs.

#### **Strategy development committee**

Our strategy development committee consists of twelve directors: Mr. Guo Shuqing, Mr. Chang Zhenming, Ms. Liu Shulan, Mr. Zhu Zhenmin, Mr. Jing Xuecheng, Ms. Wang Shumin, Mr. Wang Yonggang, Mr. Liu Xianghui, Mr. Zhang Xiangdong, Mr. Gregory L. Curl, Mr. Yashiro Masamoto and Ms. Elaine La Roche. Mr. Guo Shuqing currently serves as chairman of our strategy development committee.

The primary responsibilities of the strategy development committee include:

- drafting medium to long-term strategic development plans, and assessing implementation thereof;
- reviewing annual operational plans and financial budgets of the Bank;
- reviewing strategic capital allocation plans and asset and liability management targets;

## CORPORATE GOVERNANCE REPORT

- evaluating the coordinated development of various financial businesses;
- reviewing material restructuring and re-organisation plans; and
- reviewing significant investment and financing projects.

In 2005, the strategy development committee has prioritised the formulation and management of development strategies. Following in-depth investigation and study and with continuing promotion, the Bank has been implementing its strategic plan at a gradual pace. In addition, the strategy development committee has also considered material issues, given its support to the business development and improvement of corporate governance; organised research on major strategic issues and promoted the study and management of the relevant strategies applicable to the Bank.

Going forward, the strategy development committee will continue to identify strategic businesses for focused studies, intensify the study of systemic and functional reform, and establish strategy management systems so as to strengthen strategic management and continue the reform of the Bank to promote the steady but rapid development across all of our businesses.

### Audit committee

Our audit committee consists of seven directors: Mr. Tse Hau Yin, Aloysius; Ms. Wang Shumin; Mr. Wang Yonggang; Mr. Gregory L. Curl; Mr. Song Fengming; Mr. Yashiro Masamoto; and Ms. Elaine La Roche. Mr. Tse Hau Yin, Aloysius, an internationally qualified accountant, currently serves as chairman of the audit committee and Mr. Wang Yonggang is a senior accountant. Both of them have extensive experience in financial matters and possess expertise in the relevant financial management. None of the audit committee members are currently members of the former or existing auditors of our Bank nor have any relationships with them. Our audit committee complies with Rule 3.21 of the Listing Rules.

The primary responsibilities of our audit committee include:

- monitoring the preparation of our financial statements, reviewing the disclosure of our accounting information and significant events;
- monitoring and assessing our internal controls;
- monitoring the compliance level of our core operating units, management procedures and principal business activities;
- monitoring and assessing the performance of our internal audit function;
- monitoring and assessing the performance of our external auditors, proposing to the board the appointment or removal of external auditors, and facilitating the communication between external auditors and internal audit function; and
- reporting to the board the performance of the audit committee, and communicating and coordinating with other board committees.

The terms of reference of the audit committee have included the duties set out in C.3.3(a) to (n) of the Model Code, with appropriate modifications where necessary.

## CORPORATE GOVERNANCE REPORT

Eight committee meetings were held in 2005 with an attendance rate of 100%. Individual attendance records of the directors are set out as follows:

Director	Meetings held during the appointment period	Number of meetings attended	Attendance Rate
Tse Hau Yin, Aloysius ( <i>Committee Chairman</i> )	8	8	100%
Wang Shumin	8	8	100%
Wang Yonggang	8	8	100%
Song Fengming	8	8	100%
Elaine La Roche	3	3	100%
Gregory L. Curl	2	2	100%
Yashiro Masamoto	2	2	100%

In 2005, in accordance with the Articles of Association and relevant regulations, the audit committee revised the detailed working rules of the audit committee and submitted the same to the Board for consideration and adoption. The audit committee frequently communicated and held discussions with management and the external auditors in relation to the financial information and other relevant matters set out in our 2003 and 2004 financial statements (prepared in accordance with International Financial Reporting Standards), 2004 annual report, management letter and prospectus, and reviewed such information in accordance with the required procedures. The audit committee also provided proposals and guiding opinions on our information disclosure and the supervision of external auditing work.

