

Smooth Sailing for Business Operation





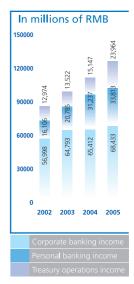
In implementing our customer-focused and market-oriented culture, we have improved our products and services, operation procedures and management process, driving healthy growth of all major lines of businesses. According to statistics released by the PBOC, as at 31 December 2005 our market share of total loans in PRC was approximately 11.9%, while market share of total deposits was around 13.2%.

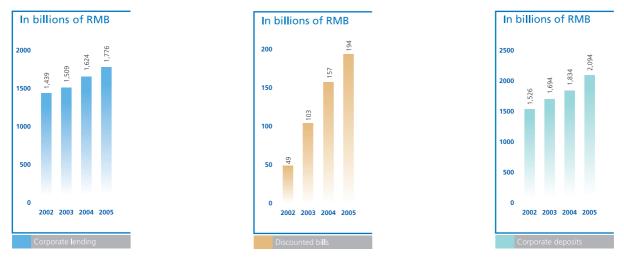
Unless otherwise specified, all business and financial data contained in this "Business Operations" section is based on PRC business operations.

The Bank's principal lines of businesses are corporate banking, personal banking and treasury operations. The chart sets out the Bank's operating income over the previous four years for the respective lines of businesses.

CORPORATE BANKING

We provides a wide range of corporate banking products and services to corporate, government and institutional clients. As at 31 December 2005, balances of corporate loans and discounted bills amounted to RMB 1,775,791 million and RMB 194,122 million respectively, representing 72.2% and 7.9% of the total loan portfolio. Interest income from corporate lending amounted to RMB 96,679 million, an increase of 12.9% against that of RMB 85,669 million in 2004. Deposits from corporate banking customers were RMB 2,094,047 million, representing 52.2% of total deposits. Net fee and commission income from corporate banking was RMB 3,176 million, representing 37.6% of the total for the year ended 31 December 2005.





The following charts show the four years' development of the business.

Corporate lending

Our corporate lending products include fixed asset, working capital and other loans. Other loans include factoring, overdraft, trade financing and on-lending loans. As at 31 December 2005 fixed asset loans amounted to RMB 842,415 million, representing 47.4% of the total corporate loan portfolio, an increase of 4.3% compared to that as at 31 December 2004. We strengthened our leading position as a provider of medium and long-term fixed asset loans, particularly in the areas of infrastructure and real estate development loans. In the area of infrastructure loan, the Bank has a market share of 28.1% as at the end of 2005.

We targeted as areas for development the energy, transportation, and petrochemical industries, which we see as having large growth potential. At the same time we have controlled exposure to industries with excess capacity, such as the steel, electrolysed aluminium and cement industries, while gradually reducing loans to declining industries.

Since September 2005 we have introduced several new loan products specifically designed for small and medium-sized enterprises ("SMEs"), including:

- Road of Growth which provides a package of efficient and on-going credit services to qualified small-sized enterprises; and
- Quick Finance which provides fast and effective secured lending to small-sized enterprises with valid collaterals.

Discounted bills

We generally purchase discounted bills, including both bank acceptance bills and commercial acceptance bills, with a remaining maturity of no more than six months. We see this business as having good potential for growth, especially in bank acceptance bill discounting, and have allocated more resources to this business accordingly. In September 2005 we launched a new product, "Immediate Discount for Bank Acceptance", which has greatly reduced the time required by the bill holders to finance their bills through us. In 2005, a



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new bill system was put into operation across the Bank which has significantly improved the efficiency and quality of the service. At the end of 2005, the balance of discounted bills was RMB 194,122 million, representing a growth of 23.4% during the year.

