



中国建设银行
China Construction Bank

China Construction Bank Corporation Stock Code : 939
(A joint stock limited company incorporated in the People's Republic of China with limited liability)





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Financial Highlights

The table below sets forth the consolidated financial summary of China Construction Bank Corporation (the “Bank”) and its subsidiaries (collectively the “Group”).

	Six months ended	Six months ended
	30 June 2006	30 June 2005
Current period	(In millions of RMB)	
Operating income	70,864	62,922
Profit before tax	32,814	31,743
Net profit	23,223	28,349
Adjusted net profit ¹	23,223	20,501
Net profit attributable to shareholders	23,223	28,351
Adjusted net profit attributable to shareholders ¹	23,223	20,503
Per share	(In RMB)	
Net asset value per share	1.36	1.03
Earnings per share	0.10	0.15
Profitability indicators	(%)	
Annualised return on average assets ²	0.95	1.39
Adjusted annualised return on average assets ³	0.95	1.01
Annualised return on average equity ⁴	15.67	28.61
Adjusted annualised return on average equity ³	15.67	20.69
Net interest spread	2.59	2.80
Net interest margin	2.70	2.85
Net fee and commission income to operating income	8.85	6.21
Cost-to-income ratio ⁵	41.65	38.93

1. Calculated by excluding the effect of the tax exemption granted by the People’s Republic of China (“PRC”) government in relation to the restructuring of the Bank from net profit or net profit attributable to shareholders.
2. Calculated by dividing net profit by the average of total assets as at the beginning and end of the periods and then multiplying two.
3. Calculated by dividing adjusted net profit or adjusted net profit attributable to shareholders by the average of total assets or total equity attributable to shareholders as at the beginning and end of the periods and then multiplying two.
4. Calculated by dividing net profit attributable to shareholders by the average of total equity attributable to shareholders as at the beginning and end of the periods and then multiplying two.
5. Calculated by dividing general and administrative expenses by operating income.

	30 June 2006	31 December 2005	30 June 2005
As at period end		(In millions of RMB)	
Total equity attributable to shareholders	305,139	287,579	200,907
Issued and paid-up capital	224,689	224,689	194,230
Total assets	5,166,242	4,585,742	4,224,088
Capital adequacy indicators		(%)	
Core capital adequacy ratio ¹	10.77	11.08	8.11
Capital adequacy ratio ¹	13.15	13.57	10.71
Total equity to total assets	5.91	6.27	4.76
Asset quality indicators		(%)	
Non-performing loan ratio	3.51	3.84	3.91
Allowances to non-performing loans ²	71.37	66.78	63.52
Allowances to gross loans ³	2.50	2.57	2.48

1. Core capital adequacy ratio and capital adequacy ratio are calculated on a solo basis in accordance with the Regulation Governing Capital Adequacy of Commercial Banks issued by China Banking Regulatory Commission ("CBRC") which came into effect on 1 March 2004.
2. Calculated by dividing the allowances for impairment losses on loans and advances to customers by total non-performing loans and advances to customers.
3. Calculated by dividing the allowances for impairment losses on loans and advances to customers by gross loans and advances to customers.

Chairman's Statement

During the first half of 2006, China's economy experienced robust growth with a steady increase in urban and rural income and a slight rise in consumer spending, and the financial environment remained stable, helping us to achieve strong and healthy development.

We continued our efforts to implement our overall development strategies, focused on formulating business strategies for overseas expansion and customer development, and further implemented the strategy to prioritise the development of branches in key cities. Internal management reforms on accounting and operations progressed smoothly, providing a mechanism that would ensure the efficiency of business operations. The board of directors (the "Board") appointed a Chief Financial Officer and a Chief Risk Officer to enhance financial and risk management capacity. Our senior management team appointed a Chief Wholesale Business Officer, a Chief Retail Business Officer and a Chief Investment Officer in order to strengthen the management of various lines of businesses and facilitate the establishment of vertical management over different business segments.

In implementing our customer-focused culture, we sustained our efforts in product innovation and operation improvement. We strived to provide comprehensive and competitive financial products and services to our customers, and have become one of the PRC commercial banks that provide the best comprehensive services. Our risk management capabilities have also improved, as we try to strike a sound balance between risk and return amid steady growth of our businesses.

For the first half of 2006, the Group recorded net profit of RMB 23,223 million, representing an increase of 13.3% compared with the same period in 2005 after excluding the tax exemption effect in relation to the restructuring. Earnings per share were RMB 0.10. The annualised return on average assets was 0.95% and the annualised return on average equity was 15.67%. The overall asset quality showed steady improvement with the non-performing loan ratio dropping to 3.51%.

According to *The Banker* in 2006, the Bank took the lead in the PRC banks based on tier-one capital and ranked 11th among the world's top 1,000 banks. The bank was ranked 65th in the world's biggest public companies and second in China for 2006 by *Forbes*. In the list of Top 300 Asian Banks released by *Asiaweek* in July 2006, the Bank ranked first with the highest net interest income and highest net profit, and was hailed as the "most profitable bank in Asia". In addition, we were ranked as Best Managed Company with Best Corporate Governance and Best Commitment to Strong Dividend for 2006 among Asian companies in the poll of *FinanceAsia*.

We will endeavour to further improve the effectiveness of our corporate governance and our overall competitiveness and profitability. We would continue to grasp market opportunities for business expansion and promote innovation throughout, marching towards our goal of becoming a world class commercial bank with the best services to our customers, the most value to our shareholders and the best career development opportunities to our employees.

Finally, on behalf of the Board, I would like to express the most sincere gratitude towards the dedication and hard work of our management and staff, in particular the valuable contribution by Mr. Chang Zhenming and Ms. Liu Shulan who left office this year, and give a warm welcome to our new president Mr. Zhang Jianguo, and two new directors, Mr. Luo Zhefu and Lord Peter Levene, to the Board. We would also like to thank our shareholders, customers and business partners for their continuous trust and support.



Chairman

24 August 2006

President's Report

In the first half of 2006, the strong economic growth in China provided a favourable environment for the banking industry; and meanwhile the government implemented various macroeconomic control measures in order to maintain a sustainable growth of the economy. Faced with both opportunities and challenges, the Bank strengthened its risk management and internal controls, enhanced its service quality and accelerated product innovation, thus achieving stable business growth and further improvement in asset quality.

FINANCIAL HIGHLIGHTS

In the first half of 2006, profit before tax reached RMB 32,814 million, up 3.4% over the same period last year. Steady growth was achieved in the financial performance, but the growth in profit before tax was dampened by the following factors: the Bank increased the basic salary and basic welfare of its staff since the second half of 2005; marketing activities were conducted earlier in 2006 compared with prior years, resulting in these expenses higher than the same period last year. In addition, the reform of the RMB exchange rate regime also led to an increase in net foreign exchange loss compared with the same period last year.

As the income tax exemption in relation to the restructuring expired on 30 June 2005, the net profit decreased by RMB 5,126 million to RMB 23,223 million compared with the same period last year. Excluding the income tax exemption effect in relation to the restructuring, the net profit for the first half of the year increased by RMB 2,722 million, or 13.3%, compared with the same period last year.

As a result of the rapid growth of infrastructure loans and residential mortgage loans, gross loans and advances to customers reached RMB 2,815,368 million as at 30 June 2006, representing an increase of RMB 356,970 million, or 14.5%, compared with that as at 31 December 2005. Accordingly, net interest income increased by 15.1% to RMB 65,285 million compared with the same period last year.

Our fee and commission-based services also achieved impressive results, with net fee and commission income for the first half of the year increasing by 60.6% to RMB 6,274 million compared with the same period last year. Net fee and commission income represented 8.9% of the operating income compared with 6.2% for the same period last year, reflecting the increased efforts and resources invested to develop these services.

As we continued to improve risk management practices and make timely adjustments to our lending criteria, steady improvement was achieved in the credit asset quality, with the non-performing loan ratio decreased to 3.51% compared with 3.84% at the end of last year, and the ratio of allowances to non-performing loans increased to 71.37% compared with 66.78% at the end of last year. Such ratio increased to 80% from 76% at the end of last year after taking into account the appropriated general reserve.

BUSINESS REVIEW

● Major businesses

In the first half of this year, operating income was RMB 70,864 million, up 12.6% compared with the same period last year. Operating income from corporate banking, personal banking, treasury business and others including overseas operations accounted for 57.3%, 29.0%, 12.7% and 1.0% respectively of the total.

The Bank's traditional edge in infrastructure loans was further strengthened. As at 30 June 2006 our corporate loan balance reached RMB 1,989,027 million, representing an increase of 12.0% compared with the end of 2005, with infrastructure loans contributing to 44.4% of the increase in total corporate loans. The loan growth was attributable to the fact that, with the commencement of the Eleventh Five Year Plan this year, the market demand for medium and long-term loans was strong and our expertise in this area met the demand well, which led to increased lending to key customers from core industries such as transportation and energy. Meanwhile, the Bank exercised cautious control over the direction and pace of credit extension, strengthened our monitoring of the industries that were subject to the government's macroeconomic control measures and leveraged on the credit risk early warning system and economic capital approach in governing loan extension.

The growth of our residential mortgage loans in the first half of 2006 ranked first among the PRC banks. The balance of residential mortgage loans amounted to RMB 391,875 million as at 30 June 2006, up 12.5% compared with the end of last year. The Bank improved existing residential mortgage loan products, and introduced innovative products and combined financial services to meet the differentiated and individualised demands of its customers.

Bank card business expansion reached a historic high. In the first half of the year, fee income of RMB 1,733 million was generated from bank card business, a significant increase of 30.0% compared with the same period last year. The Bank continued to enhance the features of its cards, target marketing forces at attracting and retaining high net-worth customers, and actively develop its merchants. As a result, there was a significant increase in the number of cards issued and the total spending. The number of credit cards in issue increased by 1.35 million to 4.47 million during the period. The total spending amount increased by 150% over the same period last year, while over 7,000 merchants were newly developed by the Bank.

There was phenomenal growth in customer-driven treasury products. We acted as lead underwriter of short-term financial notes totalling RMB 43,500 million, maintaining our leading position in the PRC market. In January 2006, the Bank became one of the first Renminbi market makers in the inter-bank foreign exchange market. The transaction volume of trade-related foreign exchange and settlement business totalled US\$48,933 million, up 30.4% from the same period last year. The volume of foreign currency derivatives transactions conducted on behalf of customers reached US\$6 billion, an increase of 102.4% over the same period last year.

- **Risk management**

We have actively proceeded with the reform of our risk management system with the focus on establishing a vertical risk management and parallel operation structure, which was implemented across the Bank from March 2006. With the appointment of our Chief Risk Officer and risk supervisors in all tier-one branches in place, a vertical risk management framework has taken shape.

We further enhanced our risk management technology. Our self-developed internal rating system has been applied in the credit grading of our customers. We also commenced the upgrading of the credit management information system ("CMIS") to provide a more solid foundation for the identification and measurement of risks. The development of the asset and liability management system, which focuses on the management of market risk and liquidity risk, has progressed smoothly, and market risk measuring techniques and reporting systems were further improved.

- **Our products**

We have strived to expand our product portfolio and introduce value-added new products in a timely manner to best satisfy the needs of our customers.

During the first half of 2006, we introduced new residential mortgage loan products, such as maximum amount mortgages and fixed rate mortgage loans, and increased flexibility of lending and repayment. We launched a series of new products targeted at corporate customers, such as co-advisory services in IPO and commercial property mortgage loans. In order to meet the market demand for trade finance, the Bank also introduced services such as overseas financing guarantees and export credit refinancing. In June 2006, the Bank obtained approval from CBRC to invest abroad for its customers, and became one of the first commercial banks to be recognised as Qualified Domestic Institutional Investor (QDII). The Bank also launched Renminbi quanto product linked with foreign exchange rates to meet customers' investment needs.

- **Our services**

We are committed to instilling the customer-focused philosophy into every staff member.

In the first half of the year, we enhanced the efficiency of the front office and centralised processing ability of the back office by improving the transaction processing procedures. We provide quality service to high net-worth customers through the use of the customer relationship management system and expanding our wealth management card's function in overseas transactions. We are the only commercial bank in the PRC that offers all mobile phone banking services including WAP, BREW and short message services. The Bank also achieved efficient coordination of its call centre system, internet banking system and mobile phone banking system by integrating various electronic service channels, and the success rate of transactions was improved. The practice of E-channel service of the Bank won the Retail Banking Project Award for Cross Channel Experience Project by *The Banker*; while our credit card system won *The Banker's* Retail Banking Innovation Award for Payment Innovation with its dual-currency structure and design of a limit beyond which a PIN is necessary to authorise transactions.

- **Our people**

We continued to revamp our human resources management, and actively explored ways to establish a market-oriented and practical human resources management system. Our human resources structure was further improved by accelerated replacement of staff through various channels, gradually reducing back office staff in administrative and logistic departments and increasing front office customer managers. We also intensified the reform of our compensation system by tying an employee's compensation to his or her job responsibilities and performance. We also established an appraisal system where middle and senior management were evaluated by key performance indicators. At present, the Bank is actively exploring the feasibility of establishing incentive schemes including a senior management stock appreciation rights plan and an employee stock ownership plan.

The Bank attaches great importance to staff education and career development. In order to enhance the quality of our staff, training programmes were extended to all staff members. In the first half of 2006, the Bank organised various domestic and overseas training programmes for its management staff and professional staff including customer managers and personal financial planners, reaching as many as 167,100 person times.

- **Technical support**

The Bank continued to invest in information technology to meet the increasing needs of its business expansion and management enhancement.

In the first half of 2006, the operational customer relationship management and integrated product service system ("OCRM-IPSS") was successfully launched, facilitating face-to-face sales activities and allowing product customisation and flexible pricing for our personal banking business. With the technical support of our automated dealing system, which allows straight-through processing for foreign exchange transactions with both retail and institutional customers, the Bank became the first PRC commercial bank to provide our customers with on-line quotations, and enabled them to execute transactions 24 hours a day.

With the successful implementation of the commercial lending process management system in pilot branches, a major process system covering the entire workflow of our credit business and integrating various lending functions came into shape. An accounting documentation management and checking system was launched in certain branches, realising automatic and electronic management of accounting documents and associated checking function. The Bank is currently implementing an ERP financial software package, upon the completion of which the general ledger and financial information for disclosure will be managed in a centralised manner. The first phase of data warehouse and management information system will be completed shortly, and help to improve the information sharing across the bank and enhance our operational management.

- **Strategic alliance**

In the first half of the year, in accordance with our business development strategies we strengthened our collaboration with Bank of America Corporation (“BAC”) in retail banking. Collaborative programmes, including transformation of retail branches and improvement of personal loan centres, were launched with the goal to accelerating the establishment of an efficient retail business model and improving service quality. At present all the projects are progressing smoothly, and waiver of fees has been realised for holders of the wealth management card of the Bank and those of BAC’s debit card and ATM card when withdrawing cash from each other’s ATMs. The assistance and cooperation programmes with Asia Financial Holdings Pte. Ltd. (“AFH”), a wholly-owned subsidiary of Temasek Holdings (Private) Limited (“Temasek”), and other associated institutions are also progressing smoothly. In addition, certain domestic and overseas training programmes were arranged under which our strategic partners would provide extensive training to our staff and share with us their business philosophies and management experiences.

LOOKING AHEAD

In the second half of the year, in light of the steady growth of China’s economy and further strengthening of the macroeconomic control measures by the government, the Bank will make reasonable adjustments to its lending scale and structure by closely tracking the macroeconomic policies and monitoring the risk associated with real estate industry. To address the financial demands of the market and customers, we will continue to enhance our capability to innovate products and services and we hope to increase the contribution of fee and commission income to operating income. In addition, we would try to apply the Six Sigma management method in the improvement of our service by learning from BAC, and expedite the implementation of the strategic assistance programmes in areas such as risk management and information technology. We will continue to promote human resources management reform so as to establish a more performance-driven system that maintains a proper balance between incentives and control.

I succeeded Mr. Chang Zhenming as President of the Bank in July 2006 and would like to extend my deep gratitude to Mr. Chang for his contribution to the reform and development of the Bank during the past two years. With the concerted efforts of the management and our staff in pursuit of excellence, we will endeavour to maintain steady growth in business and profit following the development strategies and operational targets set by the Board, and bring satisfactory returns to our shareholders and position the Bank for a brighter future.



President

24 August 2006

Financial Overview

In the first half of 2006, China's economy experienced steady and swift growth as evidenced by a 10.9% surge in GDP. In order to prevent the economy from getting overheated and to curb excess credit extension, the PRC government introduced a series of macroeconomic adjustment and control measures including lifting the benchmark lending rates, issuing designated PBOC bills and raising the statutory deposit reserve rate. Faced with new market conditions and opportunities, whilst continuing to strengthen risk control capacity, the Group achieved rapid growth in both assets and liabilities as well as steady growth in profit before tax by focusing on business expansion and improving operational management.

INCOME STATEMENT ANALYSIS

In the first half of 2006, the Group's profit before tax amounted to RMB 32,814 million, representing an increase of RMB 1,071 million, or 3.4% over the same period last year. Due to the expiry of the tax exemption on 30 June 2005 in relation to the restructuring, net profit reduced by RMB 5,126 million to RMB 23,223 million.

Net interest income

In the first half of 2006, net interest income grew by RMB 8,582 million to RMB 65,285 million, up 15.1% from the same period last year.

The following table shows the Group's average balances of assets and liabilities, related interest income or expenses, and average annualised yields or costs during the respective periods.

	Six months ended 30 June 2006			Six months ended 30 June 2005		
	Average balance	Interest income/ expense	Average annualised yield/cost (%)	Average balance	Interest income/ expense	Average annualised yield/cost (%)
(In millions of RMB, except percentages)						
Assets						
Total loans and advances to customers	2,680,177	71,618	5.34	2,311,755	61,104	5.29
Investments in debt securities	1,597,707	22,716	2.84	1,176,728	17,178	2.92
Balances with the central banks	403,968	3,366	1.67	383,106	3,221	1.68
Amounts due from banks and non-bank financial institutions	154,559	2,776	3.59	105,930	1,152	2.18
Total interest-earning assets	4,836,411	100,476	4.15	3,977,519	82,655	4.16
Total allowances for impairment losses	(68,191)	—	—	(59,023)	—	—
Non-interest-earning assets	146,453	—	—	151,468	—	—
Total assets	4,914,673	100,476		4,069,964	82,655	
Liabilities						
Deposits from customers	4,278,608	31,968	1.49	3,650,669	23,869	1.31
Amounts due to banks and non-bank financial institutions	183,237	2,169	2.37	117,175	1,067	1.82
Subordinated bonds issued	39,909	930	4.66	39,898	932	4.67
Other interest-bearing liabilities	5,967	124	4.16	6,213	84	2.70
Total interest-bearing liabilities	4,507,721	35,191	1.56	3,813,955	25,952	1.36
Non-interest-bearing liabilities	89,014	—	—	67,881	—	—
Total liabilities	4,596,735	35,191		3,881,836	25,952	
Net interest income		65,285			56,703	
Net interest spread			2.59			2.80
Net interest margin			2.70			2.85

In the first half of the year, net interest spread and net interest margin were 2.59% and 2.70% respectively, 21 and 15 basis points lower than those of the same period last year, but comparable to the net interest spread of 2.62% and net interest margin of 2.72% in the second half of 2005.

Higher yields on corporate and personal loans were largely offset by the decrease in the yield on discounted bills and a greater portion of discounted bills in total loans and advances to customers, resulting in a rise of five basis points in the average yield on loans and advances to customers. Meanwhile, affected by the lower average yield on investments in debt securities, and a greater portion of investments in debt securities in the average balance of total interest-earning assets, the average yield on interest-earning assets was one basis point lower than that of the same period last year.

Due to the time lag effect of the rise in benchmark interest rates for time deposits and a greater portion of time deposits in total deposits from customers, the average cost of deposits from customers went up substantially, which contributed to an increase of 20 basis points in the average cost of interest-bearing liabilities.

The decrease of average yield on interest-earning assets and the increase of average cost of interest-bearing liabilities together resulted in a narrower net interest spread and a smaller net interest margin.

Interest income

Interest income amounted to RMB 100,476 million, representing an increase of RMB 17,821 million, or 21.6% compared with the same period last year. This was largely attributable to the growth in loans and advances to customers and investments in debt securities.

Interest income from loans and advances to customers

The following table shows the Group's average balance, interest income, and average annualised yields on each component of loans and advances to customers during the respective periods.

	Six months ended 30 June 2006			Six months ended 30 June 2005		
	Average balance	Interest income	Average annualised yield (%)	Average balance	Interest income	Average annualised yield (%)
	(In millions of RMB, except percentages)					
Corporate loans	1,894,568	54,362	5.74	1,697,369	46,483	5.48
Personal loans	480,597	13,453	5.60	419,185	11,380	5.43
Discounted bills	263,066	2,824	2.15	162,078	2,662	3.28
Overseas operations	41,946	979	4.67	33,123	579	3.50
Total loans and advances to customers	2,680,177	71,618	5.34	2,311,755	61,104	5.29

Interest income from loans and advances to customers rose by RMB 10,514 million to RMB 71,618 million, or 17.2% against the same period last year, mainly due to the rapid expansion of the lending business and the increase in average yield on loans. The increase in average yield on loans was mainly attributable to the following factors: Notable increases of 26 basis points and 17 basis points were recorded in the average yield on corporate and personal loans respectively as the People's Bank of China ("PBOC") raised the benchmark lending rates twice since October 2004 and cancelled preferential interest rates for personal residential mortgages, and the Bank enhanced its pricing abilities. At the same time, the average yield on discounted bills dropped significantly by 113 basis points, being negatively influenced by a decreased market interest rate for RMB-denominated discounted bills and an increased proportion of re-discounted bills with lower yields in the discounted bills business. Furthermore, the proportion of average discounted bills balance in total loans and advances average balance increased by 2.8 percentage points compared with the same period in 2005. These factors partially offset the impact of the rise in the yields on corporate and personal loans, resulting in an increase of five basis points in the overall average yield on total loans and advances.