The audit committee reviewed various work reports from our chief auditor and internal audit department, approved our internal audit system reform scheme, 2005 and 2006 work plans for internal audit and audit scheme for special budgetary items, regularly reviewed the progress of internal audit work, and examined, guided, supervised and assessed internal audit work. The audit committee reviewed the progress reports made by external auditors regularly and made an overall assessment on the independence, professional competence and work performance of the existing external auditing institution.

In April 2005, the audit committee and risk management committee jointly proposed to the Board a resolution on the *Scheme of Assessment of the Internal Control System*, and prepared to evaluate the internal control system during the year.

Going forward, the audit committee will focus on assessing risk and internal control systems, supervising financial reports and assessing audit procedures.

### **Risk management committee**

Our risk management committee consists of seven directors: Mr. Zhang Xiangdong, Mr. Chang Zhenming, Mr. Zhao Lin, Mr. Jing Xuecheng, Mr. Liu Xianghui, Mr. Song Fengming and Mr. Yashiro Masamoto. In April 2005, our vice chairman and executive director Chang Zhenming voluntarily resigned from his position as chairman of the risk management committee in order to strengthen the checks and balances between the board and senior management in the area of risk management. Mr. Zhang Xiangdong, our non-executive director, became chairman of the risk management committee.

## CORPORATE GOVERNANCE REPORT

The primary responsibilities of our risk management committee include:

- formulating our risk strategy and risk management policies in accordance with our overall strategy and monitoring their implementation;
- providing guidance on building our risk management and internal control systems, and supervising and assessing our internal control systems;
- assessing the effectiveness of the organisational structure, reporting lines and working procedures for risk management, and proposing changes for improvements;
- conducting periodic assessments of our risk management and internal control system, and providing their opinions in relation to further improvements; and
- evaluating the performance of our chief risk officer.

In 2005, in accordance with the Articles of Association and the relevant regulations, the risk management committee revised the detailed working rules of the risk management committee and submitted the same to the board for consideration and adoption.

The risk management committee was intensively involved in monitoring the quality of our assets, and encouraging management to strengthen credit risk management and improve asset quality. The committee also considered credit risk of corporate group clients, analysed problems and defects in the risk management system and operating mechanism, and raised proposals for improvement.

The risk management committee reviewed our overall risk management system, key areas of concern and proposals for further reform of our risk management system and strengthening of our internal control systems. The risk management committee acquainted itself with and guided the building of the risk control platform, and raised guiding opinions for internal control improvement.

Going forward, the risk management committee will focus on monitoring the Bank's asset quality, further implement the reform of our risk management system, guide the formulation of risk management and internal control plan and carry out the internal control assessment.

### **Nomination and compensation committee**

Our nomination and compensation committee consists of seven directors: Mr. Yashiro Masamoto; Mr. Zhao Lin; Mr. Zhu Zhenmin; Mr. Gregory L. Curl; Mr. Song Fengming; Mr. Tse Hau Yin, Aloysius; and Ms. Elaine La Roche. Our independent non-executive director Mr. Yashiro Masamoto currently serves as chairman of the nomination and compensation committee.

The primary responsibilities of the nomination and compensation committee include:

- formulating procedures and criteria for the selection and appointment of directors and senior executives for consideration by the board;
- proposing candidates for directors, presidents, chief auditor, secretary to the board and committee members for consideration by the board;
- evaluating candidates for senior management nominated by the president;
- formulating development plans for senior management and other key executives;

## CORPORATE GOVERNANCE REPORT

- drafting performance evaluation procedures for directors and senior management, and compensation plans for directors, supervisors and senior management for consideration by the board;
- reviewing the compensation system submitted by the president;
- proposing and drafting the performance evaluation system for directors and senior management, and the compensation evaluation system for directors, supervisors and senior management;
- advising on the compensation of directors and senior management;
- proposing the compensation of supervisors in accordance with the opinion of the board of supervisors; and
- monitoring the implementation of the Bank's performance and compensation evaluation system.

The terms of reference of the nomination and compensation committee have included the specific duties set out in Rules B.1.3(a) to (f) of the Model Code, with appropriate modifications where necessary.