Corporate deposits

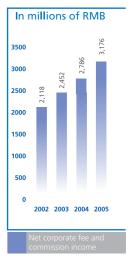
Demand deposits represented a greater proportion of total corporate deposits primarily because corporate customers often need to maintain high liquidity. At the end of 2005 corporate deposits increased by 14.2% against that as at the end of 2004 to RMB 2,094,047 million, among which demand deposits amounted to RMB 1,474,483 million, and time deposits amounted to RMB 619,564 million. The increase in the interest rate of time deposits as well as interest spread between time and demand deposits have led to substantial growth in corporate time deposits, which accounted for 29.6% (2004: 24.2%) of the total corporate deposits as at 31 December 2005.

Corporate fee and commission based services

The chart sets out the net corporate fee and commission income over the past four years.

Efforts have been made to expand the range and quality of fee and commission based products and services. Through optimising operating procedures and offering better products, we continued to increase share of total corporate fee and commission income, especially in consulting, remittance and settlement services. Net income was RMB 3,176 million, an increase of RMB 390 million or 14.0% over that in 2004.

On the institution agency side, we maintained our leading positions in payment processing services on behalf of public finance and independent custodial services for securities settlement funds, with market shares standing at 57.2% and 75.0% respectively on 31 December 2005. We also installed new business systems, namely "Smooth Customs" and "Smooth Insurance" to expand the customs agency and insurance agency business.



On the remittance and settlement side, the Bank further developed global treasury service with expanded scope of service and targeted market, and launched new products including "Global Remittance Express", to satisfy customer demand for timely global settlement. By the end of 2005 the Bank had successfully rolled out its new trade finance system in 19 branches, and approximately 85% of international settlement orders are now processed through this system. The new system has changed the service from a fragmented operation to a centralised one. Based on this system, the Bank officially opened its central Trade Service Centre in Shanghai in January 2006.

On the custodial services side, we obtained regulatory approval in 2005 to extend our custodian services to insurance companies' equity securities and corporate pension funds. Furthermore, three additional qualified foreign institutional investors ("QFII") chose our Bank to act as their custodian. As at 31 December 2005, QFII assets under custody amounted to US\$550 million. Securities investment funds under custody amounted to RMB 79,623 million, an increase of 58.6% over the previous year. Welfare and pension fund assets under custody increased by 79.7% over the previous year. Operating income from the custodial business reached RMB 123 million, a year-on-year increase of 6.6%.

Customer base

We have extensive business relationships with most of the large business groups and leading companies in China, which includes 98 of the largest 100 enterprises in China by operating income as at 31 December 2005, as ranked by the China Enterprise Confederation and the China Enterprise Directors Association. Corporate customers also include many of China's government agencies and financial institutions as well as a number of Fortune 500 multinational companies operating in China. In 2005, we entered into cooperation agreements with local governments in Inner Mongolia, Sichuan, Shanghai, Hubei, Zhejiang and Hainan and won a number of key

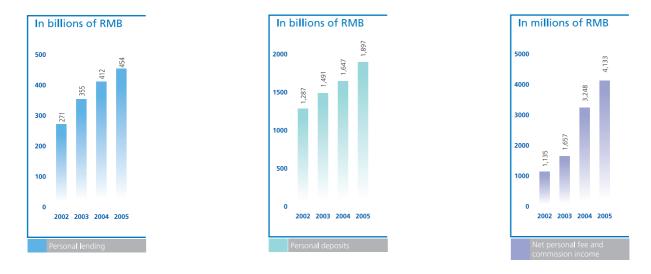


state-level infrastructure projects. As of 31 December 2005, we had approximately 65,000 corporate loans and discounted bill customers, and approximately 2.67 million corporate deposit accounts.

PERSONAL BANKING

We provide a broad range of personal banking products and services, and brands such as "Swift Remit", "Longding Gold", "Happy Investor" and "Profit from Exchange" have gained wide recognition. The expansion of our personal banking business is a key component of our strategic objectives. In 2005, we strengthened promotion of our personal banking products, and rationalised our branch network to provide better service to our customers. As at 31 December 2005, personal loans amounted to RMB 453,889 million, or 18.5% of the total loan portfolio, while personal customer deposits amounted to RMB 1,897,421 million, representing 47.4% of total deposits. Net fee and commission income from personal banking amounted to RMB 4,133 million, representing 48.9% of the total.