Interest income from investments in debt securities

Interest income from investments in debt securities was RMB 22,716 million for the period, representing an increase of RMB 5,538 million, or 32.2% compared with the same period last year, which was mainly attributable to the rise in the amount of investments in debt securities. The yield on investments was 2.84% for the first half of 2006, representing an eight basis points decrease compared with the same period in 2005 but remained stable compared with the second half of 2005. The decrease in the yield on investments was largely due to an adjustment in the investment portfolio mix based on our judgment of the market interest rate trend. New investments in the first half of the year primarily included short-term bills and designated PBOC bills whose maturities and yields were lower than the average level of the pre-existing investment portfolio, leading to the decrease of yield on investments in debt securities compared with the first half of 2005.

Interest income from amounts due from banks and non-bank financial institutions

Interest income from amounts due from banks and non-bank financial institutions rose by RMB 1,624 million to RMB 2,776 million, or 141.0% compared with the same period last year, mainly due to the rise in the average balance of placements with banks outside Mainland China, and the increase of yield on foreign currency denominated assets as a result of the rise in interest rates. The yield on amounts due from banks and non-bank financial institutions was 3.59%, or 141 basis points higher compared with the same period last year.

Interest expense

Interest expense for the period reached RMB 35,191 million, representing a surge of RMB 9,239 million, or 35.6% against the same period last year.

Interest expense on deposits from customers remained the major part of interest expense, and increased by RMB 8,099 million, or 33.9%, to RMB 31,968 million. The increase was primarily caused by the rising average balance of deposits from customers and the higher average cost of deposits. The increase in the average cost of deposits from customers was largely due to the time lag effect of the rise in benchmark interest rates for time deposits by the PBOC in October 2004, and the increase in the proportion of time deposits in average total deposits from customers by 3.2 percentage points compared with the same period last year.

Interest expense on amounts due to banks and non-bank financial institutions amounted to RMB 2,169 million, an increase of RMB 1,102 million or 103.3% over the same period last year. The cost of amounts due to banks and non-bank financial institutions soared by 55 basis points to 2.37% compared with that of the first half of 2005, largely due to increased foreign currency borrowings in the inter-bank market as well as increased costs of foreign currency liabilities in line with the market rates. In addition, the PBOC lifted control over the interest rates of Renminbi-denominated deposits from banks and non-bank financial institutions in March 2005, which triggered a rise in the cost of Renminbi-denominated deposits from other financial institutions.

Net fee and commission income

	Six months ended 30 June 2006	Six months ended 30 June 2005
	(In millions of RMB)	
Fee and commission income		
Bank card fees	1,733	1,333
Agency fees for securities, foreign currency dealing and insurance services	1,623	880
Remittance, settlement and account management fee	1,289	776
Consultancy and advisory fees	843	528
Commission on trust business	674	432
Guarantee fees	277	166
Payment and collection services fees	122	100
Others	221	100
Sub-total	6,782	4,315
Fee and commission expense	(508)	(409)
Net fee and commission income	6,274	3,906

As the result of greater resources channelled to fee and commission based businesses, net fee and commission income amounted to RMB 6,274 million, representing an increase of RMB 2,368 million, or 60.6% against the same period last year.

Bank card fees recorded a rise of RMB 400 million or 30.0%, largely due to a substantial increase in spending through bank cards and transactions with ATMs.

Agency fees for securities, foreign currency dealing and insurance services rose by RMB 743 million, or 84.4%, mainly due to considerable growth of the securities agency business and the personal insurance sales business. In the first half of the year, leveraging on business opportunities arising from the turnaround of the domestic capital market, the Bank stepped up marketing activities in respect of agency services for funds and government bonds as well as underwriting for short-term financial notes, and achieved tremendous growth of these businesses, among which the Bank acted as lead underwriter of short-term financial notes amounting to RMB 43,500 million; provided agency services for funds issuance totalling RMB 23,685 million, nearly seven times increase compared with the same period last year.

Remittance, settlement and account management fees surged by RMB 513 million, or 66.1%, mainly as a result of a significant increase in income from both individual settlement business and trade-related foreign currency exchange and settlement. Increased income from individual settlement business was largely brought about by the charging of maintenance fees on customer deposit accounts with small balances since the second half of 2005. Increased income from trade-related foreign currency exchange and settlement was largely brought about by rapid growth in transaction volume of foreign currency settlements following the reform of the RMB exchange rate regime.

Net foreign exchange loss

In the first half of 2006, the Group recorded a net foreign exchange loss of RMB 2,421 million, which was mainly resulted from appreciation in value of Renminbi. Such foreign exchange loss comprised (i) the net foreign exchange loss of RMB 1,019 million on foreign currency assets arising from the capital injection of US\$22,500 million after adjusting for the hedging effect through the use of foreign currency options (the gross foreign exchange loss before hedging was RMB 1,748 million); (ii) the net foreign exchange loss of RMB 1,072 million related to foreign exchange swap contracts; and (iii) the net loss of RMB 330 million arising from other foreign currency exposures and transactions.

The above foreign exchange loss has been compensated by the additional interest income arising from the foreign currency assets which are mainly denominated in US dollars. The market yields on assets denominated in US dollars were higher than the market yields on assets denominated in Renminbi.

General and administrative expenses

	Six months ended 30 June 2006	Six months ended 30 June 2005
	(In millions of RMB, except percentages)	
Staff costs	14,753	11,098
Property and equipment expense	5,271	4,861
Business tax and surcharges	4,172	3,581
Other general and administrative expenses	5,320	4,953
Total general and administrative expenses	29,516	24,493
Cost-to-income ratio	41.65%	38.93%

In the first half of 2006, the Group continued to strengthen cost control. Whilst the cost-to-income ratio was 41.65%, 2.72 percentage points higher than that for the same period last year, it was 3.48 percentage points lower than that for the full year of 2005, demonstrating that cost levels were still maintained at a relatively low level.

General and administrative expenses amounted to RMB 29,516 million, representing an increase of RMB 5,023 million or 20.5% compared with the same period last year. Endeavoured to evenly pace expenditures during the year, the Bank continued to implement the same policies of raising staff basic salaries and welfare that were introduced in the second half of 2005, and increased expenditure for staff social welfare, leading to an increase in staff costs compared with the same period last year. To take advantage of market opportunities for business growth, the Bank launched marketing activities earlier in the year, and with an aim of enhancing its long-term competitiveness, the Bank continued to invest in branch transformation and information technology, resulting in higher expenses compared with the same period last year.

Provisions for impairment losses

	Six months ended 30 June 2006	Six months ended 30 June 2005
	(In millions of RMB)	
Loans and advances to customers	8,318	6,064
Available-for-sale securities	27	331
Property and equipment	37	177
Others	152	114
Total provisions for impairment losses	8,534	6,686

In the first half of 2006, total provisions for impairment losses reached RMB 8,534 million, representing an increase of RMB 1,848 million or 27.6% over the same period last year. The provision for impairment losses on loans and advances to customers was RMB 8,318 million, representing an increase of RMB 2,254 million against the same period last year. The increase was mainly due to the increase of non-performing loans (“NPLs”), change in the structure of non-performing loans and considerable increase in loan growth during the first half of 2006 compared with the same period last year. The provision for other impairment losses was further reduced as the Bank strengthened its management and accelerated disposal of non-credit assets.

Income tax

The charge for income tax for the first half of 2006 amounted to RMB 9,591 million, representing an increase of RMB 6,197 million compared with the same period in 2005. In addition to higher taxable income, the increase was due to the combined effect of two factors. On one hand, the income tax exemption in relation to the restructuring expired on 30 June 2005, resulting in an increase in income tax expense. As part of the Bank’s restructuring, income taxes of RMB 7,848 million were exempted for the six months ended 30 June 2005. On the other hand, the tax authorities raised the Bank’s tax deduction limit for salary expenses at the end of 2005. The policy reduced the income tax liability arising from non-tax-deductible staff costs from RMB 2,061 million in the first half of 2005 to RMB 68 million in the first half of 2006.

The effective tax rate for the first half of 2006 was 29.2%, lower than the statutory tax rate of 33.0%. This was mainly attributable to the fact that interest income derived from government bonds is not taxable. The effective tax rate was about the same as that of 2005 excluding the tax exemption effect in relation to the restructuring.

BALANCE SHEET ANALYSIS

Assets

As at 30 June 2006, total assets stood at RMB 5,166,242 million, representing an increase of RMB 580,500 million, or 12.7% compared with 31 December 2005. The balances of net loans and advances to customers and investments increased by 14.6% and 25.0% respectively.

The following table shows the composition of the Group's total assets as at the balance sheet dates:

	As at 30 June 2006		As at 31 December 2005	
	Amount	% of total	Amount	% of total
	(In millions of RMB, except percentages)			
Gross loans and advances to customers	2,815,368		2,458,398	
Allowances for impairment losses	(70,441)		(63,085)	
Net loans and advances to customers	2,744,927	53.1	2,395,313	52.2
Investments	1,767,664	34.2	1,413,871	30.8
Cash and balances with central banks	446,043	8.6	480,136	10.5
Amounts due from banks and non-bank financial institutions	97,075	1.9	190,108	4.2
Other assets ¹	110,533	2.2	106,314	2.3
Total assets	5,166,242	100.0	4,585,742	100.0

1. Consist of property and equipment, deferred tax assets and other assets.

Loans and advances to customers

As at 30 June 2006, gross loans and advances to customers amounted to RMB 2,815,368 million, representing an increase of RMB 356,970 million, or 14.5% compared with the end of 2005.

	As at 30 June 2006		As at 31 December 2005	
	<u>Amount</u>	<u>% of total</u>	<u>Amount</u>	<u>% of total</u>
	(In millions of RMB, except percentages)			
Corporate loans	1,989,027	70.7	1,775,791	72.2
Personal loans	520,340	18.5	453,889	18.5
Discounted bills	257,035	9.1	194,122	7.9
Overseas operations	48,966	1.7	34,596	1.4
Gross loans and advances to customers	<u>2,815,368</u>	<u>100.0</u>	<u>2,458,398</u>	<u>100.0</u>

Corporate loans remained the largest component of the loan portfolio. As at 30 June 2006, corporate loans reached RMB 1,989,027 million, an increase of RMB 213,236 million, or 12.0% against the end of 2005.

With the commencement of the Eleventh Five Year Plan this year, there was an increased number of new large scale projects which led to an increased demand for medium to long term loans. The Bank's expertise in this area met the requirements of the borrowers, and up to 44.4% of new lending in the first half of 2006 was related to infrastructure loans. Property development loans increased by RMB 41,360 million, or 21.7% over the year-end of 2005, which was attributable to the Bank's active contacts with prime property developers at the planning stages of projects, as well as to the successful cross-selling activities in respect of corporate and personal banking. New lending was mainly extended to housing projects and customers who have a credit rating of A or above.

The following table sets forth the components of the corporate loans by product type:

	As at 30 June 2006		As at 31 December 2005	
	<u>Amount</u>	<u>% of total</u>	<u>Amount</u>	<u>% of total</u>
	(In millions of RMB, except percentages)			
Working capital loans	988,725	49.7	908,688	51.2
Fixed assets loans				
Infrastructure loans	645,529	32.4	550,851	31.0
Real estate development loans	232,337	11.7	190,977	10.8
Technical improvement loans	95,155	4.8	98,153	5.5
Corporate mortgage loans	3,143	0.2	2,434	0.1
Subtotal	976,164	49.1	842,415	47.4
Others ¹	24,138	1.2	24,688	1.4
Total Corporate loans	1,989,027	100.0	1,775,791	100.0

1. Primarily consist of factoring, overdrafts, trade finance facilities and on-lending loans.

As at 30 June 2006, personal loans amounted to RMB 520,340 million, up by RMB 66,451 million, or 14.6% against the end of 2005. The accelerated integration and innovation of products and services, in addition to greater marketing targeting at prime customers and promotional forces, led to enhanced competitiveness and increased market share of the Bank. Residential mortgage loans rose by RMB 43,656 million, or 12.5% compared with the end of 2005, which took lead in the PRC banks. The growth in personal credit lines offset the fall in automobile loans, generating an increase of RMB 6,955 million in personal consumption loans, or 11.6% compared with the end of 2005. Other loans increased by 34.8% compared with the end of 2005, largely due to the rapid growth of individual commercial property mortgage loans and personal business loans.

The following table sets forth the components of the personal loans by product type:

	As at 30 June 2006		As at 31 December 2005	
	Amount	% of total	Amount	% of total
(In millions of RMB, except percentages)				
Residential mortgage loans	391,875	75.3	348,219	76.7
Personal consumption loans	67,105	12.9	60,150	13.3
Others ¹	61,360	11.8	45,520	10.0
Total personal loans	520,340	100.0	453,889	100.0

1. Primarily consist of individual commercial property loans, personal business loans, credit card overdrafts and education loans.

As at 30 June 2006, the discounted bills balance reached RMB 257,035 million, representing an increase of RMB 62,913 million, or 32.4% against the end of 2005. The fast expansion was brought about by robust market demand and associated low credit risk. However, as the market competition was fierce and the yield on discounting kept falling, the Bank has taken initiatives to curb the expansion of the business toward the end of the first half of 2006.

Investments

The following table shows the composition of investments as at the balance sheet dates:

	As at 30 June 2006		As at 31 December 2005	
	Amount	% of total	Amount	% of total
(In millions of RMB, except percentages)				
Debt investments	1,243,113	70.3	958,470	67.8
Receivables	515,481	29.2	443,729	31.4
Equity investments	9,070	0.5	11,672	0.8
Total investments	1,767,664	100.0	1,413,871	100.0

In the first half of 2006, a strong rise was recorded in Renminbi-denominated deposits resulting in excess operating funds. Following the changes in domestic and overseas capital markets, the Bank made a timely adjustment to its investment strategy and mix to strike a sound balance between risk and return. The Bank increased its presence in the money markets by increasing investments in debt securities, particularly in PBOC bills, which was reflected in the substantial increase of RMB 284,643 million, or 29.7% in debt investments against the end of 2005. The Bank's subscription of RMB 70,000 million designated PBOC bills led to the rise in receivables.

Liabilities

As at 30 June 2006, total liabilities amounted to RMB 4,861,005 million, representing an increase of RMB 562,940 million, or 13.1% against the end of 2005.

The following table shows the composition of the total liabilities as at the balance sheet dates:

	As at 30 June 2006		As at 31 December 2005	
	Amount	% of total	Amount	% of total
(In millions of RMB, except percentages)				
Deposits from customers	4,491,566	92.4	4,006,046	93.3
Amounts due to banks and non-bank financial institutions	224,313	4.6	164,524	3.8
Subordinated bonds issued	39,912	0.8	39,907	0.9
Other liabilities ¹	105,214	2.2	87,588	2.0
Total liabilities	4,861,005	100.0	4,298,065	100.0

1. Consist of amounts due to central banks, certificates of deposit issued, current tax liabilities, deferred tax liabilities, and other liabilities and provisions.

Deposits from customers

The following table sets forth the components of the deposits from customers by product type:

	As at 30 June 2006		As at 31 December 2005	
	Amount	% of total	Amount	% of total
(In millions of RMB, except percentages)				
Corporate deposits				
Demand deposits	1,645,523	36.7	1,474,483	36.7
Time deposits	706,159	15.7	619,564	15.5
Subtotal	2,351,682	52.4	2,094,047	52.2
Personal deposits				
Demand deposits	769,713	17.1	708,608	17.7
Time deposits	1,349,572	30.0	1,188,813	29.7
Subtotal	2,119,285	47.1	1,897,421	47.4
Overseas operations	20,599	0.5	14,578	0.4
Total deposits from customers	4,491,566	100.0	4,006,046	100.0

Fast and stable growth in China's economy, continued improvement of the enterprises' performance and strong growth in public disposable income led to the increase in the balance of deposits. As at 30 June 2006, deposits from customers amounted to RMB 4,491,566 million, representing an increase of RMB 485,520 million, or 12.1% compared with the end of 2005. Following the rise in PBOC benchmark rates for time deposits in October 2004 and corporate customers being allowed to place time deposits with maturity over one year, the proportion of average balance of time deposits in total deposits from customers for the first half of 2006 increased compared with the same period in 2005, but the proportion of time deposits as at 30 June 2006 remained stable compared with that as at the end of 2005.

Shareholders' equity

	As at 30 June 2006	As at 31 December 2005
	(In millions of RMB)	
Share capital	224,689	224,689
Capital reserve	42,091	42,091
General reserve	10,341	10,332
Retained earnings	24,627	4,783
Other reserves ¹	3,391	5,684
Total equity attributable to shareholders of the Bank	305,139	287,579

1. Consist of statutory surplus reserve, statutory public welfare fund, investment revaluation reserve and exchange reserve.

As at 30 June 2006, total equity attributable to shareholders of the Bank amounted to RMB 305,139 million, representing an increase of RMB 17,560 million against the end of 2005. Pursuant to the PRC Company Law revised in 2005, since 1 January 2006 no further appropriation to the statutory public welfare fund is required and the pre-existing balance of the fund was transferred to the statutory surplus reserve.

LOAN QUALITY ANALYSIS

Distribution of loans by grading

The following table sets forth, as at the dates indicated, the distribution of the loans by five-category loan classification under which non-performing loans include substandard, doubtful and loss loans.

	As at 30 June 2006		As at 31 December 2005	
	Amount	% of total	Amount	% of total
	(In millions of RMB, except percentages)			
Normal	2,444,110	86.8	2,072,969	84.4
Special mention	272,562	9.7	290,960	11.8
Substandard	37,749	1.3	42,456	1.7
Doubtful	52,683	1.9	45,457	1.8
Loss	8,264	0.3	6,556	0.3
Gross loans and advances to customers	2,815,368	100.0	2,458,398	100.0
Non-performing loans	98,696		94,469	
Non-performing loan ratio	3.51%		3.84%	

The first half of 2006 saw a sustained expansion of the credit business, and the credit asset quality achieved steady improvement as a result of optimised credit business structures and strengthened risk management. The NPL ratio fell to 3.51% as at 30 June 2006 from 3.84% at the end of 2005. Continued attention on and strengthened management of special mention loans has led to the reduction of the proportion of the special mention loans in total loans to 9.7% as at 30 June 2006 from 11.8% at the end of 2005. Reduction in the substandard loan ratio was also achieved, while the doubtful and loss loans ratios remain stable compared with the end of 2005. Affected by the macroeconomic control measures and changes in market condition, some customers encountered difficulties in their operations, leading to increased NPLs; and the operating conditions of certain NPL customers failed to turn around, resulting in the rise of doubtful and loss loans.

Distribution of loans and NPLs by product type

The following table sets forth, as at the dates indicated, the loans and NPLs by product type:

	As at 30 June 2006			As at 31 December 2005		
	Loans and advances	NPLs	% of NPLs to loans ¹	Loans and advances	NPLs	% of NPLs to loans ¹
(In millions of RMB, except percentages)						
Corporate loans						
Working capital loans	988,725	63,215	6.4	908,688	62,755	6.9
Fixed asset loans	976,164	23,125	2.4	842,415	20,560	2.4
Others ²	24,138	2,484	10.3	24,688	2,339	9.5
Subtotal	<u>1,989,027</u>	<u>88,824</u>	4.5	<u>1,775,791</u>	<u>85,654</u>	4.8
Personal loans						
Residential mortgage loans	391,875	4,941	1.3	348,219	4,605	1.3
Personal consumption loans	67,105	2,711	4.0	60,150	2,221	3.7
Others ³	61,360	2,134	3.5	45,520	1,842	4.0
Subtotal	<u>520,340</u>	<u>9,786</u>	1.9	<u>453,889</u>	<u>8,668</u>	1.9
Discounted bills	<u>257,035</u>	—	—	<u>194,122</u>	—	—
Overseas operations	<u>48,966</u>	<u>86</u>	0.2	<u>34,596</u>	<u>147</u>	0.4
Total	<u>2,815,368</u>	<u>98,696</u>	3.51	<u>2,458,398</u>	<u>94,469</u>	3.84

1. Calculated by dividing non-performing loans in each category by gross loans in that category.

2. Primarily consist of factoring, overdrafts, trade financing and on-lending loans.

3. Primarily consist of individual commercial property mortgage loans, personal business loans, credit card overdrafts and education loans.

As at 30 June 2006, compared with the end of last year corporate loans increased by RMB 213,236 million, and the NPL ratio dropped by 0.3 percentage points with the amount of NPLs increasing by RMB 3,170 million. Personal loans increased by RMB 66,451 million compared with the end of last year, and the NPL ratio remained at 1.9% with NPLs increasing by RMB 1,118 million. The increase in personal NPLs was mainly due to higher rates of defaults on personal loans prompted by two consecutive lending rates rises since October 2004 and cancellation of the preferential interest rates for personal residential mortgages.