The nomination and compensation committee presents recommendations in respect of the candidates for directors, president, chief auditor, and secretary to the board for its consideration and approval. The nomination and compensation committee as part of performing its duties, provides the board with materials and information by way of reports, suggestions, summaries and other forms to facilitate examination and decision-making by the board. Members of the committee are notified seven days prior to the convening of a meeting. However, such notice period may be waived upon unanimous agreement by all the members of the committee. The quorum of a meeting of the nomination and compensation committee is regarded as being present if more than half of the committee members attend the meeting. Each member shall have one vote. The resolution can only be passed if adopted by more than half of the committee members. The nomination and compensation committee selects and recommends candidates for directors, president and secretary to the board based primarily on their educational background and working experience as well as the specific conditions and requirements of the Bank.

The Bank's remuneration policy is determined by reference to the PRC market and international best practices, and taking into consideration the interests of individuals and the Bank as well as shareholders' value. Individuals are remunerated based on their contribution to the Bank and their position, with a system of performance bonuses. The principles of incentives and restraint are also applied to our remuneration policy. The Bank aims to have a competitive and fair remuneration system.

Four nomination and compensation committee meetings were held in 2005 with an attendance rate of 100%. Individual attendance records of the directors are set out as follows:

Director	Meetings held during the appointment period	Number of meetings attended	Attendance Rate
Yashiro Masamoto ( <i>Committee Chairman</i> )	4	4	100%
Zhao Lin	4	4	100%
Zhu Zhenmin	4	4	100%
Tse Hau Yin, Aloysius	3	3	100%
Elaine La Roche	3	3	100%
Gregory L. Curl	1	1	100%
Song Fengming	1	1	100%

## CORPORATE GOVERNANCE REPORT

With regard to nomination, in 2005 the nomination and compensation committee evaluated the nomination of independent directors, adjusted the membership of board committees, and nominated the chief auditor, vice presidents and new directors. Senior personnel were recruited through market-based methods. The committee was also involved in the recruitment process for a chief risk officer.

With regard to remuneration, in 2005, the nomination and compensation committee primarily evaluated the performance of our directors, remuneration of directors, supervisors and senior management, the long-term incentive scheme, and proposals for the liability insurance plan for directors, supervisors and senior management.

Going forward, the nomination and compensation committee will focus on establishing standards and procedures for the appointment of directors and senior management, promoting market-based recruitment for senior personnel, preparing performance evaluation and remuneration distribution schemes for directors, supervisors and senior management, finalising the Bank's long term incentive scheme and supervising the implementation of the Bank's performance evaluation and bonus systems.

### **Related party transactions committee**

Our related party transactions committee consists of three directors: Mr. Song Fengming; Ms. Liu Shulan; and Mr. Tse Hau Yin, Aloysius. Our independent non-executive director Mr. Song Fengming currently serves as chairman of our related party transactions committee.

The primary responsibilities of our related party transactions committee include:

- formulating and proposing standards for material related party transactions and the system for administration of related party transactions, as well as the internal approval reporting system;
- identifying our related parties;
- receiving reports on related party transactions, and if necessary approving related party transactions; and
- reviewing material related party transactions.

In 2005, the related party transactions committee revised the detailed working rules of the related party transactions committee in accordance with the requirements of the Articles of Association and submitted the rules to the Board for approval. The committee assessed the Bank's related party transactions, and formulated the *Implementation Procedures for Connected Transactions Management*, which has been approved by the Board. The committee established a related party transactions reporting and information disclosure team, and completed the first stage of the related party transactions reporting and information disclosure system, which commenced trial operation in December 2005.

Going forward, the related party transactions committee will focus on improving related party transactions management and control systems and procedures, and will continue to work on improving related party transactions administration.

## **BOARD OF SUPERVISORS**

### **Composition of board of supervisors**

Our board of supervisors currently consists of seven supervisors, comprising four shareholder representative supervisors, one employee representative supervisor and two external supervisors. Biographies of our supervisors are set out in "Profiles of Directors, Supervisors and Senior Management".

