



A photograph of a ship's wake on a blue ocean under a clear sky, with the text "Stable Growth in Operating Results" overlaid. The image shows the white, frothy wake of a ship moving through deep blue water. In the foreground, a portion of the ship's hull and a metal railing are visible. The sky is a pale, clear blue. The text is in a white, serif font, centered in the upper half of the image.

Stable Growth in Operating Results

REPORT OF THE BOARD OF DIRECTORS

The board of directors of China Construction Bank Corporation is pleased to present its report together with the audited financial statements of the Bank and its subsidiaries (collectively "the Group") prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2005 as set forth in the "Financial Statements".

PRINCIPAL ACTIVITIES

The Group is engaged in the provision of a range of banking products and services and related financial services.

PROFITS AND DIVIDENDS

The profit of the Group for the year ended 31 December 2005 and the state of the Bank's and the Group's affairs as at that date are set out in the "Financial Statements" on pages 102 to 204.

During the year 2005, the Board declared a cash dividend to our promoters as at 30 June 2005 in an aggregate amount of RMB 168 million and a special dividend in an aggregate amount of RMB 3,100 million to our shareholders as at 26 October 2005, which were approved by an extraordinary meeting of shareholders on 27 August 2005.

The Board now recommend the payment of a final dividend in the amount of RMB 0.015 per share, totalling approximately RMB 3,370 million in respect of the financial year ended 31 December 2005, subject to the approval of shareholders at the forthcoming annual general meeting. If approved, the final dividend will be paid to shareholders whose names appear on the register of members of the Bank as of Monday, 22 May 2006.

RESERVES

Please refer to the consolidated statement of changes in equity for details of the movements in the reserves of the Group. Other details of the reserves are set out in notes 27 and 28 to the "Financial Statements".

SUMMARY OF FINANCIAL INFORMATION

Please refer to the "Four-Year Financial Summary" for the summary of the operating results, assets and liabilities of the Group for the four years ended 31 December 2005.

DONATIONS

Donations made by the Group during the year for charitable and community purposes amounted to RMB 6 million.

PROPERTY AND EQUIPMENT

Please refer to note 19 of the "Financial Statements" for details of movements in the property and equipment of the Group for the year ended 31 December 2005.

ULTIMATE PARENT AND ITS SUBSIDIARIES

Please refer to notes 38 and 18(f) to the "Financial Statements" for details of the Bank's ultimate parent and its subsidiaries respectively as at 31 December 2005.

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SHARE CAPITAL AND PUBLIC FLOAT

Please refer to note 27(a) to the “Financial Statements” for details of the movements in share capital of the Bank during the financial year.

Shares were issued during the year on the Bank’s global IPO and all of the Bank’s shares were listed on the Hong Kong Stock Exchange.

Based on publicly available information at the latest practicable date prior to the publication of this report, the public float of the Bank was 25.75%. Accordingly, the Board believes that the Bank has sufficient public float.

PURCHASE, SALE AND REDEMPTION OF SHARES

There was no purchase, sale or redemption by the Bank or any of its subsidiaries of the listed securities of the Bank during the reporting period.

RETIREMENT BENEFITS

Please refer to note 25 of the “Financial Statements” for details of the retirement benefits provided to employees of the Group.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights in the Articles of Association requiring the Bank to offer new shares to existing shareholders in proportion to their shareholdings. The Articles of Association provides that if the Bank wishes to increase its capital, it may issue new shares to non-specified investors, may issue shares to existing shareholders or issue shares by way of distribution to existing shareholders, may transfer capital from its capital accumulation fund to issue new shares, or through other means permitted by law or regulation. There are no compulsory provisions for shareholders to exercise their pre-emptive rights.

MAJOR CUSTOMERS

For the year ended 31 December 2005, the total of interest income and other operating income from the five largest customers of the Group represented an amount not exceeding 30% of the total of interest income and other operating income of the Group.

USE OF PROCEEDS FROM THE IPO

In 2005, the Bank completed its IPO and issued 30,458,834,000 H shares at an issue price of HK\$2.35 per share, raising HK\$71,578 million. The proceeds have been used in accordance with the purposes disclosed in the prospectus of the Bank dated 14 October 2005 for strengthening the Bank’s capital base to support the ongoing growth of our businesses.