Distribution of corporate loans and NPLs by industry

	As at 30 June 2006				As at 31 December 2005			
	Loans and advances	% of total	NPLs	% of NPLs to loans ¹	Loans and advances	% of total	NPLs	% of NPLs to loans ¹
	(In millions of RMB, except percentages)							
Corporate loans								
Manufacturing	485,817	17.3	27,637	5.7	433,104	17.6	25,967	6.0
Transportation, storage and postal services	311,565	11.1	5,233	1.7	278,532	11.3	5,512	2.0
Property development	302,878	10.8	18,642	6.2	256,396	10.4	17,611	6.9
Production and supply of electric power, gas and water	291,148	10.3	8,450	2.9	265,647	10.8	7,918	3.0
Construction	98,257	3.5	4,151	4.2	86,855	3.5	4,443	5.1
Water, environment and public utility	84,552	3.0	1,411	1.7	75,959	3.1	1,320	1.7
Education	74,677	2.7	975	1.3	63,395	2.6	644	1.0
Wholesale and retail	72,704	2.6	8,272	11.4	63,179	2.6	7,926	12.5
Mining	57,221	2.0	808	1.4	49,332	2.0	717	1.5
Telecommunications, computer services and software	48,376	1.7	1,625	3.4	60,304	2.5	1,494	2.5
Others ²	161,832	5.7	11,620	7.2	143,088	5.8	12,102	8.5
Subtotal	1,989,027	70.7	88,824	4.5	1,775,791	72.2	85,654	4.8
Personal loans	520,340	18.5	9,786	1.9	453,889	18.5	8,668	1.9
Discounted bills	257,035	9.1	—	—	194,122	7.9	—	—
Overseas operations	48,966	1.7	86	0.2	34,596	1.4	147	0.4
Total	2,815,368	100.0	98,696	3.51	2,458,398	100.0	94,469	3.84

1. Calculated by dividing non-performing loans in each category by gross loans in that category.
2. Primarily consist of leasing and commercial service; healthcare, social security and social welfare; culture, sports and entertainment; government agencies and non-government organisations.

In the first half of 2006, the NPL ratios for the industries which took up the highest proportions of the corporate lending business were all reduced: manufacturing; transportation, storage and postal services; property development; and production and supply of electric power, gas and water.

The Bank has put in place industry ratings and early warning systems, which would identify those industries with excess capacity and potential risks and allow the Bank to make timely adjustments to its credit approval criteria. New loans were mainly extended to customers with high credit ratings, good prospects, and stable repayment sources. The Bank also has specialised departments and expertise to track the development of various industries and give forward-looking guidance on credit business development for different industries.

CAPITAL ADEQUACY RATIO

As at 30 June 2006, the Bank's capital adequacy ratio was 13.15% and the core capital adequacy ratio was 10.77%, representing reductions of 42 and 31 basis points respectively compared with the end of 2005, mainly caused by the rapid expansion of assets. Core capital rose by RMB 20,930 million to RMB 305,139 million, largely derived from retained earnings for the first half of the year. Risk weighted assets increased by RMB 265,270 million to RMB 2,824,226 million as at 30 June 2006. Please refer to the "Unaudited Supplementary Financial Information—Capital Adequacy Ratio" for details of the capital adequacy ratios and the related components of the Bank.

Independent Review Report



Independent review report to the Board of Directors of China Construction Bank Corporation
(A joint stock limited company incorporated in the People's Republic of China with limited liability)

INTRODUCTION

We have been instructed by China Construction Bank Corporation (the "Bank") to review the interim financial report of the Bank and its subsidiaries (collectively the "Group") set out on pages 30 to 107.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited require the preparation of the interim financial report to be in compliance with the relevant provisions thereof and International Accounting Standard 34 "Interim Financial Reporting" promulgated by the International Accounting Standards Board. The interim financial report is the responsibility of, and has been approved by, the Directors.

It is our responsibility to form an independent conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

REVIEW WORK PERFORMED

We conducted our review in accordance with Statement of Auditing Standards 700 "Engagement to review interim financial reports" issued by the Hong Kong Institute of Certified Public Accountants. A review consists principally of making enquiries of the Group's management and applying analytical procedures to the interim financial report and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly, we do not express an audit opinion on the interim financial report.

REVIEW CONCLUSION

On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the interim financial report for the six months ended 30 June 2006.

KPMG

Certified Public Accountants
Hong Kong, 24 August 2006

Unaudited Consolidated Income Statement

For the six months ended 30 June 2006 (Expressed in millions of Renminbi unless otherwise stated)

	Note	Six months ended 30 June	
		2006	2005
Interest income		100,476	82,655
Interest expense		(35,191)	(25,952)
Net interest income	2	65,285	56,703
Fee and commission income	3	6,782	4,315
Fee and commission expense		(508)	(409)
Net fee and commission income		6,274	3,906
Dividend income	4	192	217
Net gain arising from dealing securities	5	129	67
Net gain arising from investment securities	6	672	709
Net foreign exchange (loss)/gain		(2,421)	582
Other income		733	738
Operating income		70,864	62,922
General and administrative expenses	7	(29,516)	(24,493)
Provisions for impairment losses on			
— loans and advances to customers	13(b)	(8,318)	(6,064)
— others	8	(216)	(622)
Operating expenses		(38,050)	(31,179)
Profit before tax		32,814	31,743
Income tax	9(a)	(9,591)	(3,394)
Net profit		23,223	28,349
Attributable to:			
Shareholders of the Bank		23,223	28,351
Minority interests		—	(2)
Net profit		23,223	28,349
Cash dividends attributable to shareholders of the Bank			
Interim cash dividend attributable to the six months ended 30 June 2005, but declared and paid after 30 June 2005		—	168
Final cash dividend attributable to the year ended 31 December 2005 and approved during the six months ended 30 June 2006	23(a)	3,370	—
		3,370	168
Basic and diluted earnings per share (in RMB)	10	0.10	0.15

The notes on pages 35 to 107 form part of this interim financial report.

Unaudited Consolidated Balance Sheet

As at 30 June 2006 (Expressed in millions of Renminbi)

	Note	As at 30 June 2006	As at 31 December 2005
Assets			
Cash and balances with central banks	11	446,043	480,136
Amounts due from banks and non-bank financial institutions	12	97,075	190,108
Loans and advances to customers	13	2,744,927	2,395,313
Investments	14	1,767,664	1,413,871
Property and equipment	15	47,908	49,961
Deferred tax assets	16	1,502	420
Other assets	17	61,123	55,933
Total assets		5,166,242	4,585,742
Liabilities			
Amounts due to central banks		21	21
Amounts due to banks and non-bank financial institutions	18	224,313	164,524
Deposits from customers	19	4,491,566	4,006,046
Certificates of deposit issued		6,057	5,429
Current tax liabilities		7,574	5,648
Other liabilities and provisions	20	91,562	76,490
Subordinated bonds issued	21	39,912	39,907
Total liabilities		4,861,005	4,298,065
Equity			
Share capital	22	224,689	224,689
Reserves	22	80,450	62,890
Total equity attributable to shareholders of the Bank		305,139	287,579
Minority interests		98	98
Total equity		305,237	287,677
Total equity and liabilities		5,166,242	4,585,742

Approved and authorised for issue by the board of directors on 24 August 2006.

Zhao Lin
Executive Director and Vice President

Tse Hau Yin, Aloysius
Independent Non-executive Director

Wang Yonggang
Non-executive Director

The notes on pages 35 to 107 form part of this interim financial report.

Unaudited Consolidated Statement of Changes in Equity

For the six months ended 30 June 2006 (Expressed in millions of Renminbi)

Note	Share capital	Capital reserve	Statutory			General reserve	Exchange reserve	Retained earnings	Minority interests	Total equity
			Statutory surplus reserve	public welfare fund	Investment revaluation reserve					
As at 1 January 2006	224,689	42,091	4,334	2,167	(823)	10,332	6	4,783	98	287,677
Net profit	—	—	—	—	—	—	—	23,223	—	23,223
Net change in fair value of available-for-sale investments	22(d)	—	—	—	(2,389)	—	—	—	—	(2,389)
Net loss realised on disposal of available-for-sale investments	22(d)	—	—	—	104	—	—	—	—	104
Transfer in/(out)	22(c)	—	—	2,167	(2,167)	—	—	—	—	—
Appropriations to statutory reserves and general reserve	22(e)	—	—	—	—	9	—	(9)	—	—
Exchange differences	22(f)	—	—	—	—	—	(8)	—	—	(8)
Profit distributions	23(a)	—	—	—	—	—	—	(3,370)	—	(3,370)
As at 30 June 2006	224,689	42,091	6,501	—	(3,108)	10,341	(2)	24,627	98	305,237
As at 1 January 2005	194,230	—	343	171	(276)	—	—	1,048	35	195,551
Net profit	—	—	—	—	—	—	—	28,351	(2)	28,349
Net change in fair value of available-for-sale investments	22(d)	—	—	—	621	—	—	—	—	621
Net loss realised on disposal of available-for-sale investments	22(d)	—	—	—	200	—	—	—	—	200
Appropriations to statutory reserves	—	—	1,931	966	—	—	—	(2,897)	—	—
Profit distributions	—	—	—	—	—	—	—	(23,781)	—	(23,781)
As at 30 June 2005	194,230	—	2,274	1,137	545	—	—	2,721	33	200,940
As at 1 January 2005	194,230	—	343	171	(276)	—	—	1,048	35	195,551
Shares issued	22(a)	30,459	—	—	—	—	—	—	—	30,459
Share premium arising from shares issued	22(b)	—	42,091	—	—	—	—	—	—	42,091
Minority interest in a new subsidiary	—	—	—	—	—	—	—	—	70	70
Net profit	—	—	—	—	—	—	—	47,103	(7)	47,096
Net change in fair value of available-for-sale investments	22(d)	—	—	—	(859)	—	—	—	—	(859)
Net loss realised on disposal of available-for-sale investments	22(d)	—	—	—	312	—	—	—	—	312
Appropriations to statutory reserves and general reserve	22(c), 22(e)	—	—	3,991	1,996	—	10,332	(16,319)	—	—
Exchange differences	22(f)	—	—	—	—	—	6	—	—	6
Profit distributions	—	—	—	—	—	—	—	(27,049)	—	(27,049)
As at 31 December 2005	224,689	42,091	4,334	2,167	(823)	10,332	6	4,783	98	287,677

The notes on pages 35 to 107 form part of this interim financial report.

Unaudited Consolidated Cash Flow Statement

For the six months ended 30 June 2006 (Expressed in millions of Renminbi)

	Note	Six months ended 30 June	
		2006	2005
Operating activities			
Net profit		23,223	28,349
Adjustments for:			
— dividend income		(192)	(217)
— revaluation gain on investments and derivatives	5	(11)	(55)
— net gain on disposal of investments, property and equipment, land use rights and other assets		(716)	(734)
— unrealised foreign exchange loss/(gain)		2,358	(14)
— depreciation and amortisation	7	3,527	3,393
— provisions for impairment losses		8,534	6,686
— income tax	9(a)	9,591	3,394
— interest expense on subordinated bonds issued	2	930	932
		47,244	41,734
<i>Changes in operating assets and liabilities:</i>			
Decrease/(increase) in balances with central banks		20,217	(36,278)
(Increase)/decrease in amounts due from banks and non-bank financial institutions		(1,321)	7,779
Increase in loans and advances to customers		(359,213)	(147,990)
Increase in other operating assets		(5,157)	(11,466)
Decrease in amounts due to central banks		—	(25)
Increase in amounts due to banks and non-bank financial institutions		59,789	13,025
Increase in deposits from customers		485,520	290,174
Increase in certificates of deposit issued		628	501
Income tax paid		(7,667)	(1,735)
Increase in other operating liabilities		10,665	6,123
		250,705	161,842

Unaudited Consolidated Cash Flow Statement

For the six months ended 30 June 2006 (Expressed in millions of Renminbi)

	Note	Six months ended 30 June	
		2006	2005
Investing activities			
Proceeds from disposal and redemption of investments		308,988	245,337
Dividend received		198	147
Proceeds from disposal of property and equipment, land use rights and other assets		103	878
Payments on acquisition of investments		(665,617)	(411,691)
Payments on acquisition of property and equipment, land use rights and other assets		(1,821)	(2,764)
Net cash used in investing activities		(358,149)	(168,093)
Financing activities			
Interest paid on subordinated bonds issued		(108)	(119)
Dividend paid		—	(2,914)
Net cash used in financing activities		(108)	(3,033)
Net decrease in cash and cash equivalents		(107,552)	(9,284)
Cash and cash equivalents as at 1 January	24(a)	280,757	220,106
Effect of exchange rate changes on cash held		(676)	3
Cash and cash equivalents as at 30 June	24(a)	172,529	210,825
Cash flows from operating activities include:			
Interest received		96,356	77,133
Interest paid, excluding interest expense on subordinated bonds issued		(30,087)	(25,490)

The notes on pages 35 to 107 form part of this interim financial report.

Notes to the Unaudited Interim Financial Report

(Expressed in millions of Renminbi unless otherwise stated)

I. BASIS OF PREPARATION

The interim financial report of China Construction Bank Corporation (the “Bank”) and its subsidiaries (collectively the “Group”) has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited and International Accounting Standard 34 “Interim Financial Reporting” (“IAS 34”) promulgated by the International Accounting Standards Board. The interim financial report, which was authorised for issue by the board of directors on 24 August 2006, reflects the unaudited financial position of the Group as at 30 June 2006 and the unaudited results of operations and cash flows of the Group for the six months then ended, which are not necessarily indicative of the results of operations and cash flows expected for the year ending 31 December 2006.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the Group’s financial statements for the year ended 31 December 2005.

The preparation of the interim financial report requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

The interim financial report contains selected explanatory notes. The selected notes include explanations of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the financial statements for the year ended 31 December 2005. The selected notes do not include all of the information required for a full set of financial statements prepared in accordance with International Financial Reporting Standards (“IFRS”) promulgated by the International Accounting Standards Board.

The interim financial report is unaudited, but has been reviewed by the audit committee of the board of directors. This interim financial report has also been reviewed by the Bank’s auditors, KPMG, in accordance with Statement of Auditing Standards 700 “Engagements to review interim financial reports” issued by the Hong Kong Institute of Certified Public Accountants. KPMG’s independent review report to the board of directors is included on page 29.

The financial information for the year ended 31 December 2005 that is included in the interim financial report does not constitute the Bank’s statutory financial statements for that year but is derived from those financial statements. The statutory financial statements for the year ended 31 December 2005 are available from the Bank’s registered office. The auditors of the Bank have expressed an unqualified opinion on those financial statements in their report dated 6 April 2006.

Notes to the Unaudited Interim Financial Report

(Expressed in millions of Renminbi unless otherwise stated)

2. NET INTEREST INCOME

	Six months ended 30 June	
	2006	2005
Interest income arising from:		
Balances with central banks	3,366	3,221
Amounts due from banks and non-bank financial institutions	2,776	1,152
Loans and advances to customers (note (i))		
— corporate loans	55,338	47,058
— personal loans	13,455	11,383
— discounted bills	2,825	2,663
Investments in debt securities (note (ii))	22,716	17,178
	<u>100,476</u>	<u>82,655</u>
Interest expense arising from:		
Amounts due to banks and non-bank financial institutions	(2,169)	(1,067)
Deposits from customers	(31,968)	(23,869)
Subordinated bonds issued	(930)	(932)
Others	(124)	(84)
	<u>(35,191)</u>	<u>(25,952)</u>
Net interest income	<u>65,285</u>	<u>56,703</u>

Notes:

- (i) Interest income arising from loans and advances to customers includes interest income accrued on individually assessed impaired loans and advances to customers of RMB 519 million for the six months ended 30 June 2006 (six months ended 30 June 2005: RMB 409 million), which includes interest income on the unwinding of discount of allowances for loan impairment losses of RMB 454 million for the six months ended 30 June 2006 (six months ended 30 June 2005: RMB 367 million) (Note 13(b)).
- (ii) Interest income from investments in debt securities is mainly derived from unlisted debt investments.

Notes to the Unaudited Interim Financial Report

(Expressed in millions of Renminbi unless otherwise stated)

3. FEE AND COMMISSION INCOME

	Six months ended 30 June	
	2006	2005
Bank card fees	1,733	1,333
Agency fees for securities, foreign currency dealing and insurance services	1,623	880
Remittance, settlement and account management fees	1,289	776
Consultancy and advisory fees	843	528
Commission on trust business	674	432
Guarantee fees	277	166
Payment and collection services fees	122	100
Others	221	100
	6,782	4,315

4. DIVIDEND INCOME

The Group's dividend income was mainly derived from unlisted equity investments.

5. NET GAIN ARISING FROM DEALING SECURITIES

	Six months ended 30 June	
	2006	2005
Net gain on debt securities dealing	23	12
Revaluation gain on investments and derivatives	11	55
Others	95	—
	129	67

6. NET GAIN ARISING FROM INVESTMENT SECURITIES

	Six months ended 30 June	
	2006	2005
Net gain on disposal	878	1,008
Net revaluation loss transferred from equity on disposal	(206)	(299)
	672	709

Net gain on disposal primarily relates to available-for-sale securities.

Notes to the Unaudited Interim Financial Report

(Expressed in millions of Renminbi unless otherwise stated)

7. GENERAL AND ADMINISTRATIVE EXPENSES

	Six months ended 30 June	
	2006	2005
Staff costs		
— salaries, bonuses and staff welfare expenses	10,850	8,254
— contributions to defined contribution retirement schemes	1,192	1,005
— housing allowance	801	217
— supplementary retirement benefits	97	119
— staff termination costs	24	87
— others	1,789	1,416
	14,753	11,098
Property and equipment expense		
— depreciation	3,043	2,832
— rent and property management expenses	1,210	1,061
— utilities	442	440
— maintenance	282	262
— others	294	266
	5,271	4,861
Other general and administrative expenses	4,836	4,392
Business tax and surcharges (note (i))	4,172	3,581
Amortisation expense	484	561
	29,516	24,493

Note:

- (i) Business tax of 5% is levied primarily on interest income from loans and advances to customers, and fee and commission income.

The surcharges, which include education surcharges and city construction tax, are charged at 3% and between 1% and 7% of business tax paid respectively.

Notes to the Unaudited Interim Financial Report

(Expressed in millions of Renminbi unless otherwise stated)

8. PROVISIONS FOR IMPAIRMENT LOSSES ON ASSETS OTHER THAN LOANS AND ADVANCES TO CUSTOMERS

	Six months ended 30 June	
	<u>2006</u>	<u>2005</u>
Available-for-sale securities	27	331
Property and equipment	37	177
Others	152	114
	<u>216</u>	<u>622</u>

9. INCOME TAX**(a) Recognised in the income statement**

	Six months ended 30 June	
	<u>2006</u>	<u>2005</u>
Current tax		
— Mainland China	9,550	2,767
— Hong Kong	36	32
— overseas	7	2
	<u>9,593</u>	<u>2,801</u>
Deferred tax (Note 16)	<u>(2)</u>	<u>593</u>
Income tax	<u>9,591</u>	<u>3,394</u>

Notes to the Unaudited Interim Financial Report

(Expressed in millions of Renminbi unless otherwise stated)

9. INCOME TAX (Cont'd)

(b) Reconciliation of profit before tax to income tax

	Six months ended 30 June	
	2006	2005
Profit before tax	<u>32,814</u>	<u>31,743</u>
Expected PRC income tax charged at statutory tax rate of 33% (note (i))	<u>10,829</u>	<u>10,475</u>
Non-deductible expenses (note (ii))		
— staff costs	68	2,061
— impairment losses	18	26
— others	51	114
	<u>137</u>	<u>2,201</u>
Non-taxable income		
— interest income from PRC government bonds	(1,317)	(1,345)
— others	(58)	(89)
	<u>(1,375)</u>	<u>(1,434)</u>
	<u>9,591</u>	<u>11,242</u>
Less: Tax exemption (note (iii))	<u>—</u>	<u>(7,848)</u>
Income tax	<u>9,591</u>	<u>3,394</u>

Notes:

- (i) The expected People's Republic of China ("PRC") income tax is calculated based on the statutory tax rate of 33% in accordance with the relevant PRC income tax rules and regulations.
- (ii) Amounts primarily represent staff costs and impairment losses on assets such as property, equipment and intangible assets in excess of the deductible amount, and entertainment expenses, depreciation and amortisation charges which are not tax deductible.

In accordance with an approval notice issued in March 2006 by the Ministry of Finance of the PRC (the "MOF") and the State Administration of Taxation of the PRC, with effect from 1 January 2006, the Bank's tax deductible staff costs are calculated based on the previous year's tax deductible staff costs, adjusting for the performance of the Bank. For the purpose of calculating the income tax for the six months ended 30 June 2005, staff costs exceeding the amount pre-determined by the Ministry of Labour and Social Security of the PRC and the State Administration of Taxation of the PRC were non-deductible. Such pre-determined amount was significantly lower than the amount of tax deductible staff costs calculated in accordance with the above approval notice.

- (iii) In accordance with an approval notice issued by the MOF and the State Administration of Taxation of the PRC in June 2005, substantial amounts of the Group's income tax for the six months ended 30 June 2005 were exempted. The amounts of income tax exempted for the six months ended 30 June 2005 were RMB 7,848 million. The Group did not have such exemption of income tax after 30 June 2005.