## CORPORATE GOVERNANCE REPORT

### **Functions and operation of the board of supervisors**

The board of supervisors, being the supervisory authority of the Bank, is accountable to the shareholders' general meeting. It is responsible for supervising the performance of the board of directors, senior management and their members, requiring the directors, chairman and senior management to correct their acts that violate the Bank's interest; inspecting and monitoring the financial affairs of the Bank; verifying the financial information, including the financial report, business report and profit distribution proposal, proposed to be tabled at the shareholders' general meeting by the board of directors; conducting audits on the business decisions, risk management and internal control of the Bank according to its discretion and giving guidance on the internal audit of the Bank.

The board of supervisors convenes at least four meetings per year. Board of supervisors' meetings are convened and presided over by the chairman of the board of supervisors. Supervisors are notified in writing 10 days prior to the convening of the board of supervisors' meeting. Matters concerning such meeting are specified in the written notice. During the meeting, all supervisors may express their opinions at will. The supervisors are free to express their opinions and are obliged to take any actions consistent with the interests of the Bank. The Bank has adopted and developed necessary measures and channels to protect the right of information of the supervisors so that the board of supervisors may have timely access to relevant information and materials in accordance with the relevant requirements. Members of the board of supervisors shall attend the board meeting as non-voting attendees. The board of supervisors may, when necessary, designate supervisors to attend the President's office meetings and other meetings as non-voting attendees.

Two committees, namely the performance and due diligence supervision committee and the financial and internal control supervision committee, have been established under the board of supervisors. The responsibilities, powers and functions of these committees are set out in their respective terms of reference.

Minutes are prepared for the meetings of the board of supervisors and of its committees. At the end of each meeting of the board of supervisors or its committees, minutes will be provided to all attending supervisors for examination and comments. After finalizing the minutes, the office of the board of supervisors shall be responsible for distributing the final version of the minutes to all supervisors.

### **Meetings of the board of supervisors**

The board of supervisors has convened five meetings during the fiscal year 2005. For details, please refer to "Report of the Board of Supervisors" in this annual report.

### **COMMITTEES UNDER THE BOARD OF SUPERVISORS**

#### **Performance and due diligence supervision committee**

The performance and due diligence supervision committee was established in August 2005, and consists of four members: Mr. Xie Duyang, Ms. Liu Jin, Ms. Cheng Meifen, and Mr. Guo Feng. Mr. Xie Duyang serves as chairman of the performance supervision and due diligence committee.

The primary responsibilities of the performance and due diligence supervision committee include: formulating the rules and regulations, work plans and proposals in connection with the supervision of the performance and degree of diligence of the board of directors and senior management and implementing such rules and regulations, plans and proposals upon submission to the board of supervisors for consideration and approval; giving opinions on the supervision of the performance of duties by the board of directors and senior management as well as the degree of diligence achieved by the chairman of the board and other officers; drafting measures applicable to carry out performance evaluation of the supervisors, and giving opinions on evaluation for the consideration by the board of supervisors.

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In 2005, the performance and due diligence supervision committee formulated systems and rules and regulations on performance supervision and performance evaluation of supervisors. Communication with directors and senior management was strengthened. The committee conducted interviews at different levels and assessments of performance supervision. The committee gave opinions on the performance and the degree of diligence of the board of directors, senior management and their members. The committee also evaluated supervisor's performance.

### Finance and internal control supervision committee

The finance and internal control supervision committee was established in August 2005, and consists of three members: Mr. Cui Jianmin, Mr. Jin Panshi, and Ms. Chen Yueming. External supervisor Mr. Cui Jianmin serves as chairman of the finance and internal control supervision committee.

The primary responsibilities of the finance and internal control supervision committee include: formulating the rules and regulations, work plans and proposals as well as the supervision and inspection of implementation proposals in connection with the supervision of financial and internal control and implementing such rules and regulations, plans and proposals upon the approval of the board of supervisors; examining and verifying the annual financial reports and business reports together with the profit distribution proposals prepared by the board of directors and providing suggestions on such reports to the board of supervisors; providing supervision opinion on financial and internal control and submitting such opinion to the board of supervisors for review and, as necessary, formulating the implementing measures relating to the audit of the business decisions, risk management and internal control of the Bank and implementing such measures upon submission to the board of supervisors for approval.