The charts below set out the development of personal banking over the past four years.





Personal lending

Residential mortgage loans represented 76.7% of the personal lending portfolio as at 31 December 2005, and continued to provide the majority of income from personal lending. The remainder was largely composed of personal credit loans and automobile loans.

The residential mortgage loans balance increased by 12.5% to RMB 348,219 million at the end of 2005. Over the past 18 months the government's measures to dampen speculation in the property market have affected the residential mortgage business, leading to slower growth in new loans and an increase in early repayments of mortgages. Despite these external factors, the mortgage business performed well as a result of our well-recognised brand name and improved operational efficiency and customer service.

In December 2005 the Bank, as a promoter, issued RMB 3,017 million of residential mortgage-backed securities "Jianyuan 2005-1", which was the first asset securitisation in the PRC.

Provident housing fund service

We are licensed to take provident housing fund deposits, and disburse and monitor entrusted provident housing fund mortgages on behalf of the fund authorities. The service serves as a stable source of funding and fee income. The business grew steadily in 2005 and as at the end of 2005 provident housing fund deposits amounted to RMB 142,561 million with a market share of 63.1% and entrusted provident housing fund loans amounted to RMB 141,974 million with a market share of 53.7%.

Bank card business

As at 31 December 2005, 3.12 million credit cards issued by us were in circulation, representing an increase of 1.47 million over the preceding year. Spending through the credit cards in 2005 reached RMB 18,754 million, an increase of 184% from 2004.

In 2005, we marketed and developed new card products, including the "Dragon Auto Card" and the "University Dragon Card", as well as allowing customers in major cities to pay selected card bills in instalments.



The debit card business also experienced rapid growth, with the number of cards in circulation increasing by over 11% to 166 million, including 620,000 "Happy Investor" personal wealth management cards. Both spending amounts and fee and commission income from debit cards reached a record high in 2005. Total spending amounts reached RMB 125,563 million, an increase of 58.5% compared to 2004, and fee and commission income was RMB 2,450 million, an increase of 27.7% compared to 2004.

According to PBOC information, we were the second biggest bank card issuer in China as at 31 December 2005, with 18.1% of market share.

Personal deposits

Personal deposits provide the major source of funding for the Bank. To improve competitiveness, we launched a number of innovative personal banking products based on the demand of the market, among which "All Personal Call Deposit in One Account" provides convenient valueadded wealth management services. Personal deposits maintained their rapid growth and increased by 15.2% to RMB 1,897,421 million as at 31 December 2005.

As at 31 December 2005, we had 325 million personal deposit accounts, including 146 million active personal deposit accounts (those with a balance of RMB 100 or



above). We have targeted high net-worth customers among our current customer base, and by the end of 2005 we had established relationships with 1.066 million of these customers, an increase of 120% compared to 31 December 2004, and the financial assets of these customers managed by us amounted to RMB 342.4 billion.

Personal fee and commission based services

In addition to card services we also provide a wide range of personal products and services, such as wealth management, remittance and securities agency services. In 2005, we put great effort into enhancing personal remittance and securities agency services, and also developed new products such as wealth management, settlement, and safe deposit box business, which brought about rapid development to the business. Net income from personal fee and commission based services was RMB 4,133 million, an increase of RMB 885 million or 27.2% over the previous year.

In 2005, we launched new products such as "Profit from Interest" and "Lucky Bankbook", and were the first among the PRC commercial banks to enable personal customers to trade gold under the product named "Longding Gold".