Notes to the Unaudited Interim Financial Report

(Expressed in millions of Renminbi unless otherwise stated)

10. EARNINGS PER SHARE

Basic earnings per share for the six months ended 30 June 2006 have been computed by dividing the net profit attributable to shareholders of the Bank by 224,689 million shares (six months ended 30 June 2005: 194,230 million shares), being the shares that were in issue and outstanding during the six months.

There was no difference between basic and diluted earnings per share as there were no potentially dilutive shares outstanding during the six months ended 30 June 2006 and 2005.

11. CASH AND BALANCES WITH CENTRAL BANKS

	As at 30 June 2006	As at 31 December 2005
Cash	26,902	28,413
Balances with central banks		
— statutory deposit reserve (note (i))	310,580	281,783
— surplus deposit reserve (note (ii))	96,030	108,395
— fiscal deposits	8,531	4,175
— balances under resale agreement	4,000	57,370
	419,141	451,723
Total	446,043	480,136

Notes:

- (i) The Group places statutory deposit reserves with the People's Bank of China (the "PBOC") and the central banks of certain overseas countries where it has operations. These statutory deposit reserves are not available for use in the Group's daily business.

As at 30 June 2006, the statutory deposit reserve placed with the PBOC was calculated at 7.5% (as at 31 December 2005: 7.5%) of eligible Renminbi deposits for domestic branches of the Bank. The Bank was also required to deposit an amount equivalent to 3% (as at 31 December 2005: 3%) of its foreign currency deposits from domestic branch customers as a statutory deposit reserve.

The amounts of statutory deposit reserves placed with the central banks of those overseas countries are determined by local jurisdiction.

- (ii) The surplus deposit reserve is maintained with the PBOC for the purposes of clearing.

Notes to the Unaudited Interim Financial Report

(Expressed in millions of Renminbi unless otherwise stated)

12. AMOUNTS DUE FROM BANKS AND NON-BANK FINANCIAL INSTITUTIONS

(a) Analysed by nature

	As at 30 June 2006	As at 31 December 2005
Money market placements	62,431	155,728
Balances under resale agreements	8,511	13,808
Deposits	27,525	22,036
Gross balances	98,467	191,572
Less: Allowances for impairment losses (Note 12(d))	(1,392)	(1,464)
Net balances	97,075	190,108

(b) Analysed by geographical location

	As at 30 June 2006	As at 31 December 2005
Balances with		
— banks in Mainland China (note (i))	21,891	24,366
— non-bank financial institutions in Mainland China (note (ii))	21,878	19,440
	43,769	43,806
Balances with banks outside Mainland China	54,698	147,766
Gross balances	98,467	191,572
Gross balances with banks and non-bank financial institutions		
— maturing within one month	53,563	108,230
— maturing between one month and one year	43,377	81,522
— maturing after one year	1,527	1,820
	98,467	191,572

Notes:

- (i) For the purpose of preparing this interim financial report, Mainland China excludes the Hong Kong Special Administrative Region of the PRC ("Hong Kong"), the Macau Special Administrative Region of the PRC ("Macau") and Taiwan.
- (ii) Non-bank financial institutions in Mainland China represent financial institutions, registered with and under the supervision of the China Banking Regulatory Commission ("CBRC"), other than banks in Mainland China.

Notes to the Unaudited Interim Financial Report

(Expressed in millions of Renminbi unless otherwise stated)

12. AMOUNTS DUE FROM BANKS AND NON-BANK FINANCIAL INSTITUTIONS (Cont'd)

(c) Analysed by legal form of counterparty

	As at 30 June 2006	As at 31 December 2005
Balances with		
— PRC policy banks	3	1,292
— PRC state-owned banks and non-bank financial institutions	20,882	14,766
— PRC joint-stock banks and non-bank financial institutions	25,955	29,554
— foreign-invested banks and non-bank financial institutions	51,627	145,960
Gross balances	98,467	191,572
Less: Allowances for impairment losses on balances with		
— PRC state-owned banks and non-bank financial institutions	(959)	(1,011)
— PRC joint-stock banks and non-bank financial institutions	(433)	(453)
Total allowances for impairment losses	(1,392)	(1,464)
Net balances	97,075	190,108

Notes to the Unaudited Interim Financial Report

(Expressed in millions of Renminbi unless otherwise stated)

12. AMOUNTS DUE FROM BANKS AND NON-BANK FINANCIAL INSTITUTIONS (Cont'd)**(d) Movements of allowances for impairment losses**

	Six months ended	Year ended
	30 June 2006	31 December 2005
As at 1 January	1,464	2,650
Charge for the six months/year	2	16
Write-offs	(74)	(1,202)
As at 30 June/31 December	1,392	1,464

13. LOANS AND ADVANCES TO CUSTOMERS**(a) Analysed by nature**

	As at	As at
	30 June 2006	31 December 2005
Corporate loans	2,037,539	1,809,836
Personal loans	520,713	454,253
Discounted bills	257,116	194,309
Gross loans and advances to customers	2,815,368	2,458,398
Less: Allowances for impairment losses (Note 13(b))	(70,441)	(63,085)
Net loans and advances to customers	2,744,927	2,395,313

Notes to the Unaudited Interim Financial Report

(Expressed in millions of Renminbi unless otherwise stated)

13. LOANS AND ADVANCES TO CUSTOMERS (Cont'd)

(b) Movements of allowances for impairment losses

	Six months ended <u>30 June 2006</u>	Year ended <u>31 December 2005</u>
As at 1 January	63,085	53,864
Charge for the six months/year	8,318	13,706
Unwinding of discount	(454)	(725)
Transfers out (note (i))	(51)	(93)
Write-offs	(523)	(3,784)
Recoveries of loans and advances previously written off	<u>66</u>	<u>117</u>
As at 30 June/31 December	<u>70,441</u>	<u>63,085</u>

Note:

- (i) Transfers out include the net transfer of allowances for impairment losses to/from repossessed assets and debt equity swap investments.

Notes to the Unaudited Interim Financial Report

(Expressed in millions of Renminbi unless otherwise stated)

13. LOANS AND ADVANCES TO CUSTOMERS (Cont'd)

(c) Loans and advances to customers and allowances

	As at 30 June 2006				Gross impaired loans and advances as a % of gross total loans and advances
	Loans and advances for which allowances are collectively assessed (note (i))	Impaired loans and advances (note (ii))		Total	
		for which allowances are collectively assessed	for which allowances are individually assessed		
Gross loans and advances to					
— financial institutions	525	—	—	525	—
— non-financial institution customers	2,716,147	43,941	54,755	2,814,843	3.51%
	<u>2,716,672</u>	<u>43,941</u>	<u>54,755</u>	<u>2,815,368</u>	<u>3.51%</u>
Less: Allowances for impairment losses on loans and advances to					
— financial institutions	(3)	—	—	(3)	
— non-financial institution customers	(19,573)	(14,363)	(36,502)	(70,438)	
	<u>(19,576)</u>	<u>(14,363)</u>	<u>(36,502)</u>	<u>(70,441)</u>	
Net loans and advances to					
— financial institutions	522	—	—	522	
— non-financial institution customers	2,696,574	29,578	18,253	2,744,405	
	<u>2,697,096</u>	<u>29,578</u>	<u>18,253</u>	<u>2,744,927</u>	

Notes to the Unaudited Interim Financial Report

(Expressed in millions of Renminbi unless otherwise stated)

13. LOANS AND ADVANCES TO CUSTOMERS (Cont'd)

(c) Loans and advances to customers and allowances (Cont'd)

	As at 31 December 2005				Gross impaired loans and advances as a % of gross total loans and advances
	Loans and advances for which allowances are collectively assessed (note (i))	Impaired loans and advances (note (ii))		Total	
		for which allowances are collectively assessed	for which allowances are individually assessed		
Gross loans and advances to					
— financial institutions	782	—	—	782	—
— non-financial institution customers	2,363,147	46,989	47,480	2,457,616	3.84%
	<u>2,363,929</u>	<u>46,989</u>	<u>47,480</u>	<u>2,458,398</u>	<u>3.84%</u>
Less: Allowances for impairment losses on loans and advances to					
— financial institutions	(2)	—	—	(2)	
— non-financial institution customers	(19,427)	(13,234)	(30,422)	(63,083)	
	<u>(19,429)</u>	<u>(13,234)</u>	<u>(30,422)</u>	<u>(63,085)</u>	
Net loans and advances to					
— financial institutions	780	—	—	780	
— non-financial institution customers	2,343,720	33,755	17,058	2,394,533	
	<u>2,344,500</u>	<u>33,755</u>	<u>17,058</u>	<u>2,395,313</u>	

Notes to the Unaudited Interim Financial Report

(Expressed in millions of Renminbi unless otherwise stated)

13. LOANS AND ADVANCES TO CUSTOMERS (Cont'd)

(c) Loans and advances to customers and allowances (Cont'd)

Notes:

- (i) Loans and advances assessed on a collective basis for impairment bear relatively insignificant impairment losses as a proportion of the total portfolio. These loans and advances include those which are graded normal or special-mention.
- (ii) Impaired loans and advances include loans for which objective evidence of impairment exists and which have been assessed as bearing significant impairment losses. These loans include loans for which objective evidence of impairment has been identified:
 - individually (including corporate loans and advances which are graded doubtful or loss); or
 - collectively; that is portfolios of homogeneous loans (including retail loans and advances which are graded substandard, doubtful or loss) and portfolios of loans which have been individually assessed but for which no impairment can be identified individually (including corporate loans and advances which are graded substandard).
- (iii) The definitions of the loan classification stated in notes (i) and (ii) above are set out in Note 29(a).
- (iv) There were no impaired loans and advances to financial institutions as at 30 June 2006 and 31 December 2005.

Notes to the Unaudited Interim Financial Report

(Expressed in millions of Renminbi unless otherwise stated)

13. LOANS AND ADVANCES TO CUSTOMERS (Cont'd)

(d) Analysed by legal form of borrowers

	As at 30 June 2006	As at 31 December 2005
Corporate loans to		
— state-owned enterprises	919,141	844,404
— joint-stock enterprises	406,467	374,427
— private enterprises	282,547	214,509
— foreign invested enterprises	208,498	183,486
— collectively-controlled enterprises	49,864	42,963
— jointly-owned enterprises	17,961	18,698
— others	153,061	131,349
Subtotal	2,037,539	1,809,836
Personal loans	520,713	454,253
Discounted bills	257,116	194,309
Gross loans and advances to customers	2,815,368	2,458,398
Less: Allowances for impairment losses on		
Corporate loans to		
— state-owned enterprises	(21,368)	(20,555)
— joint-stock enterprises	(15,854)	(13,866)
— private enterprises	(10,459)	(8,765)
— foreign invested enterprises	(6,977)	(6,096)
— collectively-controlled enterprises	(2,974)	(2,778)
— jointly-owned enterprises	(792)	(782)
— others	(2,681)	(2,577)
Subtotal	(61,105)	(55,419)
Personal loans	(9,118)	(7,480)
Discounted bills	(218)	(186)
Total allowances for impairment losses	(70,441)	(63,085)
Net loans and advances to customers	2,744,927	2,395,313

Notes to the Unaudited Interim Financial Report

(Expressed in millions of Renminbi unless otherwise stated)

14. INVESTMENTS

	As at 30 June 2006	As at 31 December 2005
Receivables (Note 14(a))	515,481	443,729
Held-to-maturity debt securities (Note 14(b))	936,256	643,978
Available-for-sale securities		
— debt securities (Note 14(c))	301,539	312,059
— equity investments (Note 14(d))	9,070	11,672
	310,609	323,731
Debt securities at fair value through profit or loss (Note 14(e))	5,318	2,433
Total	1,767,664	1,413,871

The Group's debt securities at fair value through profit or loss are held for trading purposes.

(a) Receivables

	As at 30 June 2006	As at 31 December 2005
<i>Due from issuers in Mainland China:</i>		
Government		
— special government bond (note (i))	49,200	49,200
— others	530	530
The PBOC (note (ii))	163,531	94,197
Policy banks	49,872	49,872
Cinda (note (iii))	247,000	247,000
Banks	4,758	2,930
State-owned enterprises	590	—
Total	515,481	443,729

Notes to the Unaudited Interim Financial Report

(Expressed in millions of Renminbi unless otherwise stated)

14. INVESTMENTS (Cont'd)

(a) Receivables (Cont'd)

Notes:

- (i) This represents a non-negotiable bond of nominal value of RMB 49,200 million issued by the MOF in 1998 to strengthen the capital base of China Construction Bank ("CCB"). The bond matures in 2028. The interest rate of the bond was revised to a fixed interest rate of 2.25% per annum with effect from 1 December 2004.

Interest receivable on the bond is settled by cash on an annual basis.

- (ii) Due from the PBOC includes:

— a non-transferable bill of nominal value of RMB 63,354 million issued specifically to CCB as part of its restructuring in 2003 (the "Restructuring"). The majority of the proceeds paid by China Cinda Asset Management Corporation ("Cinda") on the disposal of impaired loans and advances were used to subscribe the PBOC bill. The bill matures in June 2009 and bears a fixed interest rate of 1.89% per annum. The PBOC has the right to early settle the bill; and

— a non-transferable bill of nominal value of RMB 21,000 million issued for settlement of CCB's receivables arising from its appointment by the State Council and the PBOC to act as the receiver in respect of the liquidation of a trust and investment company (Note 20(b)). The bill matures in June 2007 and bears a fixed interest rate of 1.89% per annum. The PBOC has an early redemption right on this bill subject to certain conditions.

- (iii) Cinda issued a bond specifically to CCB in 1999 for the acquisition of CCB's impaired loans and advances at their original book value. The bond has a nominal value of RMB 247,000 million and matures in September 2009. It bears a fixed interest rate of 2.25% per annum. According to a notice issued by the MOF, starting from 1 January 2005, the MOF will provide financial support if Cinda is unable to repay the interest in full. The MOF will also provide support for the repayment of bond principal, if necessary.

- (iv) As part of the Restructuring, the PBOC approved the Bank's use of the special government bond and the bill of nominal value of RMB 63,354 million issued by the PBOC as eligible assets equivalent to the surplus deposit reserve for the purposes of clearing.

- (v) All debt securities included as Receivables are unlisted.

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(Expressed in millions of Renminbi unless otherwise stated)

14. INVESTMENTS (Cont'd)

(b) Held-to-maturity debt securities

	As at 30 June 2006	As at 31 December 2005
<i>Issued by:</i>		
Governments		
— in Mainland China	232,863	205,649
— outside Mainland China	26,258	161
The PBOC	337,119	218,354
Policy banks		
— in Mainland China	161,170	144,507
— outside Mainland China	7,413	1,630
Banks and non-bank financial institutions		
— in Mainland China	17,071	17,115
— outside Mainland China	99,840	37,934
Public sector entities outside Mainland China	50,920	17,938
Others		
— in Mainland China	71	176
— outside Mainland China	3,531	514
Total	936,256	643,978
Listed in Hong Kong	2,869	1,849
Listed outside Hong Kong	85,650	27,787
Unlisted	847,737	614,342
Total	936,256	643,978
Market value of listed securities	85,904	28,920

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(Expressed in millions of Renminbi unless otherwise stated)

14. INVESTMENTS (Cont'd)

(c) Available-for-sale debt securities

	As at 30 June 2006	As at 31 December 2005
<i>At fair value and issued by:</i>		
Governments		
— in Mainland China	7,435	13,404
— outside Mainland China	26,740	44,061
The PBOC	141,863	110,114
Central banks outside Mainland China	—	310
Policy banks		
— in Mainland China	10,581	10,429
— outside Mainland China	415	5,512
Banks and non-bank financial institutions outside Mainland China	68,759	87,950
Public sector entities outside Mainland China	22,674	23,086
Others		
— in Mainland China (note (i))	16,653	13,245
— outside Mainland China	6,419	3,948
Total	301,539	312,059
Listed in Hong Kong	1,004	1,863
Listed outside Hong Kong	49,811	74,562
Unlisted	250,724	235,634
Total	301,539	312,059

Note:

- (i) Others in Mainland China as at 30 June 2006 included debt securities issued by state-owned enterprises and joint-stock enterprises of RMB 3,909 million (as at 31 December 2005: RMB 3,424 million) and RMB 12,744 million (as at 31 December 2005: RMB 9,821 million) respectively.

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14. INVESTMENTS (Cont'd)

(d) Available-for-sale equity investments

	As at 30 June 2006	As at 31 December 2005
<i>At fair value:</i>		
Debt equity swap investments (note (i))	7,955	10,886
Other equity investments	1,115	786
Total	9,070	11,672
Listed in Hong Kong	939	563
Listed outside Hong Kong	—	17
Unlisted	8,131	11,092
Total	9,070	11,672

Note:

- (i) Pursuant to the arrangement by the PRC government in 1999, the Group acquired unlisted legal person shares (“debt equity swap investments”) in certain corporate borrowers in lieu of repayments of loans granted to them. Pursuant to a notice (the “Notice”) jointly issued by the State Economic & Trade Commission of the PRC and the PBOC on 5 July 1999, commercial banks are prohibited from being involved in management of the operation of these corporate borrowers although the banks hold equity interests through the above debt equity swap arrangement.

The Group is required to comply with the Notice and has not controlled the financial and operating policy decisions of these corporate borrowers nor exert significant influence over these policies. In substance, the Group does not have any control or significant influence over these corporate borrowers. The Group has been advised by its external legal counsel that such direct ownership in these investments does not violate any of the prevailing laws and regulations in the PRC.

Notes to the Unaudited Interim Financial Report

(Expressed in millions of Renminbi unless otherwise stated)

14. INVESTMENTS (Cont'd)

(e) Debt securities at fair value through profit or loss

	As at 30 June 2006	As at 31 December 2005
<i>Issued by:</i>		
Governments		
— in Mainland China	441	361
— outside Mainland China	470	234
The PBOC	577	49
Policy banks		
— in Mainland China	314	718
— outside Mainland China	140	142
Banks and non-bank financial institutions outside Mainland China	1,313	615
Public sector entities outside Mainland China	—	244
Others		
— in Mainland China (note (i))	1,637	—
— outside Mainland China	426	70
	5,318	2,433

Note:

- (i) Others in Mainland China as at 30 June 2006 included debt securities issued by state-owned enterprises and joint-stock enterprises of RMB 1,213 million (as at 31 December 2005: Nil) and RMB 424 million (as at 31 December 2005: Nil) respectively.

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15. PROPERTY AND EQUIPMENT

	<u>Bank premises</u>	<u>Construction in progress</u>	<u>Computer equipment</u>	<u>Others</u>	<u>Total</u>
<i>Cost or deemed cost:</i>					
As at 1 January 2006	38,987	2,344	11,369	6,324	59,024
Additions	194	299	355	261	1,109
Disposals	(82)	—	(196)	(297)	(575)
Transfers	1,055	(1,219)	41	123	—
As at 30 June 2006	<u>40,154</u>	<u>1,424</u>	<u>11,569</u>	<u>6,411</u>	<u>59,558</u>
<i>Accumulated depreciation and impairment losses:</i>					
As at 1 January 2006	(3,658)	(49)	(4,707)	(649)	(9,063)
Depreciation charges	(856)	—	(1,231)	(956)	(3,043)
Impairment losses	(22)	(13)	(1)	(1)	(37)
Disposals	41	—	173	279	493
As at 30 June 2006	<u>(4,495)</u>	<u>(62)</u>	<u>(5,766)</u>	<u>(1,327)</u>	<u>(11,650)</u>
<i>Net carrying value:</i>					
As at 30 June 2006	<u>35,659</u>	<u>1,362</u>	<u>5,803</u>	<u>5,084</u>	<u>47,908</u>

Notes to the Unaudited Interim Financial Report

(Expressed in millions of Renminbi unless otherwise stated)

15. PROPERTY AND EQUIPMENT (Cont'd)

	Bank premises	Construction in progress	Computer equipment	Others	Total
<i>Cost or deemed cost:</i>					
As at 1 January 2005	38,352	764	9,576	5,000	53,692
Additions	1,103	2,225	2,434	2,593	8,355
Disposals	(701)	(2)	(705)	(1,615)	(3,023)
Transfers	233	(643)	64	346	—
As at 31 December 2005	<u>38,987</u>	<u>2,344</u>	<u>11,369</u>	<u>6,324</u>	<u>59,024</u>
<i>Accumulated depreciation and impairment losses:</i>					
As at 1 January 2005	(2,024)	—	(2,947)	(277)	(5,248)
Depreciation charges	(1,624)	—	(2,434)	(1,585)	(5,643)
Impairment losses	(234)	(50)	(4)	(5)	(293)
Disposals	224	1	678	1,218	2,121
As at 31 December 2005	<u>(3,658)</u>	<u>(49)</u>	<u>(4,707)</u>	<u>(649)</u>	<u>(9,063)</u>
<i>Net carrying value:</i>					
As at 31 December 2005	<u>35,329</u>	<u>2,295</u>	<u>6,662</u>	<u>5,675</u>	<u>49,961</u>

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16. DEFERRED TAX

The components of deferred tax assets/liabilities recognised in the balance sheet and the movements during the six months ended 30 June 2006 and the year ended 31 December 2005 are as follows:

	In Mainland China			Outside Mainland China	
	Interest recognition for short-term debt securities	Deferral or amortisation of subordinated bonds issuance costs	Fair value adjustments for securities and derivatives	Fair value adjustments for securities and derivatives	Deferred tax assets/(liabilities)
As at 1 January 2006	—	(31)	444	7	420
Recognised in income statement	—	2	—	—	2
Recognised in equity	—	—	1,049	31	1,080
As at 30 June 2006	—	(29)	1,493	38	1,502
As at 1 January 2005	(522)	(35)	231	(62)	(388)
Recognised in income statement	522	4	(55)	26	497
Recognised in equity	—	—	268	43	311
As at 31 December 2005	—	(31)	444	7	420

The Group did not have significant unrecognised deferred taxation arising at the balance sheet date.