In 2005, the financial and internal control supervision committee formulated inspection scheme on specific issues and implemented the scheme with the approval of the board of supervisors. The committee communicated with the audit committee of the board and external auditors, and reviewed the Bank's budget for 2005 and the final statements and profit distribution proposal for 2004. A supervision report on financial and internal control was formulated.

### CHAIRMAN AND PRESIDENT

Rule A.2.1 of the Model Code and our Articles of Association stipulates that the role of chairman and president should be separate and should not be performed by the same individual.

Mr. Guo Shuqing is chairman of our board, and is responsible for our business strategy and overall development. The chairman is our legal representative.

Mr. Chang Zhenming is the president, and is responsible for overseeing the day-to-day management of our business and operations. Our president is appointed by the board, accountable to the board, and discharges his duties in accordance with the Articles of Association and the scope of delegation by the board.

### DIRECTORS' SECURITIES TRANSACTIONS

Rule A.5.4 of the Model Code stipulates that all directors must comply with the *Model Code for Securities Transactions by Directors of Listed Issuers* in Appendix 10 of the Listing Rules.

During the year ended 31 December 2005, the Bank has adopted a code of practice in relation to securities transactions by directors and supervisors in terms no less exacting than those set out in the *Model Code for Securities Transactions by Directors of Listed Issuers* in Appendix 10 of the Listing Rules.

Having enquired with our directors and supervisors, the Bank confirms that all directors and supervisors have, during the year ended 31 December 2005, complied with the provisions of this code of practice in relation to securities transactions.

## CORPORATE GOVERNANCE REPORT

None of our directors, supervisors or senior management holds any shares in the Bank.

### SHAREHOLDING STRUCTURE AND SHAREHOLDERS

As of 31 December 2005, we had 224,689,084,000 shares in issue, of which approximately 25.75% was held by the public. As at that date, we had a broad base of 103,822 registered shareholders distributed throughout Asia, Europe and North America. The following table shows the distribution of ownership according to our register of members and the participant shareholding report generated from the Central Clearing and Settlement System as at 31 December 2005:

Category	Number of registered shareholders	% of shareholders	Number of shares	% of total issued share capital
<b>Individual investors</b>	103,513	99.70238%	251,198,000	0.11%
<b>Institutions, corporations, nominees and other non-individual investors (other than our promoters and strategic investors)</b>	302	0.2909%	25,255,297,000	11.24%
<b>Promoters</b>				
China SAFE Investments Limited ("Huijin")	1	0.00096%	138,150,047,904	61.48%
China Jiayin Investment Limited ("Jiayin")	1	0.00096%	20,692,250,000	9.21%
Shanghai Baosteel Group Corporation ("Baosteel")	1	0.00096%	3,000,000,000	1.34%
State Grid Corporation of China ("State Grid")	1	0.00096%	3,000,000,000	1.34%
China Yangtze Power Co. Limited ("Yangtze Power")	1	0.00096%	2,000,000,000	0.89%
<b>Strategic Investors</b>				
Bank of America	1	0.00096%	19,132,974,346	8.52%
AFH	1	0.00096%	13,207,316,750	5.88%
<b>Total</b>	<b>103,822</b>	<b>100%</b>	<b>224,689,084,000</b>	<b>100%</b>

Note: Any discrepancies in the table above between totals and sums of amounts listed therein are due to rounding.

### SHAREHOLDERS' RIGHTS

#### Shareholder communication

The shareholders' general meeting provides an effective forum for shareholders to exchange views with the board. The chairman of the board as well as chairmen of the audit committee, nomination and compensation committee, or the relevant members of the committees are available to answer shareholders' questions at the annual general meeting.

In accordance with Rule E.1.1 of the Model Code, separate resolutions are proposed at the shareholders' general meetings on each separate issue, including the election of individual directors.

Details of the poll voting procedures and the rights of shareholders to demand a poll are included in the circular to shareholders. The circular also includes relevant details of proposed resolutions, including biographies of each candidates standing for election and explanatory materials for certain resolutions.

The results of the poll are published in the newspapers and on our corporate website.

