



REPORT FROM THE BOARD OF SUPERVISORS CCB ANNUAL REPORT 2004

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10 Report from the Board of Supervisors

10.1 Daily responsibilities of the Board of Supervisors

At China Construction Bank Corporation's First Shareholders' General Meeting on 15 September 2004, Mr. Xie Duyang, Ms. Liu Jin, Mr. Jin Panshi, Ms. Chen Yueming were elected as supervisors; 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; at China Construction Bank Corporation's Second Extraordinary Shareholders' General Meeting of year 2005 on 25 March 2005, Mr. Cui Jianmin and Mr. Guo Feng were elected as external supervisors.

Since its establishment, the Board of Supervisors has worked in accordance with the relevant requirements of *the PRC Company Law* and *the Articles of Association of China Construction Bank Corporation* by developing its work scope and setting out relevant rules and guidelines with the aim of protecting the interests of the shareholders, the Bank and the employees.

(1) Meetings of the Board of Supervisors

Between 17 September 2004 and 31 December 2004, two Board of Supervisors meetings were held:

At the first meeting of the Board of Supervisors on 15 September 2004, Mr. Xie Duyang was elected as Chairman.

At the second meeting of the Board of Supervisors on 5 November 2004, *the Work Procedures of China Construction Bank Corporation's Board of Supervisors* was approved, while the matters relating to the office of the Board of Supervisors and the candidates for key and assistant office directors and the *Latest Work Progress and Plans of the Board of Supervisors* were circulated.

(2) Attendance and absences at the Board of Supervisors meetings

Between 17 September 2004 and 31 December 2004, the supervisors attended the First Shareholders' General Meeting and two Extraordinary Shareholders' General Meetings, three of the meetings of the Board of Directors. Certain supervisors attended the meetings of the Board Committees and the Bank's operational management meetings.

(3) Work progress of the supervisors

◆ Fulfilment of duties supervision: The Board of Supervisors supervised how the Board of Directors and the Executive Management discharged their due duties through setting up case files and reviewing, on a sample basis, documents signed by the Executive Management and senior executives, and work progress reports of the Board of Directors and the Executive Management.

◆ Financial supervision: the Board of Directors reviewed the Bank's financial information, performed an off-site financial review and met with the appointed external auditors. The Board of Supervisors also considered and laid out the review plan to perform specific reviews at Hebei and Qingdao branches for assessing the accuracy of the risk-based corporate loan classifications and the adequacy and reasonableness of the relating impairment provisions.

◆ Internal control supervision: The Board of Supervisors reviewed the quality and changes in the Bank's assets. The Board performed a review of the risk management and internal control environment at the Hainan and Guangxi branches, designed a review plan and performed on-site reviews of the lending business related internal control and risk management environment at the Chongqing and Shaanxi branches. The Board of Supervisors paid close attention to other matters such as related party transactions and significant sales of assets.

10.2 Board of Supervisors' independent opinion on relevant issues

Since the incorporation of China Construction Bank Corporation, the Board of Directors duly conducted the resolutions of the Shareholders' General Meetings and achieved significant progress in promoting further developments in the Bank's restructuring and improvements in corporate governance. The Executive Management duly conducted the decisions made by the Board of Directors and achieved significant progress in terms of making the necessary preparation for a listing, risk management, internal controls and business development. The current Board of Directors and Executive Management were diligent and conducted their roles in a legitimate manner. In 2004, the Bank experienced steady growth in all lines of business and maintained growth in its operating results, therefore this has laid a sound platform for achieving the Bank's long-term goal.

(1) Legitimacy of the Bank's operations and conduct

Between 17 September 2004 and 31 December 2004, the Bank conducted its operations in a legitimate manner. The conduct of the Shareholders' General Meetings and the meetings of the Board of Directors, the proposal of agenda items and the approval of resolutions were performed in a legal and effective manner, in accordance with *the PRC Company Law* and *the Articles of Association of China Construction Bank Corporation*.

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

On 25 March 2005, the Second Extraordinary Shareholders' General Meeting of year 2005 was convened, at which Mr. Guo Shuqing was elected as a director. On the same day, the fifth meeting of the First Session of the Board of Directors was convened, at which Mr. Guo Shuqing was elected as the Chairman of the Board of Directors.

(2) Analysis of the Bank's assets and financial position

KPMG Huazhen have performed an audit of the Bank's financial statements for the years ended 31 December 2003 and 2004 in accordance with China's Independent Auditing Standards of the Certified Public Accountants and has issued a standard and unqualified auditors' report. The Board of Supervisors is of the opinion that the Bank's financial statements present a true and fair view of the Bank's financial positions and operating results.

(3) Related party transactions

The Bank's related party transactions have been conducted in accordance with the laws of the PRC and the relevant internal rules and guidelines of the Bank. The related party transactions were fair and reasonable and were conducted in accordance of the Bank and the shareholders' interests.

(4) Events including acquisition and sale of assets

Between 17 September 2004 and 31 December 2004, the Bank had no significant acquisition or sale of assets required to be disclosed.



11 Important Events

11.1 Important events including restructuring, incorporation and sale of assets

◆ In 2004, CCB was separated into China Construction Bank Corporation and Jianyin. According to the separation procedure under *the PRC Company Law* and the separation proposal approved by the CBRC on 8 June 2004, CCB released its separation announcement on 10, 11 and 12 June 2004. Following the final approval by the CBRC on 14 September 2004, Huijin, Jianyin and the Bank entered into a separation agreement on 15 September 2004 which was completed on 17 September 2004.

◆ After the separation of CCB, the Bank took over all the commercial banking businesses and related assets and liabilities of CCB, including all deposits, loans, bank cards, clearing activities and other businesses, and the related rights, ownership and interests in intellectual property rights originally held by CCB. All CCB's other businesses, assets and liabilities were transferred to Jianyin.

◆ Upon incorporation of the Bank on 17 September 2004, the Bank formally incorporated after completing the registration with the State Administration for Industry and Commerce and obtained the relevant business license. China Construction Bank Corporation's registered capital amounts to RMB 194,230.25 million, and its promoters are Huijin, Jianyin, State Grid, Shanghai Baosteel and Yangtze Power, which holds 85.228%, 10.653%, 1.545%, 1.545% and 1.030% of shareholding respectively.

◆ On 15 September 2004, the CBRC issued a financial services certificate to the Bank. New banking licenses have been approved and obtained by overseas branches in Hong Kong, Frankfurt, Johannesburg, Singapore and Seoul. The Tokyo Branch has

suspended its operations according to the relevant Japanese legislations but retained all existing assets and employees. The Bank is currently applying for a renewal of the banking licence for its Tokyo branch. In addition, our London and New York representative offices have also obtained relevant regulatory approvals to operate as representative offices.

◆ With the approval of the relevant departments of the State Council at the end of 2003, the Bank transferred non-performing loans with a principal amount of RMB 128,900 million outstanding at 50% of the principal amount. In June 2004, the PBOC selected Cinda to act as a receiver through an auction process.

◆ On 2 March 2004, the Bank transferred loans with principal amounting to RMB 56.9 billion which were previously written off in 2003 to Cinda after obtaining approval from the MOF.

11.2 Appointment of accounting firm

The First Shareholders' General Meeting on 15 September 2004 approved the "Proposal on China Construction Bank Corporation's Appointment of Auditor" to engage KPMG Huazhen as the auditor of the financial statements for the year ended 31 December 2004.