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17. OTHER ASSETS

	As at 30 June 2006	As at 31 December 2005
Interest receivable		
— debt securities	14,762	11,695
— loans and advances to customers	5,076	4,294
— others	897	1,080
	20,735	17,069
Land use rights	18,122	18,449
Positive fair value of derivatives (Notes (i) and 29(f))	13,079	12,146
Repossessed assets	1,266	1,877
Intangible assets	918	978
Others	7,003	5,414
Total	61,123	55,933

Note:

- (i) The balance as at 30 June 2006 includes the fair value of the foreign exchange option, amounting to RMB 10,334 million (as at 31 December 2005: RMB 9,545 million), which was purchased to hedge the currency risk arising from the separately managed US dollar-denominated investment portfolio (Note 29(d)).

The premium payable in respect of the above option purchased is stated at a discounted value of RMB 5,408 million (as at 31 December 2005: RMB 5,348 million) and is included under other liabilities and provisions (Note 20).

Notes to the Unaudited Interim Financial Report

(Expressed in millions of Renminbi unless otherwise stated)

18. AMOUNTS DUE TO BANKS AND NON-BANK FINANCIAL INSTITUTIONS

(a) Analysed by nature

	As at 30 June 2006	As at 31 December 2005
Balances under repurchase agreements	20,808	21,189
Money market takings	23,408	17,540
Deposits	180,097	125,795
Total	224,313	164,524

(b) Analysed by geographical location

	As at 30 June 2006	As at 31 December 2005
Balances payable on demand		
— banks in Mainland China	5,009	6,591
— non-bank financial institutions in Mainland China	147,655	78,726
	152,664	85,317
— banks outside Mainland China	1,891	322
Term deposits		
— banks in Mainland China	8,881	10,849
— non-bank financial institutions in Mainland China	20,844	33,922
	29,725	44,771
— banks outside Mainland China	25,088	20,612
— non-bank financial institutions outside Mainland China	14,945	13,502
	40,033	34,114
Total	224,313	164,524

Notes to the Unaudited Interim Financial Report

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18. AMOUNTS DUE TO BANKS AND NON-BANK FINANCIAL INSTITUTIONS (Cont'd)**(c) Analysed by legal form of counterparty**

	As at 30 June 2006	As at 31 December 2005
Balances with		
— PRC policy banks	95	137
— PRC state-owned banks and non-bank financial institutions	138,349	106,219
— PRC joint-stock banks and non-bank financial institutions	37,434	19,389
— foreign-invested banks and non-bank financial institutions	48,435	38,779
Total	224,313	164,524

19. DEPOSITS FROM CUSTOMERS**(a) Analysed by nature**

	As at 30 June 2006	As at 31 December 2005
Demand deposits		
— corporate customers	1,646,808	1,475,119
— personal customers	770,226	709,026
	2,417,034	2,184,145
Time deposits		
— corporate customers	724,899	632,350
— personal customers	1,349,633	1,189,551
	2,074,532	1,821,901
Total	4,491,566	4,006,046

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19. DEPOSITS FROM CUSTOMERS (Cont'd)**(b) Analysed by geographical segments**

	As at 30 June 2006	As at 31 December 2005
Yangtze River Delta	944,770	828,647
Pearl River Delta	700,982	620,375
Bohai Rim	896,602	802,270
Central	766,621	687,258
Western	738,609	671,263
Northeastern	351,239	322,758
Head office	72,144	58,897
Overseas	20,599	14,578
Total	4,491,566	4,006,046

The definitions of geographical segments are set out in Note 28(b).

Notes to the Unaudited Interim Financial Report

(Expressed in millions of Renminbi unless otherwise stated)

20. OTHER LIABILITIES AND PROVISIONS

	As at 30 June 2006	As at 31 December 2005
Interest payable		
— deposits from customers	29,293	25,205
— others	1,835	927
	31,128	26,132
Salaries and welfare payables (Note 20(a))	11,831	9,505
Dividend payable	6,638	3,268
Supplementary retirement benefit obligations	5,567	5,621
Foreign exchange option premium payable (Notes 17(i) and 29(d))	5,408	5,348
Payables to Jianyin (Notes 20(b) and 30(a))	5,288	5,211
Dormant accounts	4,059	2,860
Bond redemption payable	3,537	2,063
Business tax and other tax payables	3,191	3,451
Negative fair value of derivatives (Note 29(f))	2,925	2,490
Litigation provisions (Note 20(c))	1,535	1,802
Payment and collection clearance account	824	1,333
Settlement accounts	747	897
Others	8,884	6,509
Total	91,562	76,490

(a) Salaries and welfare payables

The payables to defined contribution retirement schemes included under salaries and welfare payables at the balance sheet date are as follows:

	As at 30 June 2006	As at 31 December 2005
Payables to defined contribution retirement schemes	1,335	1,082

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20. OTHER LIABILITIES AND PROVISIONS (Cont'd)

(b) Payables to Jianyin

The balance as at 30 June 2006 included the proceeds of RMB 31 million (as at 31 December 2005: Nil) from the disposal of assets owned by China Jianyin Investment Limited (“Jianyin”) collected by the Group on behalf of Jianyin, and a payable of RMB 5,257 million (as at 31 December 2005: RMB 5,211 million) to Jianyin, arising from the receipt of a bill issued by the PBOC with a nominal value of RMB 21,000 million (Note 14(a)), which exceeded net advances made by CCB for the liquidation of a trust and investment company, plus the interest accrual on such excess portion.

(c) Litigation provisions

	Six months ended 30 June 2006	Year ended 31 December 2005
As at 1 January	1,802	2,107
Charge for the six months/year	50	5
Payments made	(317)	(310)
As at 30 June/31 December	1,535	1,802

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21. SUBORDINATED BONDS ISSUED

As of 30 June 2006, the Group issued the following subordinated bonds upon the approval of the PBOC and the CBRC. The carrying value of the Group's subordinated bonds at the balance sheet date represents:

	Note	As at 30 June 2006	As at 31 December 2005
4.87% subordinated fixed rate bonds maturing in August 2014	(i)	11,140	11,140
Subordinated floating rate bonds maturing in August 2014	(ii)	3,860	3,860
4.95% subordinated convertible fixed rate bonds maturing in September 2014	(iii)	8,300	8,300
Subordinated floating rate bonds maturing in December 2014	(iv)	6,078	6,078
4.95% subordinated convertible fixed rate bonds maturing in December 2014	(v)	10,622	10,622
Total nominal value		40,000	40,000
Less: Unamortised issuance cost		(88)	(93)
Net carrying value		39,912	39,907

Notes:

- (i) The interest rate per annum on the subordinated fixed rate bonds is 4.87%. The Group has an option to redeem the bonds on 1 August 2009. If they are not redeemed early, the interest rate of the bonds will increase in August 2009 to 7.67% per annum for the next five years.
- (ii) The interest rate per annum on the subordinated floating rate bonds is the PBOC one-year fixed deposit rate, which is reset annually, plus an interest margin of 2.00%. The Group has an option to redeem the bonds on 1 August 2009. If they are not redeemed early, the interest margin of the bonds will increase to 2.75% from August 2009 for the next five years.
- (iii) The interest rate per annum on the subordinated convertible fixed rate bonds is 4.95%. The bondholders may convert the interest rate into a floating rate, being the PBOC one-year fixed deposit rate plus an interest margin of 1.80%, on 22 September 2006. The interest rate is reset annually. The Group has an option to redeem the bonds on 22 September 2009. Fixed rate bonds not redeemed early by the Group on 22 September 2009 will start to pay 7.95% per annum for the next five years. For floating rate bonds not redeemed early by the Group on 22 September 2009, the interest margin of the bonds will increase to 2.80% for the next five years.

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21. SUBORDINATED BONDS ISSUED (Cont'd)

Notes: (Cont'd)

- (iv) The interest rate per annum on the subordinated floating rate bonds is the PRC interbank money market 7-days weighted repo rate, which is reset every six months, plus an interest margin of 2.00%. The Group has an option to redeem the bonds on 27 December 2009. If they are not redeemed early, the interest margin of the bonds will increase to 3.00% from December 2009 for the next five years.
- (v) The interest rate per annum on the subordinated convertible fixed rate bonds is 4.95%. The bondholders may convert the interest rate into a floating rate, being the PBOC one-year fixed deposit rate plus an interest margin of 1.80%, on 27 December 2006. The interest rate is reset annually. The Group has an option to redeem the bonds on 27 December 2009. Fixed rate bonds not redeemed early by the Group on 27 December 2009 will start to pay 7.95% per annum for the next five years. For floating rate bonds not redeemed by the Group on 27 December 2009, the interest margin of the bonds will increase to 2.80% for the next five years.

22. EQUITY

(a) Share capital

	Six months ended 30 June 2006		Year ended 31 December 2005	
	Number of shares	Amount	Number of shares	Amount
Registered, issued and fully paid:				
<i>Ordinary shares of RMB 1 each</i>				
As at 1 January	224,689	224,689	194,230	194,230
Shares issued	—	—	30,459	30,459
As at 30 June/31 December	224,689	224,689	224,689	224,689

On 17 September 2004, the Bank was incorporated with a registered and paid-in capital of RMB 194,230 million divided into 194,230 million shares with a par value of RMB 1 each. These shares are collectively referred to as Original Unlisted Shares.

Upon completion of the IPO on 27 October 2005, all the Original Unlisted Shares were converted into H shares which are listed on the Main Board of the Stock Exchange of Hong Kong Limited.

On 27 October 2005, a total of 26,486 million H shares with a par value of RMB 1 each were issued by the Bank at a subscription price of HK\$ 2.35 per share as part of the IPO.

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22. EQUITY (Cont'd)

(a) Share capital (Cont'd)

On 14 November 2005, a total of 3,973 million H shares with a par value of RMB 1 each were issued by the Bank at a subscription price of HK\$ 2.35 per share as a result of the exercise of the over-allotment option.

All H shares are ordinary shares and rank pari passu with the same rights and benefits.

(b) Capital reserve

The capital reserve generally records transactions of the following nature:

- (i) share premium arising from the issuance of shares at prices in excess of their par value; and
- (ii) any other item required by PRC regulations to be so treated.

Capital reserve may be used for increasing paid-in capital as approved by the shareholders.

(c) Surplus reserves

Prior to 1 January 2006, surplus reserves consist of statutory surplus reserve, discretionary surplus reserve and statutory public welfare fund. In accordance with the Company Law of the PRC (Revised in 2005), which was issued on 27 October 2005, the Bank is no longer required to make further appropriation to the statutory public welfare fund with effect from 1 January 2006.

In 2006, the Bank transferred the balance of the statutory public welfare fund of RMB 2,167 million as at 31 December 2005 to the statutory surplus reserve in accordance with a notice, Cai Qi [2006] No. 67, issued by the MOF on 15 March 2006.

The Bank is required to appropriate 10% of its net profit, as determined under the Accounting Standards for Business Enterprises, the Accounting Regulations for Financial Enterprises (2001) and other relevant regulations issued by the MOF (collectively "PRC GAAP"), to the statutory surplus reserve until the reserve balance reaches 50% of the registered capital. After making the appropriation to the statutory surplus reserve, the Bank may also appropriate its net profit to the discretionary surplus reserve upon approval by shareholders in general meeting.

Subject to the approval of shareholders, statutory and discretionary surplus reserves may be used to make good prior year losses, if any, and may be converted into capital, provided that the balance of statutory surplus reserve after such capitalisation is not less than 25% of the registered capital before such capitalisation.

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22. EQUITY (Cont'd)

(d) Investment revaluation reserve

The investment revaluation reserve has been accounted for in accordance with the accounting policies adopted for the measurement of the available-for-sale investments at fair value.

(e) General reserve

The general reserve at the balance sheet date comprises:

	As at 30 June 2006	As at 31 December 2005
Set up under the MOF's requirements (note (i))	10,284	10,284
Set up under requirements of the Hong Kong Banking Ordinance (note (ii))	57	48
	<u>10,341</u>	<u>10,332</u>

Notes:

- (i) Pursuant to a notice, Cai Jin [2005] No. 49, issued by the MOF on 17 May 2005 and which became effective on 1 July 2005, banks and certain non-bank financial institutions in Mainland China are required to maintain a general reserve (in addition to allowances for impairment losses) to cover potential losses against their assets. The general reserve is in principle not less than 1% of the aggregate amount of risk-bearing assets, before allowances for impairment losses, at the balance sheet date. The general reserve forms part of the equity of the financial institution, and transfers to it are made through appropriations of profit after tax.

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

Management considers that the Bank will comply with the requirements of these notices before 30 June 2010.

- (ii) Paragraph 9 of the Seventh Schedule to the Hong Kong Banking Ordinance requires the Bank's Hong Kong Branch to set aside amounts in a regulatory reserve in respect of losses which it will, or may, incur on loans and advances to customers, in addition to impairment losses recognised in accordance with the accounting policies of the Group. Transfers to and from the regulatory reserve are made directly through retained earnings.

(f) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the Group's accounting policies.

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23. PROFIT DISTRIBUTIONS**(a) Final cash dividend attributable to the year ended 31 December 2005 and approved during the six months ended 30 June 2006**

On 6 April 2006 the Directors proposed a final cash dividend of RMB 0.015 per share in respect of the year ended 31 December 2005. In the Annual General Meeting held on 15 June 2006, the shareholders approved the above 2005 final dividend with a total amount of approximately RMB 3,370 million.

(b) Interim dividend for the six months ended 30 June 2006

No interim dividend was recommended for the six months ended 30 June 2006.

24. NOTES TO UNAUDITED CONSOLIDATED CASH FLOW STATEMENT**(a) Cash and cash equivalents**

	As at 30 June 2006	As at 31 December 2005	As at 30 June 2005
Cash	26,902	28,413	26,120
Surplus deposit reserve	96,030	108,395	107,880
Amounts due from banks and non-bank financial institutions	97,075	190,108	112,126
Less:			
— amounts due over three months when acquired	(38,978)	(32,362)	(5,040)
— balances under resale agreements	(8,500)	(13,797)	(30,261)
	49,597	143,949	76,825
Total	172,529	280,757	210,825

(b) Significant non-cash transactions

As approved by the shareholders in the general meeting on 6 June 2005, the Bank settled the government receivable of RMB 23,781 million by the Bank's profit distribution during the six months ended 30 June 2005.

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25. COMMITMENTS AND CONTINGENT LIABILITIES

(a) Credit commitments

At any given time the Group has outstanding commitments to extend credit. These commitments take the form of approved loans and credit card limits.

The Group provides financial guarantees and letters of credit to guarantee the performance of customers to third parties.

Acceptances comprise undertakings by the Group to pay bills of exchange drawn on customers. The Group expects most acceptances to be settled simultaneously with the reimbursement from the customers.

The contractual amounts of commitments and contingent liabilities are set out in the following table by category. The amounts reflected in the table for commitments assume that amounts are fully advanced. The amount reflected in the table for guarantees and letters of credit represents the maximum potential loss that would be recognised at the balance sheet date if counterparties failed completely to perform as contracted.

	As at 30 June 2006	As at 31 December 2005
Contractual amount		
Loan commitments		
— with an original maturity of under one year	20,652	16,961
— with an original maturity of one year or over	175,651	144,871
	196,303	161,832
Guarantees and letters of credit	241,426	183,638
Acceptances	183,991	138,826
Credit card commitments	44,531	37,421
Others	24,276	20,429
	690,527	542,146

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25. COMMITMENTS AND CONTINGENT LIABILITIES (Cont'd)

(a) Credit commitments (Cont'd)

These commitments and contingent liabilities have off-balance sheet credit risk. Before the commitments are fulfilled or expire, management assess and make allowances for any probable losses accordingly. As the facilities may expire without being drawn upon, the total of the contractual amounts is not representative of expected future cash outflows.

	As at 30 June 2006	As at 31 December 2005
Credit risk weighted amount of contingent liabilities and commitments	281,883	242,057

The credit risk weighted amount refers to the amount as computed in accordance with the rules set out by the CBRC and depends on the status of the counterparty and the maturity characteristics. The risk weights used range from 0% to 100% of contingent liabilities and commitments.

There are no relevant standards prescribed by IFRS in calculating the above credit risk weighted amounts.

The effects of bilateral netting arrangements have been taken into account in calculating the credit risk weighted amounts.

(b) Capital commitments

The Group had the following authorised capital commitments in respect of purchase of property and equipment at the balance sheet date:

	As at 30 June 2006	As at 31 December 2005
Purchase of property and equipment		
— contracted for	639	296
— not contracted for	8,990	967
Total	9,629	1,263

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(Expressed in millions of Renminbi unless otherwise stated)

25. COMMITMENTS AND CONTINGENT LIABILITIES (Cont'd)

(c) Outstanding litigation and disputes

As at 30 June 2006, the Group was the defendant in certain pending litigation and disputes with gross claims of RMB 1,632 million (as at 31 December 2005: RMB 2,607 million). Provisions have been made for the estimated losses of such litigation based upon the opinions of the Group's internal and external legal counsel (Note 20(c)). The Group considers that the provisions made are reasonable and adequate.

(d) Underwriting obligations

At the balance sheet date, the unexpired underwriting commitments of PRC government bonds were as follows:

	As at 30 June 2006	As at 31 December 2005
Underwriting obligations	5,780	1,980

(e) Redemption obligations

As an underwriting agent of PRC government bonds, the Group has the responsibility to buy back those bonds sold by it should the holders decide to early redeem the bonds held. The redemption price for the bonds at any time before their maturity date is based on the coupon value plus any interest unpaid and accrued up to the redemption date. Accrued interest payables to the bond holders are calculated in accordance with relevant rules of the MOF and the PBOC. The redemption price may be different from the fair value of similar instruments traded at the redemption date.

The redemption obligations below represent the nominal value of government bonds underwritten and sold by the Group, but not yet matured at the balance sheet date:

	As at 30 June 2006	As at 31 December 2005
Redemption obligations	97,215	102,079

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

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(Expressed in millions of Renminbi unless otherwise stated)

25. COMMITMENTS AND CONTINGENT LIABILITIES (Cont'd)

(f) Provision against commitments and contingent liabilities

The Group has assessed and made provision for any probable outflow of economic benefits in relation to the above commitments and contingent liabilities in accordance with its accounting policies. Except for the provisions made against outstanding litigation and disputes (Note 20(c)), the Group has not made other provisions in respect of the above commitments and contingent liabilities at the balance sheet date.

26. ASSETS PLEDGED AS SECURITY

The following debt securities have been pledged under sale and repurchase agreements. The related secured liabilities are recorded as amounts due to banks and non-bank financial institutions with similar carrying values at the balance sheet date.

	As at 30 June 2006	As at 31 December 2005
Debt securities	20,602	20,882

27. ENTRUSTED LENDING BUSINESS

The Group provides entrusted lending business services to government agencies, business entities and individuals. All entrusted loans are made under the instruction or at the direction of these entities or individuals and are funded by entrusted funds from them.

For entrusted assets and liabilities and entrusted provident housing fund mortgage business, the Group generally does not take on credit risk in relation to these transactions. The Group acts as an agent to hold and manage these assets and liabilities at the direction of the entrustors and receives fee income for the services provided.

Trust assets are not assets of the Group and are not recognised in the balance sheet. Surplus funds are accounted for as deposits from customers. Income received and receivable for providing these services are included in the income statement as fee income.

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27. ENTRUSTED LENDING BUSINESS (Cont'd)

At the balance sheet date, the entrusted assets and liabilities were as follows:

	As at 30 June 2006	As at 31 December 2005
Entrusted loans	289,761	255,012
Entrusted funds	289,761	255,012

28. SEGMENT REPORTING

During the six months ended 30 June 2006, the Group managed its business both by business segments and geographical segments. Accordingly, both business and geographical segment information is presented as the Group's primary segment reporting formats.

Measurement of segment assets and liabilities and segment revenues and results is based on the Group's accounting policies.

Transactions between segments are conducted under normal commercial terms and conditions. Internal charges and transfer pricing are determined with reference to market rates and have been reflected in the performance of each segment. Net interest income and expenses arising from internal charges and transfer pricing adjustments are referred to as "internal net interest income/expenses". Interest income and expenses earned from third parties are referred to as "external net interest income/expenses".

Segment revenues, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Segment revenues, expenses, assets, and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between Group entities within a single segment. Segment capital expenditure is the total cost incurred during the six months/the year to acquire segment assets (both tangible and intangible) that are expected to be used for more than one year.