#### Procedures for convening an extraordinary general meeting

In accordance with the Articles of Association and the *Rules and Procedures for the Shareholders' General Meeting*, shareholders alone or together holding 10% or more of our shares with voting rights at the meeting to be held ("Proposing Shareholders") may in writing request that the board convene an

## CORPORATE GOVERNANCE REPORT

extraordinary shareholders' general meeting. Within 15 days of receiving the request, the Board shall give the Proposing Shareholders an answer indicating if the Board agrees to convene such an extraordinary shareholders' general meeting.

If the Board disagrees with the request to convene the extraordinary shareholders' general meeting, the Proposing Shareholders may, within 15 days of receiving such a notice of disagreement, decide either to waive the request for convening the extraordinary shareholders' general meeting or issue a notice to convene an extraordinary shareholders' general meeting by themselves. If the Board fails to issue a notice for convening the meeting or decides not to convene the extraordinary shareholders' general meeting within the specified time limit, the Proposing Shareholders may convene the meeting by themselves within four months after submitting such request to the Board.

### Procedures for raising proposals at shareholders' general meetings

Before the Board issues a notice to convene the shareholders' general meeting, the secretary to the board may collect proposals from shareholders who singly hold 5% or more of the total number of our issued and outstanding shares with voting rights (in case of proposing to convene an annual general meeting), or the shareholders who singly or jointly hold 1% or more of the total number of our issued and outstanding shares (only for proposals for candidates for independent director or external supervisor), or the shareholders who hold singly or jointly 10% or more of the total number of our issued and outstanding shares with voting rights (in case of proposing to convene an extraordinary shareholders' general meeting), the board of supervisors and independent directors, and submit the collected proposals to the board for consideration and approval before presenting them as resolutions to the shareholders' general meeting.

For an annual general meeting, if an extraordinary proposal raised by the shareholders who singly or jointly hold 5% or more of our total number of issued and outstanding shares with voting rights or the shareholders who hold singly or jointly 1% or more of our total number of issued and outstanding shares (only for proposals for candidates for independent director or external supervisor), the board of supervisors or no less than half of our independent directors is related to specific matters as set out in the *Rules of Procedure for Shareholders' General Meeting* and is not listed in the notice of the meeting, the proposer shall submit the proposal to the board 10 days before the holding of the shareholders' general meeting and, after its examination, the board shall give all shareholders a notice and make an announcement of the extraordinary proposal.

Any new proposal for distribution proposed by the largest shareholder shall be submitted to the board 10 days before the holding of the annual general meeting and the board shall give all shareholders a notice and make an announcement of the proposal. The largest shareholder may not propose any new proposal for distribution at the annual shareholders' general meeting if the number of days before the meeting is less than 10 days.

### Shareholder enquiries

Any matters related to your shareholding, including transfer of shares, change of name or address, lost of share certificates and dividend notes, should be sent in writing to:

Computershare Hong Kong Investor Services Limited  
Rooms 1712–16, 17th Floor  
Hopewell Centre  
183 Queen's Road East  
Wanchai, Hong Kong  
Telephone: (852) 2862 8628  
Facsimile: (852) 2865 0990/(852) 2529 6087

## CORPORATE GOVERNANCE REPORT

### AUDITORS' REMUNERATION

At our 2004 annual general meeting held on 5 June 2005, our shareholders approved the resolution in respect of the appointment of the auditors for the Bank and agreed to appoint KPMG Huazhen as our domestic auditors and KPMG as our international auditors for the year 2005; and the directors were authorised to negotiate and determine the fees of such auditors in accordance with market practice.

Auditors' fees for the audit of the financial statements of the Group, including those of the Bank's overseas branches, for the year ended 31 December 2005 was RMB 141 million, of which RMB 140 million were the fees paid to KPMG and KPMG Huazhen (including RMB 66 million for our interim audit, RMB 73 million for our annual audit and RMB 1 million for our subsidiaries' annual audit).

The Bank also incurred approximately RMB 254 million for the services provided by KPMG and KPMG Huazhen in respect of the global initial public offering ("IPO") and listing of the Bank's shares on the Hong Kong Stock Exchange and the amount had been charged to the capital reserve account. The services commenced in August 2003 and it was not practical to separate the amounts payable for those services between the years 2003 to 2005.