REPORT OF THE BOARD OF DIRECTORS

DIRECTORS AND SUPERVISORS

During the financial year, our directors were as follows:

Name	Position	Date of appointment
Guo Shuqing	Chairman and executive director	25 March 2005
Chang Zhenming	Vice chairman, executive director and president	15 September 2004
Liu Shulan ¹	Executive director and vice president	15 September 2004
Zhao Lin	Executive director and vice president	15 September 2004
Zhu Zhenmin	Non-executive director	15 September 2004
Jing Xuecheng	Non-executive director	15 September 2004
Wang Shumin	Non-executive director	15 September 2004
Wang Yonggang	Non-executive director	15 September 2004
Liu Xianghui	Non-executive director	29 November 2004
Zhang Xiangdong	Non-executive director	29 November 2004
Gregory L. Curl	Non-executive director	27 August 2005
Song Fengming	Independent non-executive director	15 September 2004
Yashiro Masamoto	Independent non-executive director	15 September 2004
Tse Hau Yin, Aloysius	Independent non-executive director	29 November 2004
Elaine La Roche	Independent non-executive director	6 June 2005

1. Ms. Liu Shulan resigned from the post of executive director effective on 6 April 2006 because she has reached retirement age.

On 16 March 2005, the first extraordinary meeting of shareholders for 2005 and fourth meeting of the first session of our Board passed resolutions accepting the resignation of Mr. Zhang Enzhao as chairman and director of the Bank.

During the financial year, our supervisors were as follows:

Name	Position	Date of appointment
Xie Duyang	Chairman of the board of supervisors	15 September 2004
Liu Jin	Supervisor	15 September 2004
Jin Panshi	Supervisor	15 September 2004
Chen Yueming	Supervisor	15 September 2004
Cheng Meifen	Supervisor	15 December 2004
Cui Jianmin	External supervisor	25 March 2005
Guo Feng	External supervisor	25 March 2005

The biographical details of the directors and supervisors of the Bank are set out in the "Profiles of Directors, Supervisors and Senior Management".

Each of our directors (including non-executive directors) has a service term of three years (commencing from the date of their appointment by election and ending on the date of the annual general meeting of the final year of the term of his/her office), and may be re-elected upon expiry of their term.

REPORT OF THE BOARD OF DIRECTORS

MATERIAL INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES OF THE BANK

As at 31 December 2005, 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 (“SFO”) were as follows:

Name	Number of H shares held		Total holding issued shares	% of total
	Held directly	Held indirectly		
(i) Huijin ¹	138,150,047,904	20,692,250,000	158,842,297,904	70.69%
(ii) Jianyin ¹	20,692,250,000	—	20,692,250,000	9.21%
(iii) Bank of America ²	19,132,974,346	—	19,132,974,346	8.52%
(iv) Temasek ³	—	13,576,203,750	13,576,203,750	6.04%
(v) AFH ⁴	13,207,316,750	—	13,207,316,750	5.88%

1. As Huijin directly controls one-third or more of the voting rights in the shareholders’ meetings of Jianyin, in accordance with the SFO, the interests directly held by Jianyin are deemed to be indirect interests of Huijin.
2. Bank of America holds an option to acquire our shares representing a total of 19.90% of our issued share capital (excluding any shares already held by Bank of America as at that date), which is in the form of a physically settled unlisted derivative.
3. Temasek’s interests in us 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

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

Save as disclosed above, as at 31 December 2005, in the register required to be kept under Section 336 of the SFO, no other persons 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 SFO.

An analysis of the Bank’s shareholdings as at 31 December 2005 is set out in the “Corporate Governance Report”.

DIRECTORS’ FINANCIAL, BUSINESS AND FAMILY RELATIONSHIPS

There are no relationships among the directors of the Bank, including financial, business, family or other material relationships.

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DIRECTORS' AND SUPERVISORS' INTERESTS IN CONTRACTS AND SERVICE CONTRACTS

For the year ended 31 December 2005, no director or supervisor of the Group had any material interest, whether directly or indirectly, in any contract of significance entered into by the Bank, any of its holding companies or subsidiaries or subsidiaries of the Bank's holding companies, apart from service contracts.

None of the directors and supervisors has entered into a service contract with the Bank which is not terminable by the Bank within one year without payment of compensation (other than statutory compensation).

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

As at 31 December 2005, 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 SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Bank and the Stock Exchange of Hong Kong Limited pursuant to Appendix 10 of *Model Code for Securities Transactions by Directors of Listed Issuers* of the Listing Rules.

As at 31 December 2005, 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 and none of them has ever exercised any such right to subscribe for shares or debentures.

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

None of the directors of the Bank directly or indirectly has any interest which constitutes or may constitute a competing business of the Bank.

CONTRACT OF SIGNIFICANCE

The Bank has entered into an agreement with Huijin, its controlling shareholder, on 12 January 2005 pursuant to which the Bank purchased from Huijin an option to sell to Huijin a maximum of US\$22.5 billion in U.S. dollars for RMB at a fixed exchange rate of US\$1 to RMB 8.2769. This option can be exercised in 2007 in twelve equal monthly instalments. The Bank will pay Huijin a total of approximately RMB 5,587 million in twelve equal monthly instalments as consideration for this option in 2007.