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(Expressed in millions of Renminbi unless otherwise stated)

28. SEGMENT REPORTING (Cont'd)

(a) Business segments

The Group comprises the following main business segments:

Corporate banking

This segment represents the provision of a range of financial products and services to corporations, government agencies and financial institutions. The products and services include corporate loans, trade financing, deposit taking activities, agency services, consulting and advisory services, cash management services, remittance and settlement services, custody services and guarantee services.

Personal banking

This segment represents the provision of a range of financial products and services to individual customers. The products and services comprise personal loans, deposit taking activities, card business, personal wealth management services, remittance services and securities agency services.

Treasury business

This segment covers the Group's treasury operations. The treasury enters into inter-bank money market transactions and repurchase transactions, and invests in debt instruments. It also trades in debt instruments, derivatives and foreign currency for its own account. The treasury carries out customer-driven derivatives, foreign currency and precious metal trading. Its function also includes the management of the Group's overall liquidity position, including the issuance of subordinated bonds.

Others and unallocated

These represent equity investments, overseas operations and head office assets, liabilities, income and expenses that are not directly attributable to a segment or cannot be allocated on a reasonable basis.

Notes to the Unaudited Interim Financial Report

(Expressed in millions of Renminbi unless otherwise stated)

28. SEGMENT REPORTING (Cont'd)

(a) Business segments (Cont'd)

	Six months ended 30 June 2006					Total
	Corporate banking	Personal banking	Treasury business	Others and unallocated	Elimination	
External net interest income/ (expense)	48,032	(6,842)	24,359	(264)	—	65,285
Internal net interest (expense)/ income	(10,003)	24,225	(13,581)	(641)	—	—
Net interest income/ (expense)	38,029	17,383	10,778	(905)	—	65,285
Net fee and commission income	2,538	3,138	517	81	—	6,274
Dividend income	—	—	—	192	—	192
Net gain arising from dealing securities	—	—	71	58	—	129
Net gain arising from investment securities	—	—	49	623	—	672
Net foreign exchange (loss)/ gain	—	—	(2,449)	28	—	(2,421)
Other income	62	—	—	671	—	733
Operating income	40,629	20,521	8,966	748	—	70,864
General and administrative expenses						
— depreciation and amortisation	(1,590)	(1,739)	(189)	(9)	—	(3,527)
— others	(12,258)	(10,873)	(1,105)	(1,753)	—	(25,989)
	(13,848)	(12,612)	(1,294)	(1,762)	—	(29,516)
Provisions for impairment losses	(6,636)	(1,662)	—	(236)	—	(8,534)
Operating expenses	(20,484)	(14,274)	(1,294)	(1,998)	—	(38,050)
Profit/(loss) before tax	20,145	6,247	7,672	(1,250)	—	32,814
Capital expenditure	457	722	71	20	—	1,270
	As at 30 June 2006					
Segment assets	2,507,040	524,388	2,039,287	124,902	(29,375)	5,166,242
Segment liabilities	2,328,124	2,360,347	66,229	135,680	(29,375)	4,861,005

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28. SEGMENT REPORTING (Cont'd)

(a) Business segments (Cont'd)

	Six months ended 30 June 2005					Total
	Corporate banking	Personal banking	Treasury business	Others and unallocated	Elimination	
External net interest income/(expense)	41,377	(1,896)	16,703	519	—	56,703
Internal net interest (expense)/income	(6,783)	16,059	(8,082)	(1,194)	—	—
Net interest income/(expense)	34,594	14,163	8,621	(675)	—	56,703
Net fee and commission income/(expense)	1,833	1,785	369	(81)	—	3,906
Dividend income	—	—	—	217	—	217
Net gain arising from dealing securities	—	—	36	31	—	67
Net gain arising from investment securities	—	—	617	92	—	709
Net foreign exchange gain/(loss)	—	—	657	(75)	—	582
Other income	211	4	—	523	—	738
Operating income	36,638	15,952	10,300	32	—	62,922
General and administrative expenses						
— depreciation and amortisation	(955)	(1,122)	(320)	(996)	—	(3,393)
— others	(8,436)	(6,819)	(1,554)	(4,291)	—	(21,100)
	(9,391)	(7,941)	(1,874)	(5,287)	—	(24,493)
Provisions for impairment losses	(5,065)	(1,311)	(4)	(306)	—	(6,686)
Operating expenses	(14,456)	(9,252)	(1,878)	(5,593)	—	(31,179)
Profit/(loss) before tax	22,182	6,700	8,422	(5,561)	—	31,743
Capital expenditure	231	543	32	523	—	1,329
	As at 31 December 2005					
Segment assets	2,240,910	493,493	1,664,996	215,578	(29,235)	4,585,742
Segment liabilities	2,041,994	2,105,639	73,935	105,732	(29,235)	4,298,065

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28. SEGMENT REPORTING (Cont'd)

(b) Geographical segments

The Group operates principally in Mainland China with branches located in 31 provinces, autonomous regions and municipalities directly under the central government, and two subsidiaries located in Bohai Rim. The Group also has bank branch operations in Hong Kong, Singapore, Frankfurt, Johannesburg, Tokyo and Seoul, and subsidiaries operating in Hong Kong.

In presenting information on the basis of geographical segments, operating income is allocated based on the location of the branches and subsidiaries that generated the revenue. Segment assets and capital expenditure are allocated based on the geographical location of the underlying assets.

Geographical segments, as defined for management reporting purposes, are as follows:

- “Yangtze River Delta” refers to the following areas serviced by the tier-I branches of the Group: Shanghai Municipality, Jiangsu Province, Zhejiang Province, City of Ningbo and City of Suzhou;
- “Pearl River Delta” refers to the following areas serviced by the tier-I branches of the Group: Guangdong Province, City of Shenzhen, Fujian Province and City of Xiamen;
- “Bohai Rim” refers to the following areas serviced by the subsidiaries and tier-I branches of the Group: Beijing Municipality, Shandong Province, Tianjin Municipality, Hebei Province and City of Qingdao;
- the “Central” region refers to the following areas serviced by the tier-I branches of the Group: Shanxi Province, Guangxi Autonomous Region, Hubei Province, Henan Province, Hunan Province, Jiangxi Province, Hainan Province, Anhui Province and the Three Gorges Area;
- the “Western” region refers to the following areas serviced by the tier-I branches of the Group: Sichuan Province, Chongqing Municipality, Guizhou Province, Yunnan Province, Tibet Autonomous Region, Inner Mongolia Autonomous Region, Shaanxi Province, Gansu Province, Qinghai Province, Ningxia Autonomous Region and Xinjiang Autonomous Region; and
- the “Northeastern” region refers to the following areas serviced by the tier-I branches of the Group: Liaoning Province, Jilin Province, Heilongjiang Province and City of Dalian.

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28. SEGMENT REPORTING (Cont'd)

(b) Geographical segments (Cont'd)

	Six months ended 30 June 2005									
	Yangtze River Delta	Pearl River Delta	Bohai Rim	Central	Western	Northeastern	Head office	Overseas	Elimination	Total
External net interest income	10,777	4,353	7,290	6,141	6,155	1,723	19,682	582	—	56,703
Internal net interest income/(expense)	2,220	3,060	3,490	2,789	2,861	1,645	(15,801)	(264)	—	—
Net interest income	12,997	7,413	10,780	8,930	9,016	3,368	3,881	318	—	56,703
Net fee and commission income	789	738	720	701	529	248	135	46	—	3,906
Dividend income	6	—	—	19	26	109	56	1	—	217
Net gain arising from dealing securities	—	—	—	—	—	—	67	—	—	67
Net gain/(loss) arising from investment securities	3	7	10	13	4	72	615	(15)	—	709
Net foreign exchange gain/(loss)	20	(4)	31	21	3	11	572	(72)	—	582
Other income	90	186	(13)	169	183	64	15	44	—	738
Operating income	13,905	8,340	11,528	9,853	9,761	3,872	5,341	322	—	62,922
General and administrative expenses										
— depreciation and amortisation	(638)	(482)	(544)	(633)	(540)	(263)	(287)	(6)	—	(3,393)
— others	(4,141)	(2,903)	(3,780)	(3,917)	(3,701)	(1,656)	(849)	(153)	—	(21,100)
	(4,779)	(3,385)	(4,324)	(4,550)	(4,241)	(1,919)	(1,136)	(159)	—	(24,493)
Provisions for impairment losses	(440)	(1,469)	(1,989)	(1,167)	(1,041)	(538)	(37)	(5)	—	(6,686)
Operating expenses	(5,219)	(4,854)	(6,313)	(5,717)	(5,282)	(2,457)	(1,173)	(164)	—	(31,179)
Profit before tax	8,686	3,486	5,215	4,136	4,479	1,415	4,168	158	—	31,743
Capital expenditure	155	103	163	135	167	104	470	32	—	1,329
	As at 31 December 2005									
Segment assets	863,654	643,197	857,832	703,969	684,549	328,658	1,886,307	68,561	(1,450,985)	4,585,742
Segment liabilities	860,461	642,324	855,680	703,607	684,500	328,913	1,606,345	67,220	(1,450,985)	4,298,065
Off-balance sheet credit commitments	148,964	67,183	92,659	93,666	77,747	32,880	14,279	14,768	—	542,146

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29. RISK MANAGEMENT

(a) Credit risk

Credit risk represents the potential loss that may arise from the failure of a debtor to meet its obligation or commitment to the Group. It arises primarily from the Group's credit asset portfolios.

To identify, evaluate, monitor and manage credit risk, the Group designs particular organisation framework, credit policies and processes required for effective credit risk management, which have been implemented across the whole Group upon approval of the risk management and internal control committee and of the president. The risk management and internal control committee is responsible for organising and coordinating the risk management and internal control functions within the Group, and guiding the department members of the committee in fulfilling their responsibilities. To mitigate risk, the Group may demand collateral and guarantees where appropriate.

With respect to daily operations, the risk management department, as directed by the risk management and internal control committee and as the responsible department in formulating the Group's risk management policies, shares and coordinates the work of the corporate banking department, the housing finance & personal lending department, the special assets resolution department and the legal department.

In respect of the loan portfolios, the Group adopts a risk-based loan classification methodology and classifies loans into five categories: normal, special mention, substandard, doubtful and loss. The last three categories are considered as impaired loans and advances for which objective evidence of impairment exists based on a loss event or several events and which bear significant impairment losses. The allowances for impairment losses for the impaired loans and advances are assessed collectively or individually as appropriate.

Notes to the Unaudited Interim Financial Report

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29. RISK MANAGEMENT (Cont'd)

(a) Credit risk (Cont'd)

The definitions of the five categories of loans and advances are set out below:

Normal:	Borrowers can honour the terms of their loans. There is no reason to doubt their ability to repay principal and interest in full on a timely basis.
Special mention:	Borrowers are able to service their loans currently, although repayment may be adversely affected by specific factors.
Substandard:	Borrowers' abilities to service their loans are in question as they cannot rely entirely on normal business revenues to repay principal and interest. Losses may ensue even when collateral or guarantees are invoked.
Doubtful:	Borrowers cannot repay principal and interest in full and significant losses will need to be recognised even when collateral or guarantees are invoked.
Loss:	Only a small portion or no principal and interest can be recovered after taking all possible measures and exhausting all legal remedies.

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29. RISK MANAGEMENT (Cont'd)

(a) Credit risk (Cont'd)

Loans and advances to customers analysed by economic sector concentrations at the balance sheet date are presented in the table below:

	As at 30 June 2006		As at 31 December 2005	
		%		%
Domestic operations				
Corporate loans				
— manufacturing	485,817	17.56	433,104	17.87
— transportation, storage and postal services	311,565	11.26	278,532	11.49
— property development	302,878	10.95	256,396	10.58
— production and supply of electric power, gas and water	291,148	10.52	265,647	10.96
— construction	98,257	3.55	86,855	3.58
— water, environment and public utility management	84,552	3.06	75,959	3.13
— education	74,677	2.70	63,395	2.62
— wholesale and retail trade	72,704	2.63	63,179	2.61
— mining	57,221	2.07	49,332	2.04
— telecommunications, computer services and software	48,376	1.75	60,304	2.48
— others	161,832	5.85	143,088	5.90
Subtotal	1,989,027		1,775,791	
Personal loans	520,340	18.81	453,889	18.73
Discounted bills	257,035	9.29	194,122	8.01
Gross loans and advances to customers	2,766,402	100.00	2,423,802	100.00
Less: Allowances for impairment losses	(70,345)		(62,949)	
Net loans and advances to customers	2,696,057		2,360,853	

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29. RISK MANAGEMENT (Cont'd)

(a) Credit risk (Cont'd)

	<u>As at 30 June 2006</u>		<u>As at 31 December 2005</u>	
		%		%
Overseas operations				
Corporate loans				
— manufacturing	13,460	27.49	8,550	24.71
— transportation, storage and postal services	7,733	15.79	7,314	21.14
— wholesale and retail trade	6,323	12.91	1,225	3.54
— property development	6,220	12.70	4,984	14.41
— telecommunications, computer services and software	4,868	9.94	4,379	12.66
— leasing and commercial services	3,632	7.42	3,328	9.62
— production and supply of electric power, gas and water	1,684	3.44	1,652	4.78
— construction	971	1.98	467	1.35
— others	3,621	7.40	2,146	6.20
Subtotal	48,512		34,045	
Personal loans	373	0.76	364	1.05
Discounted bills	81	0.17	187	0.54
Gross loans and advances to customers	48,966	100.00	34,596	100.00
Less: Allowances for impairment losses	(96)		(136)	
Net loans and advances to customers	48,870		34,460	
Total net loans and advances to customers	2,744,927		2,395,313	

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29. RISK MANAGEMENT (Cont'd)

(a) Credit risk (Cont'd)

Loans and advances to customers analysed by geographical sector risk concentrations at the balance sheet date are presented in the table below:

	As at 30 June 2006		As at 31 December 2005	
		%		%
Yangtze River Delta	691,292	24.56	608,384	24.75
Pearl River Delta	386,566	13.73	328,399	13.36
Bohai Rim	556,155	19.76	494,216	20.10
Central	473,892	16.83	405,956	16.51
Western	455,885	16.19	398,664	16.22
Northeastern	167,920	5.96	152,762	6.21
Head office	34,692	1.23	35,421	1.44
Overseas	48,966	1.74	34,596	1.41
Gross loans and advances to customers	2,815,368	100.00	2,458,398	100.00
Less: Allowances for impairment losses	(70,441)		(63,085)	
Net loans and advances to customers	2,744,927		2,395,313	

The definitions of geographical segments are set out in Note 28(b).

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29. RISK MANAGEMENT (Cont'd)

(a) Credit risk (Cont'd)

The table below shows a breakdown of total credit extended by the Group by type of collateral:

	As at 30 June 2006	As at 31 December 2005
Loans secured by monetary assets	243,689	202,546
Loans secured by tangible assets, other than monetary assets	1,098,360	935,706
Guaranteed loans	681,152	633,180
Unsecured loans	792,167	686,966
Gross loans and advances to customers	2,815,368	2,458,398
Less: Allowances for impairment losses	(70,441)	(63,085)
Net loans and advances to customers	2,744,927	2,395,313

(b) Market risk

Market risk is the risk of loss, in respect of the Group's on and off-balance sheet activities, arising from adverse movements in market rates including interest rates, foreign exchange rates and stock prices, etc. Market risk arises from both the Group's trading and non-trading business.

The Risk Management Department is responsible for formulating the Group's market risk management policies, and monitoring the implementation of those policies. The Asset and Liability Management Department (the "ALM") of the Bank is responsible for managing the size and structure of the balance sheet, and risk of interest rates and foreign exchange rates, in accordance with the Group's risk management policies. The Treasury Department manages the Group's RMB and foreign currency investment portfolios, conducts proprietary and customer-driven dealings, implements market risk management policies and rules and performs daily identification, measurement, assessment and control of risks in treasury operations.

Value-at-risk ("VaR") analysis, sensitivity analysis and stress testing are the major tools used by the Group to measure and monitor the market risk of its trading business. Gap analysis, interest spread analysis and economic value analysis are the major tools used by the Group to monitor the market risk of its non-trading business.

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29. RISK MANAGEMENT (Cont'd)

(b) Market risk (Cont'd)

VaR is a technique which estimates the potential losses that could occur on risk positions taken, due to movements in market rates, foreign exchange rates and prices over a specified time horizon and at a given level of confidence. The Treasury Department calculates interest rate and exchange rate VaR across its foreign currency debt investments. Recently, this technique has gradually extended to debt investment portfolio denominated in RMB. It uses historical movements in market rates and prices, at 99% confidence level, with a 1-day holding period. VaR is calculated on a daily basis for foreign currency portfolios.

Stress testing is a technique used to assess the impacts on the Group's capital, interest spread and economic value against a set of forward-looking scenarios using stress moves in market variables, and the results are regularly reviewed.

Gap analysis is a technique to project future cash flows in order to quantify the differences, at all future dates, between assets and liabilities.

The Group considers that any market risk arising from its proprietary trading account is not material.

(c) Interest rate risk

The Group's interest rate exposures mainly comprise structural interest rate exposure of commercial banking business and trading positions of treasury activities.

(i) *Structural interest rate risk*

Interest rate risk is inherent in many of the Group's businesses. It mainly arises from mismatches between repricing dates of assets and liabilities.

The ALM regularly monitors such interest rate risk positions. In terms of measuring and managing the risk, the Group regularly calculates interest rate sensitive repricing gap, and the impact on the Group's net interest spread and economic value under scenarios of different interest rates. The primary objective of such interest rate risk management is to limit potential adverse effects on net interest income and economic value due to interest rate movement.

(ii) *Trading interest rate risk*

The major part of this risk arises from the treasury's investment portfolios. The interest rate risk is monitored using the VaR method described above. Complementary methods are also applied, to capture the portfolios' sensitivities to interest rate movements, expressed as the fair value change for one basis point (0.01%) interest rates movement.

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29. RISK MANAGEMENT (Cont'd)

(c) Interest rate risk (Cont'd)

The following tables indicate the effective interest rates for the six months ended 30 June 2006 and the year ended 31 December 2005, and the expected next repricing dates (or maturity dates whichever are earlier) for the assets and liabilities at the balance sheet date.

	Effective interest rate (note (i))	As at 30 June 2006					
		Total	Non-interest bearing	Less than three months	Between three months and one year	Between one and five years	More than five years
Assets							
Cash and balances with central banks	1.67%	446,043	26,902	419,141	—	—	—
Amounts due from banks and non-bank financial institutions	3.59%	97,075	—	82,618	14,240	217	—
Loans and advances to customers (note (ii))	5.34%	2,744,927	—	773,697	1,911,708	41,344	18,178
Investments	2.84%	1,767,664	9,070	198,775	636,583	622,338	300,898
Others	—	110,533	110,533	—	—	—	—
Total assets	4.15%	5,166,242	146,505	1,474,231	2,562,531	663,899	319,076
Liabilities							
Amounts due to central banks	1.89%	21	—	21	—	—	—
Amounts due to banks and non-bank financial institutions	2.37%	224,313	—	212,738	11,107	468	—
Deposits from customers	1.49%	4,491,566	21,564	3,069,733	1,065,000	323,246	12,023
Certificates of deposit issued	4.10%	6,057	—	4,776	674	607	—
Others	—	99,136	99,136	—	—	—	—
Subordinated bonds issued	4.66%	39,912	—	3,851	6,065	29,996	—
Total liabilities	1.56%	4,861,005	120,700	3,291,119	1,082,846	354,317	12,023
Asset-liability gap	2.59%	305,237	25,805	(1,816,888)	1,479,685	309,582	307,053

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29. RISK MANAGEMENT (Cont'd)

(c) Interest rate risk (Cont'd)

	As at 31 December 2005						
	Effective interest rate (note (i))	Total	Non-interest bearing	Less than three months	Between three months and one year	Between one and five years	More than five years
Assets							
Cash and balances with central banks	1.63%	480,136	28,413	451,723	—	—	—
Amounts due from banks and non-bank financial institutions	2.14%	190,108	—	147,801	42,031	276	—
Loans and advances to customers (note (ii))	5.39%	2,395,313	86	1,028,552	1,312,723	38,971	14,981
Investments	2.88%	1,413,871	11,672	140,108	420,801	621,237	220,053
Others	—	106,314	106,314	—	—	—	—
Total assets	4.14%	4,585,742	146,485	1,768,184	1,775,555	660,484	235,034
Liabilities							
Amounts due to central banks	1.89%	21	—	21	—	—	—
Amounts due to banks and non-bank financial institutions	1.77%	164,524	—	136,089	27,814	621	—
Deposits from customers	1.39%	4,006,046	40,789	2,770,313	905,529	276,616	12,799
Certificates of deposit issued	2.82%	5,429	—	4,198	527	704	—
Others	—	82,138	82,138	—	—	—	—
Subordinated bonds issued	4.63%	39,907	—	—	9,915	29,992	—
Total liabilities	1.44%	4,298,065	122,927	2,910,621	943,785	307,933	12,799
Asset-liability gap	2.70%	287,677	23,558	(1,142,437)	831,770	352,551	222,235

Notes:

- (i) Effective interest rate represents the ratio of interest income/expense to average interest bearing assets/liabilities. The effective interest rates for the six months ended 30 June 2006 represent annualised interest rates.
- (ii) For loans and advances to customers, the above "Less than three months" category includes overdue amounts (net of allowances for impairment losses) of RMB 68,553 million as at 30 June 2006 (as at 31 December 2005: RMB 68,412 million). Overdue amounts represent loans, of which the whole or part of the principal was overdue, or interest was overdue for more than 90 days but for which principal was not yet due.