Except for the above-mentioned IPO service fees, neither KPMG nor KPMG Huazhen has provided any material non-audit services to us. The total fees paid for non-audit services, exclusive of the IPO service fees, to KPMG or KPMG Huazhen amounted to no more than RMB 1 million in 2005.

The Board will table a resolution at the forthcoming annual general meeting, proposing to reappoint KPMG Huazhen as our domestic auditors and KPMG as our international auditors for the year 2006.

### INVESTOR RELATIONS

Enquiries may be directed to:

Board of Directors Office  
China Construction Bank Corporation  
No. 25, Finance Street, Xicheng District, Beijing, China  
Telephone: (8610) 6621-5533  
Facsimile: (8610) 6621-8888  
Email: ir@ccb.cn

Investor Relations Office  
China Construction Bank Corporation  
5th Floor, Tower One, Lippo Centre, 89 Queensway, Hong Kong  
Telephone: (852) 2532-9637  
Facsimile: (852) 2523-8185

### OTHER INFORMATION

This annual report is available in both English and Chinese. It is also available (in both English and Chinese) on our website at [www.ccb.cn](http://www.ccb.cn) and that of the Stock Exchange of Hong Kong Limited at [www.hkex.com.hk](http://www.hkex.com.hk).

The organisational structure of the board of directors, the committees under the board of directors, the board of supervisors, the committees under the board of supervisors, senior management, and the summary of their respective roles and responsibilities are also posted on our corporate website.

If you have any queries about how to obtain copies of this annual report or how to access those documents on our website, please call our hotline at (852) 2532-9637 or (8610) 6621 5533.



# Corporate Social Responsibility



## CORPORATE SOCIAL RESPONSIBILITY

Our Bank has always supported social benefit works, and actively participated in social activities. We have sought to advance social progress, increase public welfare, and link our own development closely with that of society. Over the years we have contributed actively to areas such as education, alleviation of poverty, health and sports.

### Fundraising for China Children and Teenagers' Fund

In 2002 we were entrusted by the China Children and Teenagers' Fund to collect donations on its behalf through 5,000 of our branch outlets. As of the end of 2005, we have collected a cumulative amount of RMB 2.68 million on behalf of the China Children and Teenagers' Fund, of which RMB 493,000 was collected in 2005 alone. In June 2005, we were named "Caring Company" at the "4th China Children's Charitable Activities Day".

### CCB Caring Foundation

In 2005, with donations from our employees, the "CCB Caring Foundation" donated RMB 2 million to 86 higher education institutes across the nation, helping over 1,460 financially disadvantaged tertiary students. The foundation also donated RMB 500,000 to the China Youth Development Fund to build "CCB Hope Primary Schools" in impoverished areas, and donated RMB 500,000 to the China Foundation for Justice and Courage. During the ten years since the CCB Caring Foundation was established, it has donated a cumulative amount of RMB 31.45 million to charitable causes.

### CCB Red Cross Youth Development Foundation

In December 2005, we signed a strategic cooperation agreement with the Red Cross Society of China. Our Bank will donate RMB 3 million over five years to establish the "CCB Red Cross Youth Development Foundation", to assist financially disadvantaged students in key universities which have signed cooperation agreements with our Bank, and to support the youth work of the China Red Cross. In addition, we will provide a bank card named "China Red Cross Dragon Card" for each China Red Cross member, with a portion of the income from these cards donated to the China Red Cross to support their volunteer service.



## CORPORATE SOCIAL RESPONSIBILITY

### **Co-organiser and chief sponsor of the 8th Beijing International Music Festival**

Our Bank has entered into a cooperation agreement with the Beijing International Music Festival Fund, and become the co-organiser and chief sponsor of the 8th Beijing International Music Festival. We have contributed RMB 3.5 million to this festival to invite Berliner Philharmoniker, China Philharmonic and many other performers and musicians to perform in China.

### **Other charitable activities**

We have also donated funds to the General Hospital of the PLA, earthquake-affected areas of Jiangxi Province, the 4th International Olympic Chorus Festival (Xiamen, China), Zhejiang University and other institutions or regions on various occasions.