Marketing

At present, we conduct marketing activities mainly through our branch network, as supplemented by specialised sales centres such as wealth management centres and personal banking centres. As at 31 December 2005, we established a multi-level service marketing system which consists of 3 wealth management centres, 343 personal banking centres and 6,646 personal wealth management outlets. We have also expanded our team of retail customer managers and the number of the managers reached 15,527 at the end of 2005.



TREASURY OPERATIONS

Operational strategies

During 2005 treasury funds in RMB and foreign currencies increased significantly. With effective risk control and sound investment strategies, the treasury business recorded impressive results, with operating income from both domestic and overseas operations amounting to RMB 23,964 million, an increase of 58.2% compared to that of the previous year.

In light of the rising US Federal Reserve rate and short-term yields of US dollars, we increased our foreign currency investments in long-term debt securities, floating rate bonds, mortgage-backed securities and assetbacked securities. Our investment strategies were driven by our forecast of interest rate movements in long term debt securities. Through utilizing bonds, options and repurchase agreements, we increased yields on our investments.

On the RMB side, we have enlarged our lending in the money market to put excess funds in assets with higher returns. In order to maintain the investment yield, we also developed other fund utilisation channels; increased our investment in bonds; and, increased our investment in PBOC bills to shorten our investment portfolio duration in response to rising interest rates.

Results

In 2005 the RMB treasury business experienced a steady increase in transaction volume. Placements of RMB 82.5 billion were made, ranking third in the China inter-bank market, and bond repurchase and reverse repurchase transaction volume reached RMB 2,258.3 billion, ranking second in the China inter-bank repurchase market. The Bank underwrote RMB 572.2 billion of government and quasi-government bonds, subordinated bonds, PBOC bills and short-term financial notes in the primary market. The total transaction volume in the secondary bond market amounted to RMB 153.7 billion.

The short-term financial notes underwriting business was launched in May 2005. By 31 December 2005, according to market information, we had underwritten notes totalling RMB 42.1 billion, ranking first among the PRC banks.

Bonds under custody were RMB 10.8 billion and the transaction volume amounted to RMB 29.1 billion. The volume of foreign currency exchange on behalf of customers and trade-related foreign currency exchange and settlement reached US\$96.7 billion, an increase of 15% over the previous year, while the volume of derivative transactions conducted on behalf of customers reached US\$4.7 billion.

On 21 July 2005, the PBOC reformed the RMB exchange rate regime. Accordingly, we have improved RMB and foreign currency trading system by offering customers intra-day price quotes and launching RMB-foreign exchange swap business. The Bank was among the first to participate in inter-bank foreign exchange forward trading and to become a market maker.

Business expansion

We have made progress in the innovation of our treasury products in 2005, including the development and expansion of products such as mortgage-backed securities, asset-backed securities, bond resale and repurchase, credit spread transactions as well as gold consignment, gold transaction for personal accounts and retail bullion sales and purchases. We are also exploring multi-currency capital allocation, entrusted asset management and credit derivative products.

Wealth management business in foreign currencies continued its rapid development in 2005. Retail products linked to gold prices and foreign exchange rates were launched, and stock index linked or credit linked products are also being considered. Due to market expectations of an appreciation of the RMB, we offered RMB linked foreign currency wealth management products and forward products to corporate and institutional customers.

OVERSEAS BUSINESS

We have overseas branches in Hong Kong, Singapore, Frankfurt, Johannesburg, Seoul and Tokyo. There are also representative offices in London and New York.

At the end of 2005, our overseas operations had total assets of approximately RMB 68,561 million and accounted for 1.5% of the Bank's total assets, while profit before tax was RMB 635 million, an increase of 3.1% over the previous year.

The principal activities of the overseas operating outlets are to provide trade financing and other lending products. They have been actively participating in their local financial and debt securities markets as well as acting as leading or participating banks in syndicated loan transactions. They also provide settlement and trade finance services to local Chinese companies and other local SMEs. The Hong Kong branch has launched retail and wealth management services to achieve resources integration with our subsidiary China Construction Bank (Asia) Limited (formerly Jian Sing Bank Limited). The Singapore branch provides investment banking services to small and medium-sized Chinese enterprises to enable them to access the Singaporean capital market, while Frankfurt branch has played an important role in assisting the Head Office in conducting treasury activities as the only operating branch of the Bank in Europe.