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29. RISK MANAGEMENT (Cont'd)

(d) Currency risk

The Group's foreign exchange exposure mainly comprises exposures that arise from foreign currency portfolio within the treasury's proprietary investments and currency exposures originated by the Group's overseas branches.

The Group has invested the capital injection of USD 22,500 million in debt securities and money market instruments denominated in US dollars. The investment portfolio is managed separately from other investments held by the Group. On 12 January 2005, the Bank entered into an agreement with China SAFE Investments Limited ("Huijin"), pursuant to which the Bank purchased from Huijin an option to sell to Huijin a maximum of USD 22,500 million in exchange for Renminbi at a pre-determined exchange rate of USD 1 to RMB 8.2769. The option is exercisable in 2007 in twelve equal monthly instalments. The Group will pay a total option premium of RMB 5,587 million to Huijin in twelve equal monthly instalments in 2007.

The option was purchased to hedge currency risk arising from the separate fund mentioned above. This option is qualified as a fair value hedge in accordance with IFRS. The change in the fair value of the option and the change in the fair value of the assets in the separate fund due to foreign exchange fluctuation are recognised as net (loss)/gain arising from foreign currency dealing.

The Group values the option using the Garman Kohlhagen option model, which is commonly used by market participants to value currency options. The parameters used for the valuation include relevant market interest rates of RMB and USD, the spot exchange rates of RMB against USD from the PBOC, and the foreign exchange volatility, which is based on that of non-deliverable forwards of RMB against USD, adjusted for the fact that the PRC foreign exchange market is regulated.

The fair value of the option as at 30 June 2006 was approximately RMB 10,334 million (as at 31 December 2005: RMB 9,545 million), which is included in other assets (Note 17(i)). The premium payable in respect of the option is stated at its discounted value of approximately RMB 5,408 million as at 30 June 2006 (as at 31 December 2005: RMB 5,348 million) and is included under other liabilities and provisions (Note 20).

The change in the fair value of the option recognised as net gain arising from foreign currency dealing for the six months ended 30 June 2006 was approximately RMB 729 million (six months ended 30 June 2005: net gain of approximately RMB 518 million).

On 5 December 2005, the Bank entered into a USD/RMB foreign exchange swap with the PBOC pursuant to which the Bank will sell USD 8,969 million and buy RMB at a pre-determined forward rate on 7 December 2006 to cover the currency risk arising from the corresponding assets denominated in US dollars. An unrealised loss of RMB 192 million (six months ended 30 June 2005: Nil) derived from the foreign exchange swap has been recognised as net loss arising from foreign currency dealing for the six months ended 30 June 2006 and an accumulated unrealised loss of RMB 238 million (as at 31 December 2005: RMB 46 million) was included in other liabilities and provisions as at 30 June 2006.

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29. RISK MANAGEMENT (Cont'd)

(d) Currency risk (Cont'd)

The Group manages other currency risk by spot and forward foreign exchange transactions and matching its foreign currency denominated assets with corresponding liabilities in the same currencies.

The Group's total equity is denominated in RMB, which is its functional currency. The currency exposures of the Group's assets and liabilities at the balance sheet date were as follows:

	As at 30 June 2006			
	RMB	USD	Others	Total
Assets				
Cash and balances with central banks	439,222	4,541	2,280	446,043
Amounts due from banks and non-bank financial institutions	33,667	52,049	11,359	97,075
Loans and advances to customers	2,613,113	90,906	40,908	2,744,927
Investments	1,446,579	303,600	17,485	1,767,664
Others	101,826	5,869	2,838	110,533
Total assets	4,634,407	456,965	74,870	5,166,242
Liabilities				
Amounts due to central banks	21	—	—	21
Amounts due to banks and non-bank financial institutions	171,558	43,681	9,074	224,313
Deposits from customers	4,319,076	122,067	50,423	4,491,566
Certificates of deposit issued	—	804	5,253	6,057
Others	89,702	6,964	2,470	99,136
Subordinated bonds issued	39,912	—	—	39,912
Total liabilities	4,620,269	173,516	67,220	4,861,005
Net position	14,138	283,449	7,650	305,237
Notional amount of hedging currency option and foreign currency swap contracts	251,518	(251,518)	—	—
Off-balance sheet credit commitments	578,224	88,741	23,562	690,527

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(Expressed in millions of Renminbi unless otherwise stated)

29. RISK MANAGEMENT (Cont'd)

(d) Currency risk (Cont'd)

	As at 31 December 2005			Total
	RMB	USD	Others	
Assets				
Cash and balances with central banks	473,590	4,260	2,286	480,136
Amounts due from banks and non-bank financial institutions	32,438	127,205	30,465	190,108
Loans and advances to customers	2,278,785	82,727	33,801	2,395,313
Investments	1,183,101	214,555	16,215	1,413,871
Others	99,871	4,970	1,473	106,314
Total assets	4,067,785	433,717	84,240	4,585,742
Liabilities				
Amounts due to central banks	21	—	—	21
Amounts due to banks and non-bank financial institutions	118,870	40,288	5,366	164,524
Deposits from customers	3,856,445	106,308	43,293	4,006,046
Certificates of deposit issued	—	377	5,052	5,429
Others	77,269	4,298	571	82,138
Subordinated bonds issued	39,907	—	—	39,907
Total liabilities	4,092,512	151,271	54,282	4,298,065
Net position	(24,727)	282,446	29,958	287,677
Notional amount of hedging currency option and foreign currency swap contracts	253,963	(253,963)	—	—
Off-balance sheet credit commitments	460,151	60,086	21,909	542,146

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29. RISK MANAGEMENT (Cont'd)

(e) Liquidity risk

Liquidity risk is the risk that funds will not be available to meet liabilities as they fall due. It is caused by mismatches in the amount and maturity of assets and liabilities. In line with liquidity policies, the Group monitors the future cash flows and ensures that suitable levels of easily marketable assets are maintained.

At the Group level, liquidity is managed and coordinated through the ALM. The ALM is responsible for formulation of the liquidity policies in accordance with regulatory requirements and prudential principles. Such policies include:

- optimising the Group's asset and liability structure with the principle of matching the maturities of fund in-flows and out-flows;
- maintenance of strong balance sheet liquidity ratios;
- projecting cash flows and assessing the level of liquid assets accordingly; and
- maintenance of sufficient liquid funds through internal transfer pricing.

A substantial portion of the Group's assets are funded by customer deposits. These customer deposits, which have been growing in recent years, are widely diversified in type and maturity and represent a stable source of funds.

In terms of measuring liquidity risk, the Group principally uses liquidity gap analysis, although currently such analysis is restricted to cash flow projections of within one year. Different scenarios are applied to assess the impact of liquidity risk.

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29. RISK MANAGEMENT (Cont'd)

(e) Liquidity risk (Cont'd)

The following tables provide an analysis of the assets and liabilities of the Group into relevant maturity groupings based on the remaining periods to repayment at the balance sheet date.

	As at 30 June 2006						Undated	Total
	Overdue/ repayable on demand	Less than three months	Between three months and one year	Between one and five years	More than five years			
Assets								
Cash and balances with central banks (note (i))	122,932	4,000	—	—	—	319,111	446,043	
Amounts due from banks and non-bank financial institutions	18,868	63,750	14,240	217	—	—	97,075	
Loans and advances to customers (note (ii))	71,697	421,836	838,036	778,286	635,072	—	2,744,927	
Investments								
— Receivables	—	—	121,487	328,654	65,340	—	515,481	
— Held-to-maturity debt securities	—	49,054	290,301	367,039	229,862	—	936,256	
— Available-for-sale investments	—	54,866	125,192	54,038	67,443	9,070	310,609	
— Debt securities at fair value through profit or loss (note (iii))	—	40	2,420	1,585	1,273	—	5,318	
Others	5,205	11,715	8,366	14,335	648	70,264	110,533	
Total assets	218,702	605,261	1,400,042	1,544,154	999,638	398,445	5,166,242	
Liabilities								
Amounts due to central banks	21	—	—	—	—	—	21	
Amounts due to banks and non-bank financial institutions	165,014	47,724	11,107	468	—	—	224,313	
Deposits from customers	2,466,720	622,282	1,062,982	324,384	15,198	—	4,491,566	
Certificates of deposit issued	—	1,138	1,451	3,468	—	—	6,057	
Others	31,123	29,330	20,660	12,917	5,106	—	99,136	
Subordinated bonds issued	—	—	—	—	39,912	—	39,912	
Total liabilities	2,662,878	700,474	1,096,200	341,237	60,216	—	4,861,005	
Long/(short) position	(2,444,176)	(95,213)	303,842	1,202,917	939,422	398,445	305,237	

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29. RISK MANAGEMENT (Cont'd)

(e) Liquidity risk (Cont'd)

	As at 31 December 2005						Total
	Overdue/ repayable on demand	Less than three months	Between three months and one year	Between one and five years	More than five years	Undated	
Assets							
Cash and balances with central banks (note (i))	136,808	57,370	—	—	—	285,958	480,136
Amounts due from banks and non-bank financial institutions	11,379	136,422	42,031	276	—	—	190,108
Loans and advances to customers (note (ii))	71,195	332,389	783,035	657,218	551,476	—	2,395,313
Investments							
— Receivables	—	—	30,482	349,457	63,790	—	443,729
— Held-to-maturity debt securities	—	67,346	135,556	315,950	125,126	—	643,978
— Available-for-sale investments	—	17,932	138,310	76,353	79,464	11,672	323,731
— Debt securities at fair value through profit or loss (note (iii))	—	—	828	977	628	—	2,433
Others	2,948	10,161	8,295	12,149	508	72,253	106,314
Total assets	222,330	621,620	1,138,537	1,412,380	820,992	369,883	4,585,742
Liabilities							
Amounts due to central banks	21	—	—	—	—	—	21
Amounts due to banks and non-bank financial institutions	85,860	50,229	27,814	621	—	—	164,524
Deposits from customers	2,226,495	583,304	904,671	277,301	14,275	—	4,006,046
Certificates of deposit issued	—	420	2,018	2,991	—	—	5,429
Others	28,204	16,474	21,063	11,697	4,700	—	82,138
Subordinated bonds issued	—	—	—	—	39,907	—	39,907
Total liabilities	2,340,580	650,427	955,566	292,610	58,882	—	4,298,065
Long/(short) position	(2,118,250)	(28,807)	182,971	1,119,770	762,110	369,883	287,677

Notes:

- (i) For cash and balances with central banks, undated amount represents statutory deposit reserve and fiscal balances maintained with the PBOC.
- (ii) For loans and advances to customers, overdue amount included in the above “overdue/repayable on demand” category represents loans, of which the whole or part of the principal was overdue, or interest was overdue for more than 90 days but for which principal was not yet due. The overdue amount is stated net of appropriate allowances for impairment losses.
- (iii) For debt securities held for trading purposes, their remaining terms to maturities do not represent the Group’s intended holding periods.

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(Expressed in millions of Renminbi unless otherwise stated)

29. RISK MANAGEMENT (Cont'd)

(f) Use of derivatives

Derivatives include forward, swap and option transactions undertaken by the Group in the foreign exchange and interest rate markets. The Group, through the operations of its branch network, acts as an intermediary between a wide range of customers structuring deals to offer customised risk management products to suit individual customer needs. These positions are actively managed through entering offsetting deals with external parties to ensure that the Group's net exposures are within acceptable risk levels. No significant proprietary positions are maintained by the Group at the balance sheet date. The Group also uses derivatives (principally foreign exchange options and swaps, and interest rate swaps) in the management of its own asset and liability portfolios and structural positions.

The primary derivatives utilised by the Group are shown in the following table.

<i>Derivatives</i>	<i>Description</i>
Cross-currency, foreign exchange and interest rate swaps:	Cross-currency, foreign exchange and interest rate swaps are commitments to exchange one set of cash flows for another. Swaps result in an economic exchange of currencies or interest rates (for example, fixed rate for floating rate) whereas cross-currency will result in an economic exchange of both currencies and interest rates.
Foreign currency and interest rate options:	Foreign currency and interest rate options are contractual agreements under which the seller grants the purchaser the right, but not the obligation, either to buy or sell at or by a predetermined date or during a predetermined period, a specific amount of a foreign currency or a financial instrument at a predetermined price. The seller receives a premium from the purchaser in consideration for the assumption of foreign exchange or interest rate risk. Options may be either exchange-traded or negotiated between the Group and a customer over the counter.
Currency forwards:	Currency forwards represent commitments to purchase or sell foreign exchanges at a certain date in the future.

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29. RISK MANAGEMENT (Cont'd)

(f) Use of derivatives (Cont'd)

The following tables provide an analysis of the notional amounts of derivatives of the Group by relevant maturity groupings based on the remaining periods to settlement and the corresponding fair values at the balance sheet date. The notional amounts of the derivatives indicate the volume of transactions outstanding at the balance sheet date; they do not represent amounts at risk.

	As at 30 June 2006					Fair values	
	Notional amounts with remaining life of				Total	Assets	Liabilities
	less than three months	between three months and one year	between one year and five years	more than five years			
Interest rate derivatives							
Interest rate swaps	20,383	36,932	35,414	17,610	110,339	1,387	1,192
Cross-currency swaps	4,871	396	1,202	3,239	9,708	134	122
	<u>25,254</u>	<u>37,328</u>	<u>36,616</u>	<u>20,849</u>	<u>120,047</u>	<u>1,521</u>	<u>1,314</u>
Currency derivatives							
Spot	11,410	—	—	—	11,410	4	2
Forwards	20,493	88,658	17,682	—	126,833	979	1,146
Foreign exchange swaps	18,999	88,906	32	—	107,937	204	425
Currency options purchased	548	90,121	89,916	—	180,585	10,336	3
Currency options written	1,923	3,661	—	—	5,584	35	35
	<u>53,373</u>	<u>271,346</u>	<u>107,630</u>	<u>—</u>	<u>432,349</u>	<u>11,558</u>	<u>1,611</u>
Total						<u>13,079</u>	<u>2,925</u>
						(Note 17)	(Note 20)

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29. RISK MANAGEMENT (Cont'd)

(f) Use of derivatives (Cont'd)

	As at 31 December 2005				Total	Fair values	
	Notional amounts with remaining life of					Assets	Liabilities
	less than three months	between three months and one year	between one year and five years	more than five years			
Interest rate derivatives							
Interest rate swaps	21,254	16,536	33,464	18,440	89,694	1,193	1,199
Cross-currency swaps	512	3,684	1,892	288	6,376	662	695
Interest futures	—	104	—	—	104	—	—
Interest rate options written	1,372	—	—	—	1,372	—	12
	<u>23,138</u>	<u>20,324</u>	<u>35,356</u>	<u>18,728</u>	<u>97,546</u>	<u>1,855</u>	<u>1,906</u>
Currency derivatives							
Spot	2,943	—	—	—	2,943	—	—
Forwards	44,235	32,339	1,904	—	78,478	483	394
Foreign exchange swaps	30,884	79,710	—	—	110,594	249	178
Currency options							
purchased	101	155	181,580	—	181,836	9,550	3
Currency options written	269	2,448	—	—	2,717	9	9
	<u>78,432</u>	<u>114,652</u>	<u>183,484</u>	<u>—</u>	<u>376,568</u>	<u>10,291</u>	<u>584</u>
Total						<u>12,146</u>	<u>2,490</u>
						(Note 17)	(Note 20)

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29. RISK MANAGEMENT (Cont'd)**(f) Use of derivatives (Cont'd)**

The replacement costs and credit risk weighted amounts in respect of these derivatives are as follows. The effects of bilateral netting arrangements have been taken into account in calculating the credit risk weighted amounts.

Replacement costs

	As at 30 June 2006	As at 31 December 2005
Interest rate derivatives	1,521	1,855
Currency derivatives, net of option premium payable	6,151	4,943
	7,672	6,798

Replacement cost represents the cost of replacing all contracts which have a positive value when marked to market. Replacement cost is a close approximation of the credit risk for these derivative contracts as at the balance sheet date.

Credit risk weighted amounts

	As at 30 June 2006	As at 31 December 2005
Interest rate derivatives	2,318	2,458
Currency derivatives	3,284	1,914
	5,602	4,372

The credit risk weighted amount refers to the amount as computed in accordance with the rules set out by the CBRC and depends on the status of the counterparty and the maturity characteristics.

In accordance with the rules set out by the CBRC, the credit risk weight assigned to the PBOC and Huijin, which is a government agency, is zero. Therefore, the credit risk weighted amount of the currency option purchased from Huijin and foreign currency swap with the PBOC (Note 29(d)) is zero.

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29. RISK MANAGEMENT (Cont'd)

(g) Operational risk

Operational risk represents the risk of loss due to deficiencies and failure of internal processes, personnel and infrastructure, or other external events.

The Group manages this risk through a control-based environment by establishing a framework of policies and procedures in order to identify, assess, control, manage and report risks. The framework covers all business functions ranging from finance, credit, accounting, settlement, savings, treasury, intermediary business, computer applications and management, special assets resolution and legal affairs. This has allowed the Group to comprehensively identify and address the operational risk inherent in all key products, activities, processes and systems. Key controls include:

- authorisation limits for branches and functional departments are delegated after consideration of their respective business scope, risk management capabilities and credit approval procedures. Such authorisations are revised on a timely basis to reflect changes in market conditions, business development and risk management needs;
- the use of a single legal responsibility framework and strict disciplinary measures in order to ensure sound accountability;
- systems and procedures to identify, monitor and report on the major risks: credit, market, liquidity and operational;
- promotion of an overall risk management culture throughout the organisation by building a team of managers with systematic training and having an appraisal system in place, to raise the overall risk awareness among the Group's employees;
- a dedicated anti-money laundering division under the Compliance Department responsible for overseeing that cash management and account management are in compliance with the relevant regulations, and for improving training on anti-money laundering to ensure our employees are well-equipped with the necessary knowledge and basic skills to combat money laundering;
- the review and approval by senior management of comprehensive financial and operating plans which are prepared by branches;
- the assessment of individual branches' financial performance against the comprehensive financial and operating plan; and
- the maintenance of contingent facilities (including backup systems and disaster recovery schemes) to support all major operations, especially back office operations, in the event of an unforeseen interruption. Insurance cover is arranged to mitigate potential losses associated with certain operational events.

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29. RISK MANAGEMENT (Cont'd)

(h) Fair value

(i) Financial assets

The Group's financial assets mainly include cash, amounts due from central banks, banks and non-bank financial institutions, loans and advances to customers, and investments.

Amounts due from central banks, banks and non-bank financial institutions

Amounts due from central banks, banks and non-bank financial institutions are mainly priced at market interest rates and mature within one year. Accordingly, the carrying values approximate the fair values.

Loans and advances to customers

Loans and advances to customers are mostly priced at floating rates close to the PBOC rates. Accordingly, their carrying values approximate the fair values.

Investments

Available-for-sale investments and debt securities at fair value through profit or loss are stated at fair value in the financial report. The following table shows the carrying values and the fair values of receivables and held-to-maturity debt securities which are not presented on the balance sheet at their fair values.

	Carrying values		Fair values	
	As at 30 June 2006	As at 31 December 2005	As at 30 June 2006	As at 31 December 2005
Receivables	515,481	443,729	514,530	444,056
Held-to-maturity debt securities	936,256	643,978	937,590	653,514

(ii) Financial liabilities

The Group's financial liabilities mainly include amounts due to banks and non-bank financial institutions, deposits from customers, certificates of deposit issued and subordinated bonds issued. The carrying values of financial liabilities approximated their fair values at the balance sheet date, except that the fair value of subordinated bonds issued as at 30 June 2006 was RMB 41,268 million (as at 31 December 2005: RMB 41,431 million), which was higher than their carrying value of RMB 39,912 million (as at 31 December 2005: RMB 39,907 million).

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30. MATERIAL RELATED PARTY TRANSACTIONS**(a) Huijin and companies under Huijin****(i) Huijin**

Huijin directly and indirectly owned 70.69% of the issued share capital of the Bank as at 30 June 2006 and 31 December 2005. Huijin was incorporated on 16 December 2003 as a wholly state-owned investment company with the approval of the State Council. Huijin is a government agency, and was established to hold certain equity investments on behalf of the State Council. Huijin represents the PRC government in exercising its investors' rights and obligations in certain financial institutions such as the Bank. As part of the Restructuring, the Group carried out the following transactions with Huijin:

- Huijin has undertaken to assume all the debts, obligations and liabilities relating to the business acquired by the Bank, which arose for any reason prior to 31 December 2003 and were not succeeded by the Bank at Restructuring; and
- Huijin entered into a foreign exchange option agreement with the Bank on 12 January 2005 (Note 29(d)). The purpose of the option is to hedge against the Bank's currency risk arising from capital contributed by Huijin of USD 22,500 million.

Transactions during the six months ended 30 June 2006 and the corresponding balances outstanding at the balance sheet date with Huijin are as follows:

	Six months ended 30 June	
	2006	2005
Interest expense arising from:		
Deposits from customers	486	—
	486	—

	As at	As at
	30 June 2006	31 December 2005
Liabilities:		
Deposits from customers	24,588	18,334
Dividend payable	4,639	2,567
Interest payable	78	27
	29,305	20,928
Total	29,305	20,928

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30. MATERIAL RELATED PARTY TRANSACTIONS (Cont'd)**(a) Huijin and companies under Huijin (Cont'd)****(ii) Jianyin**

As part of the Restructuring, CCB was separated into the Bank and Jianyin, a limited liability company directly and wholly owned by Huijin. As at 30 June 2006 and 31 December 2005, Jianyin directly owned 9.21% of the issued share capital of the Bank. Its principal activities include the holding of equity investments, asset management and other business activities as approved by the relevant PRC government authorities.

Jianyin entered into certain services and operating lease agreements with the Group subsequent to the Restructuring. Transactions during the six months ended 30 June 2006 and the corresponding balances outstanding at the balance sheet date with Jianyin are as follows:

	Six months ended 30 June	
	2006	2005
Income or expenses:		
Other income (note (ii-1))	48	16
Operating expenses (note (ii-2))	105	91
Interest expenses	6	3
	6,783	6,254

	As at	As at
	30 June 2006	31 December 2005
Assets or liabilities:		
Other assets	—	20
Other liabilities and provisions (Note 20)	5,288	5,211
Dividend payable	658	348
Deposits from customers	543	462
Amounts due to banks and non-bank financial institutions	294	233
Total	6,783	6,254

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30. MATERIAL RELATED PARTY TRANSACTIONS (Cont'd)

(a) Huijin and companies under Huijin (Cont'd)

(ii) Jianyin (Cont'd)

Notes:

- (ii-1) This includes custody management fee income earned by the Group for managing assets on behalf of Jianyin and income from disposal of fixed assets to Jianyin.
- (ii-2) This mainly represents rental expenses paid by the Group for leasing assets, including properties and motor vehicles, owned by Jianyin, and fees for supporting services provided by Jianyin.
- (ii-3) Amounts due from/to Jianyin are unsecured and are repayable under normal commercial terms. No allowance for impairment losses was made in respect of amounts due from Jianyin.

(iii) Other companies under Huijin

Huijin also has controlling equity interests in certain other banks and non-bank financial institutions in Mainland China. The Group enters into banking transactions with these companies in the normal course of its banking business at market rates. These include sale and purchase of debt securities, money market transactions and inter-bank clearing. Transactions during the six months ended 30 June 2006 and corresponding balances outstanding at the balance sheet date with these companies are as follows:

	Six months ended 30 June	
	2006	2005
Interest income arising from:		
Debt securities issued by these banks and non-bank financial institutions	306	130
Amounts due from these banks and non-bank financial institutions	32	13
	<u>338</u>	<u>143</u>
Interest expense arising from:		
Amounts due to these banks and non-bank financial institutions	72	21

Notes to the Unaudited Interim Financial Report

(Expressed in millions of Renminbi unless otherwise stated)

30. MATERIAL RELATED PARTY TRANSACTIONS (Cont'd)**(a) Huijin and companies under Huijin (Cont'd)****(iii) Other companies under Huijin (Cont'd)**

	As at 30 June 2006	As at 31 December 2005
Assets or liabilities:		
Debt securities issued by these banks and non-bank financial institutions	15,894	31,191
Amounts due from these banks and non-bank financial institutions	8,436	4,374
	24,330	35,565
Amounts due to these banks and non-bank financial institutions	13,944	5,726

The Group has issued subordinated bonds with a nominal value of RMB 40,000 million. These bonds are bearer bonds and are traded in the secondary market. Accordingly, the Group has no information in respect of the amount of the Group's bonds held by these companies at the balance sheet date.

(b) Transactions with other PRC state-owned entities

The Group operates in an economic regime currently predominated by entities directly or indirectly owned by the PRC government through its government authorities, agencies, affiliations and other organisations ("state-owned entities").

Transactions with other state-owned entities include but are not limited to the following:

- lending and deposit taking;
- taking and placing of inter-bank balances;
- entrusted lending and other custody services;
- insurance and securities agency, and other intermediary services;

Notes to the Unaudited Interim Financial Report

(Expressed in millions of Renminbi unless otherwise stated)

30. MATERIAL RELATED PARTY TRANSACTIONS (Cont'd)

(b) Transactions with other PRC state-owned entities (Cont'd)

- sale, purchase, underwriting and redemption of bonds issued by other state-owned entities;
- purchase, sale and leases of property and other assets; and
- rendering and receiving of utilities and other services.

These transactions are conducted in the ordinary course of the Group's banking business on terms similar to those that would have been entered into with non-state-owned entities. The Group has also established its pricing strategy and approval processes for major products and services, such as loans, deposits and commission income. Such pricing strategy and approval processes do not depend on whether the customers are state-owned entities or not. Having due regard to the substance of the relationships, the Bank is of the opinion that none of these transactions are material related party transactions that require separate disclosure.

(c) Key management personnel

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

The compensations in respect of Directors, Supervisors and Executive Officers during the six months ended 30 June 2006 amounted to RMB 7 million (six months ended 30 June 2005: RMB 4 million).

(d) Contributions to defined contribution retirement schemes

The Group participates in various defined contribution retirement schemes organised by municipal and provincial governments for its employees in Mainland China. For its employees outside Mainland China, the Group participates in various defined contribution retirement schemes at funding rates determined in accordance with the local practices and regulations. The details of the Group's defined contribution retirement schemes are described in Note 20 (a).

Notes to the Unaudited Interim Financial Report

(Expressed in millions of Renminbi unless otherwise stated)

31. EVENTS AFTER THE BALANCE SHEET DATE

On 24 August 2006, the board of directors approved the acquisition of the entire issued share capital of Bank of America (Asia) Limited (“Bank of America Asia”) from Bank of America Corporation, a shareholder of the Bank, for a consideration of HK\$9,710 million. The aforesaid consideration represents approximately 1.32 times the net assets of Bank of America Asia as at 31 December 2005 of HK\$7,382 million. Bank of America Asia is a licensed bank incorporated in Hong Kong and provides a broad range of personal and commercial banking related products and services.

The aforesaid acquisition is subject to approval from the relevant government authorities and our shareholders.

32. ULTIMATE PARENT

The Group is owned and controlled by the PRC government. The majority of the Group’s shares are held by Huijin, a government agency.

Unaudited Supplementary Financial Information

(Expressed in millions of Renminbi unless otherwise stated)

(a) LIQUIDITY RATIOS

	As at 30 June 2006	As at 30 June 2005
Renminbi current assets to Renminbi current liabilities	64.43%	55.77%
Foreign currency current assets to foreign currency current liabilities	133.38%	80.62%

The above liquidity ratios are calculated in accordance with the formula promulgated by the People's Bank of China and China Banking Regulatory Commission ("CBRC"), and based on the financial report of China Construction Bank Corporation (the "Bank") prepared under the Accounting Standards for Business Enterprises, the Accounting Regulations for Financial Enterprises (2001) and other relevant regulations issued by the Ministry of Finance of the PRC (collectively "PRC GAAP").

(b) CAPITAL ADEQUACY RATIO

The capital adequacy ratio is prepared on a solo basis in accordance with the guideline Regulation Governing Capital Adequacy of Commercial Banks [CBRC Order (2004) No. 2] effective on 1 March 2004, which may have significant differences with the relevant requirements in the Hong Kong Special Administrative Region ("Hong Kong") of the People's Republic of China (the "PRC") or other countries.

(b) CAPITAL ADEQUACY RATIO (Cont'd)

The capital adequacy ratios and the related components of the Bank at balance sheet date, calculated based on PRC GAAP, were as follows:

	As at 30 June 2006	As at 31 December 2005
Core capital adequacy ratio (note (i))	10.77%	11.08%
Capital adequacy ratio (note (ii))	13.15%	13.57%
Components of capital base		
Core capital:		
— paid-up ordinary share capital	224,689	224,689
— share premium	42,091	42,091
— other reserves	38,359	17,429
	305,139	284,209
Supplementary capital:		
— general provision for doubtful debts	28,128	24,563
— term subordinated bonds	40,000	40,000
	68,128	64,563
Total capital base before deductions	373,267	348,772
Deductions:		
— unconsolidated equity investments	(1,844)	(1,528)
Total capital base after deductions	371,423	347,244
Risk weighted assets	2,824,226	2,558,956

Notes:

- (i) Core capital adequacy ratio is calculated by dividing the net amount of core capital after deductions of 50% of unconsolidated equity investments by risk weighted assets.
- (ii) Capital adequacy ratio is calculated by dividing the total capital base after deductions by risk weighted assets.

(c) CURRENCY CONCENTRATIONS

	As at 30 June 2006			Total
	US Dollars	HK Dollars	Others	
Spot assets	456,965	33,802	40,847	531,614
Spot liabilities	(173,516)	(38,224)	(28,996)	(240,736)
Forward purchases	104,220	5,248	9,390	118,858
Forward sales	(169,211)	(778)	(15,088)	(185,077)
Net option position	(179,831)	—	—	(179,831)
Net long position	38,627	48	6,153	44,828
Net structural position	—	204	17	221

	As at 31 December 2005			Total
	US Dollars	HK Dollars	Others	
Spot assets	433,717	48,014	36,011	517,742
Spot liabilities	(151,271)	(30,922)	(23,360)	(205,553)
Forward purchases	100,048	6,513	7,368	113,929
Forward sales	(135,922)	(22,627)	(14,389)	(172,938)
Net option position	(181,580)	—	—	(181,580)
Net long position	64,992	978	5,630	71,600
Net structural position	—	203	12	215

The net option position is calculated using the delta equivalent approach required by the Hong Kong Monetary Authority (the “HKMA”). The net structural position of the Bank and its subsidiaries (collectively the “Group”) includes the structural positions of the Bank’s overseas branches, banking subsidiaries and other subsidiaries substantially involved in foreign exchange. Structural assets and liabilities include:

- Investments in fixed assets and premises, net of depreciation charges;
- Capital and statutory reserves of overseas branches; and
- Investments in overseas subsidiaries and related companies.

(d) CROSS-BORDER CLAIMS

The Group is principally engaged in business operations within Mainland China, and regards all claims on third parties outside Mainland China as cross-border claims.

For the purpose of these unaudited supplementary financial information, Mainland China excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan.

Cross-border claims include loans and advances, balances and placements with banks and non-bank financial institutions, holdings of trade bills and certificates of deposit and investment securities.

Cross-border claims have been disclosed by country or geographical area. A country or geographical area is reported where it constitutes 10% or more of the aggregate amount of cross-border claims, after taking into account any risk transfers. Risk transfers are only made if the claims are guaranteed by a party in a country which is different from that of the counterparty or if the claims are on an overseas branch of a bank whose head office is located in another country.

	As at 30 June 2006			
	Banks and non-bank financial institutions	Public sector entities	Others	Total
Asia Pacific excluding Mainland China	32,755	2,960	16,224	51,939
— of which attributed to Hong Kong	7,791	2,068	5,522	15,381
Europe	80,673	4,624	3,668	88,965
North and South America	119,253	120,743	6,924	246,920
	232,681	128,327	26,816	387,824

(d) CROSS-BORDER CLAIMS (Cont'd)

	As at 31 December 2005			
	Banks and non-bank financial institutions	Public sector entities	Others	Total
Asia Pacific excluding Mainland China	123,597	1,479	17,183	142,259
— of which attributed to Hong Kong	83,578	903	6,165	90,646
Europe	74,108	3,805	5,897	83,810
North and South America	85,507	81,085	6,818	173,410
	<u>283,212</u>	<u>86,369</u>	<u>29,898</u>	<u>399,479</u>

(e) OVERDUE LOANS AND ADVANCES TO CUSTOMERS BY GEOGRAPHIC SECTOR

	As at <u>30 June 2006</u>	As at <u>31 December 2005</u>
Yangtze River Delta	9,183	8,395
Pearl River Delta	13,542	13,965
Bohai Rim	19,304	18,178
Central	12,471	11,443
Western	13,326	14,019
Northeastern	6,265	6,181
Head office	2,316	2,234
Overseas	55	77
Total	<u>76,462</u>	<u>74,492</u>

The above analysis represents loans and advances overdue for more than 90 days as required by the HKMA.

Loans and advances with a specific repayment date are classified as overdue when the principal or interest is overdue.

For loans and advances repayable by regular instalments, if part of the instalments is overdue, the whole amount of these loans would be classified as overdue.

(e) OVERDUE LOANS AND ADVANCES TO CUSTOMERS BY GEOGRAPHIC SECTOR

(Cont'd)

Loans and advances repayable on demand are classified as overdue when a demand for repayment has been served on the borrower but repayment has not been made in accordance with the instructions. If the loans and advances repayable on demand are outside the approved limit that was advised to the borrower, they are also considered as overdue.

(f) GROSS AMOUNT OF OVERDUE LOANS AND ADVANCES TO CUSTOMERS

	As at 30 June 2006	As at 31 December 2005
Gross loans and advances to customers which have been overdue with respect to either principal or interest for periods of:		
— between 3 and 6 months	10,098	11,475
— between 6 and 12 months	13,951	15,567
— over 12 months	52,413	47,450
Total	76,462	74,492
As a percentage of total gross loans and advances to customers:		
— between 3 and 6 months	0.36%	0.47%
— between 6 and 12 months	0.50%	0.63%
— over 12 months	1.86%	1.93%
Total	2.72%	3.03%

The definition of overdue loans and advances to customers is set out in the unaudited supplementary financial information (e).

There were no overdue loans and advances to financial institutions as at 30 June 2006 and 31 December 2005.

(g) RESCHEDULED LOANS AND ADVANCES TO CUSTOMERS

	As at 30 June 2006		As at 31 December 2005	
		% of total loans and advances		% of total loans and advances
Rescheduled loans and advances to customers	7,597	0.27%	5,012	0.20%
Less:				
— rescheduled loans and advances to customers but overdue more than 90 days	(1,510)	(0.05%)	(1,319)	(0.05%)
Rescheduled loans and advances to customers overdue less than 90 days	6,087	0.22%	3,693	0.15%

DIRECTORS AND SUPERVISORS

As at 30 June 2006, our directors were as follows:

<u>Name</u>	<u>Position</u>
Guo Shuqing	Chairman and executive director
Chang Zhenming ¹	Vice chairman, executive director and president
Zhao Lin	Executive director and vice president
Luo Zhefu	Executive director and vice president
Zhu Zhenmin	Non-executive director
Jing Xuecheng	Non-executive director
Wang Shumin	Non-executive director
Wang Yonggang	Non-executive director
Liu Xianghui	Non-executive director
Zhang Xiangdong	Non-executive director
Gregory L. Curl	Non-executive director
Song Fengming	Independent non-executive director
Yashiro Masamoto	Independent non-executive director
Tse Hau Yin, Aloysius	Independent non-executive director
Elaine La Roche	Independent non-executive director
Lord Peter Levene ²	Independent non-executive director

1. On 23 July 2006, the 20th meeting of the first session of our Board considered and accepted the resignation of Mr. Chang Zhenming as vice chairman, executive director and president of the Bank. On 27 July 2006, the 21st meeting of the first session of our Board appointed Mr. Zhang Jianguo as president of the Bank, subject to approval of CBRC. At the same time, it was proposed that Mr. Zhang be appointed as vice chairman of the Board and executive director of the Bank, subject to approval of the shareholders' meeting and CBRC.
2. The appointment is subject to approval of CBRC.

As at 30 June 2006, our supervisors were as follows:

Name	Position
Xie Duyang	Chairman of the board of supervisors
Liu Jin	Supervisor
Jin Panshi	Supervisor
Chen Yueming	Supervisor
Cheng Meifen	Supervisor
Cui Jianmin	External supervisor
Guo Feng	External supervisor

DIRECTORS' AND SUPERVISORS' INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 June 2006, none of the directors and supervisors of the Group had any interests or short positions in the shares, underlying shares of equity derivatives or debentures of the Bank or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance) as recorded in the register required to be kept under Section 352 of the Securities and Futures Ordinance or as otherwise notified to the Bank and the Stock Exchange of Hong Kong Limited ("Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers in Appendix 10 of the Listing Rules.

As at 30 June 2006, the Group has not granted its directors or supervisors, or their respective spouses or children below the age of 18 any rights to subscribe for the shares or debentures of the Bank or any of its associated corporations.

SUBSTANTIAL SHAREHOLDERS' INTERESTS

As at 30 June 2006, the interests and short positions of substantial shareholders and other persons of the Bank in the shares and underlying shares of the Bank as recorded in the register required to be kept under Section 336 of the Securities and Futures Ordinance were as follows:

Name	Number of H shares held			% of total issued shares
	Held directly	Held indirectly	Total holding	
China SAFE Investments Limited ("Huijin") ¹	138,150,047,904	20,692,250,000	158,842,297,904	70.69%
China Jianyin Investment Limited ("Jianyin") ¹	20,692,250,000	—	20,692,250,000	9.21%
BAC ²	19,132,974,346	—	19,132,974,346	8.52%
Temasek ³	—	13,576,203,750	13,576,203,750	6.04%
AFH ⁴	13,207,316,750	—	13,207,316,750	5.88%

- As Huijin directly controls one-third or more of the voting rights in the shareholders' meetings of Jianyin, in accordance with the Securities and Futures Ordinance, the interests directly held by Jianyin are deemed to be indirect interests of Huijin.
- BAC holds an option to acquire our H shares representing a total of 19.9% of our issued and floating share capital (less any shares already held by BAC as at that date of exercise of the option), which is in the form of a physically settled unlisted derivative.
- Temasek's interests in the Bank are held through its indirect interests in the following entities, the respective direct shareholdings of which are set out below:

Entity	Number of H shares held
AFH	13,207,316,750
Aranda Investments Pte Ltd	360,700,000
CESMA International Private Limited	62,000
Fullerton (Private) Limited	862,000
PSA Corporation Pte Ltd	291,000
PSA International Pte Ltd	583,000
Singapore Technologies Marine Ltd	606,000
The Rohatyn Group Asia Opportunity Fund, Ltd	3,887,000
Vision Tech Investment Pte Ltd	1,896,000

- As AFH is a wholly-owned subsidiary of Temasek, in accordance with the Securities and Futures Ordinance, the interests directly held by AFH are deemed to be indirect interests of Temasek.

Save as disclosed above, as at 30 June 2006, in the register required to be kept under Section 336 of the Securities and Futures Ordinance, no other persons or corporations were recorded as holding any interests or short positions in the shares or underlying shares of the Bank that would fall to be disclosed by the Bank under Division 2 and 3 of Part XV of the Securities and Futures Ordinance.

DIVIDENDS

No interim dividend was recommended for the six months ended 30 June 2006.

In the Annual General Meeting held on 15 June 2006, the shareholders approved the final dividend with a total amount of approximately RMB 3,370 million (RMB 0.015 per share) for the year ended 31 December 2005. The above final dividend has been paid.

PURCHASE, SALE AND REDEMPTION OF SHARES

During the period, neither the Bank nor any of its subsidiaries has purchased, sold or redeemed any shares of the Bank.

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, the Hong Kong Securities and Futures Commission and the Stock Exchange. We also adopt international and domestic corporate governance best practices. With the exception of the two deviations set out below, we have complied with the code provisions of the Code on Corporate Governance Practices (“Model Code”) in Appendix 14 of the Listing Rules 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, 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 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.

DIRECTORS' SECURITIES TRANSACTIONS

The Bank has adopted the Model Code for Securities Transactions by Directors in Appendix 10 of Listed Issuers of the Listing Rules in relation to securities transactions by directors and supervisors.

Having enquired with our directors and supervisors, the Bank confirms that all directors and supervisors have, during the half year ended 30 June 2006, complied with the provisions of this code of practice in relation to securities transactions by directors and supervisors.

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

AUDIT COMMITTEE

The Bank has set up an audit committee in accordance with the Model Code in Appendix 14 of the Listing Rules. The primary responsibilities of the audit committee are to monitor and assess the performance of the Bank's internal and external audit functions, to monitor the preparation of the Bank's financial statements, the compliance of its core operating units, management procedures and principal business activities. The audit committee consists only of non-executive directors, the majority of whom are independent non-executive directors. It is chaired by independent non-executive director Mr. Tse Hau Yin, Aloysius. Other members include: Ms. Wang Shumin, Mr. Wang Yonggang, Mr. Gregory L. Curl, Mr. Song Fengming, Mr. Yashiro Masamoto, and Ms. Elaine La Roche. The audit committee has reviewed the accounting policies and practices adopted by the Bank and discussed affairs of internal control and financial reporting (including reviewing our unaudited consolidated interim financial information) with the senior management.

Corporate Information

Legal name in Chinese:	中國建設銀行股份有限公司
Legal name in English:	China Construction Bank Corporation
Registered address:	No. 25, Finance Street, Xicheng District, Beijing, China
Postcode:	100032
Principal place of business in Hong Kong:	44–45/F, Tower One, Lippo Centre, 89 Queensway, Admiralty, Hong Kong
Website:	www.ccb.com
Legal representative:	Guo Shuqing
Authorised representatives:	Zhao Lin Ha Yiu Fai
Secretary to the Board:	Xuan Changneng
Company secretary:	Ha Yiu Fai
Qualified accountant:	Yuen Yiu Leung
Independent auditors:	KPMG
Compliance advisors:	China International Capital Corporation (Hong Kong) Limited Morgan Stanley Dean Witter Asia Limited
Legal advisor as to Hong Kong law:	Freshfields Bruckhaus Deringer
Listing venue of H shares:	Hong Kong
H share registrar:	Computershare Hong Kong Investor Services Limited Rooms 1712–16, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong



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