DISTRIBUTION CHANNELS AND PRODUCT PRICING

Our distribution network mainly consists of branches, sub-branches, sub-operating offices and deposittaking offices. As at the end of 2005, the Bank had 13,977 domestic outlets, including the Head Office and 38 tier-one branches.

In 2005, we continued to develop our self-service banking business. As at 31 December 2005 we had 881 self-service banking centres, an increase of 392 over the previous year. We ranked second among the big four Chinese commercial banks with 15,120 ATMs. In 2005 we successfully implemented a new generation of our self-service business transaction platform. The new platform has standardised service interfaces, processes and versions of the software, expanded the capabilities of self-service facilities, and improved management's real-time control over facility breakdowns and transaction status.

In 2005 we have strengthened our electronic banking capabilities, which greatly increased our distribution capability. The internet banking system has been successfully integrated into various systems, including the core system, which made it possible to offer a variety of web-based financial and information services to a range of customers. As at 31 December 2005, we had 31.39 million electronic banking customers, an increase of around 100% over 2004. The number of clients using web-based banking service amounted to 8.45 million. The VIP service system served 419 targeted clients and 1.32 million clients with equity investment funds with us. "95533" call centre served 18.55 million clients, an increase of 8.52 million over the previous year.



In 2005, cooperating with two major PRC mobile communication operators, we launched mobile phone banking and short messaging services to our customers. With the launch of WAP and BREW mobile phone banking and improved mobile phone on-line trading system, we are able to provide full mobile services to satisfy a range of needs of mobile phone banking clients. By the end of 2005, there were 4.38 million mobile phone customers, an increase of 539% over the previous year.

Pricing controls in the PRC banking industry are being gradually liberalised, enabling us to be more flexible in setting prices according to the assessment of risk and return. We determine a bank-wide benchmark prices for our products and services after considering various factors, including cost, credit and other risks, expected rates of return, market conditions, and competitors' pricing. Branches are allowed to set their own prices, within defined ranges, around these benchmark prices to consolidate their customer base, enlarge market share and increase operating income.

INFORMATION TECHNOLOGY

In September 2005 we successfully completed the data consolidation centre for our core business processing systems. By centralising the processing of major banking products and account data, we have strengthened our ability to monitor business operations across the Bank on a real-time basis, and provide ample information for management decision making.

As part of our efforts to improve the risk and financial management systems, in 2005 we upgraded our credit risk rating and early warning ("CRREW") system and renamed it as "Internal Rating System". We also completed the development of a platform to perform risk analysis on corporate customers, including an economic capital allocation and loan pricing model.

We completed the major part of our disaster recovery data centre, and established data backup and disaster recovery capabilities with the southern production data centre. In accordance with the project plan, full disaster recovery capabilities for the southern and northern data centres mainframe systems and the associated business continuity plan will come into use in 2006.

Internally, information security standards and regulations are applied to out-of-office working, desktop systems and internal information management to enhance security management and computer monitoring throughout the Bank.

EMPLOYEES

As of 31 December 2005, we had 300,288 employees, a decrease of 10,351 over the previous year. We have been able to reduce the number of employees by enhancing the efficiency of the distribution channels, streamlining the organisational structure and business processes, and rationalizing personnel distribution. In addition, to increase accountability and mobility within the organisational structure, we have implemented an internal ranking system for employees. We have also refined our evaluation systems to promote performance-based compensation.

We attach great importance to personnel training and development. Through recruitment, training, job rotation and secondment to banks overseas, the knowledge and experience of employees has been developed. In addition to formal training at in-house centres and colleges, we have also developed an online learning system to offer a platform and support for the career development of employees.