MATERIAL LEGAL PROCEEDINGS

As at 31 December 2005, as far as the Board is aware, the Bank was not involved in any material litigation or arbitration and no material litigation claims were pending or threatened or made against the Bank.

CONNECTED TRANSACTIONS

Transactions between us and Jianyin and its subsidiaries and other connected persons constitute connected transactions for us under Chapter 14A of the Listing Rules. Details of these transactions are set out below.

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Exempt continuing connected transactions

Continuing connected transactions between us and Jianyin

Pursuant to the restructuring, the assets and liabilities of the former China Construction Bank were divided between us and Jianyin. Following the separation, we entered into various agreements on a continuing basis with Jianyin to regulate the continuing business relationships between us. These continuing connected transactions with Jianyin are divided into the following categories:

- *Asset management services provided by us to Jianyin.* We provide Jianyin with various asset management services pursuant to the asset management services agreements entered into between us and Jianyin, relating to the management of properties, motor vehicles and equipment, entrusted loans, corporate bonds and the assets and liabilities of the former China Agricultural Development and Trust Investment Corporation.
- *Comprehensive services provided by Jianyin to us.* Jianyin provides us with various ancillary services pursuant to the comprehensive services agreements entered into between us and Jianyin. These agreements relate to, among others, the provision of catering services, security guard and cash-in-transit services, conference services, gardening services, office cleaning services and maintenance services for our equipment and facilities. The above services are in the nature of support services for our branch network and, as such, are not directly related to our core business operations.
- *Leasing of motor vehicles and equipment by Jianyin to us.* Jianyin leases to us certain motor vehicles and equipment pursuant to the leasing agreements entered into between us and Jianyin.
- *Consultancy services provided by Jianyin to us.* Pursuant to a consultancy services framework agreement effective as at 9 March 2005 and entered into between us and China Investment Consultancy Company, a subsidiary of Jianyin, China Investment Consultancy Company provides us with consultancy services in respect of our infrastructure lending business.
- *Leasing of properties by Jianyin to us.* We lease properties from Jianyin for our business operations.
- *Property management services provided by Jianyin to us.* Jianyin provides us with property management services for various properties occupied by us for our business operations.

For each category of transaction we have entered into with Jianyin, the respective amounts have not resulted in the percentage ratios set out in Chapter 14 of the Listing Rules (other than the profit ratio, which does not apply) exceeding 0.1%. Accordingly, these connected transactions are exempt continuing connected transactions under Rule 14A.33(3) of the Listing Rules, and thus are exempt from the reporting, announcement and independent shareholders' approval requirements of the Listing Rules.

Continuing connected transactions between us and State Grid

State Grid Corporation of China ("State Grid"), one of our promoters, and its subsidiaries, provide electricity supplies to our business operations in certain locations in Mainland China, and we pay tariffs to them in accordance with rates prescribed by the PRC government.

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The acquisition as a consumer in the ordinary and usual course of business of electricity supplies, being consumer goods or consumer services, by us from State Grid and its subsidiaries on normal commercial terms is exempt continuing connected transactions under Rule 14A.33(1) of the Listing Rules, and thus is exempt from the reporting, announcement and independent shareholders' approval requirements of the Listing Rules.

Other exempt continuing connected transactions

Commercial banking services and products provided by us in the ordinary and usual course of business

We provide commercial banking services and products to our customers in the ordinary and usual course of our business. Such services and products include taking deposits (including time, demand and call deposits) and the provision of long-term loans, short-term loans, consumer loans and mortgages by our Bank. Customers who place deposits with us include our substantial shareholders, directors, supervisors and chief executive officers and those of our subsidiaries, each ex-director of us and our subsidiaries who was a director within 12 months preceding the date of listing of our H shares, and our promoters, namely, Jianyin, State Grid, Shanghai Baosteel and Yangtze Power and their respective associates, each of whom is a connected person of us under Chapter 14A of the Hong Kong Listing Rules.

The provision of commercial banking services and products by us to our connected persons in the ordinary and usual course of our business and on normal commercial terms that are comparable or no more favourable than those offered to independent third parties is exempt continuing connected transactions under Rule 14A.65(4) of the Listing Rules, and thus is exempt from the reporting, announcement and independent shareholders' approval requirements of the Listing Rules.

Loans and credit facilities granted by us to connected persons

We extend loans and credit facilities (including provision of guarantees, security for third party loans, comfort letters and discounted bills) to our customers in the ordinary and usual course of our business on normal commercial terms with reference to prevailing market rates. Customers who utilise our Bank's loans and credit facilities include our substantial shareholders, directors, supervisors and chief executive officers and those of our subsidiaries, each ex-director of us and our subsidiaries who was a director within 12 months preceding the date of listing of our H shares, and our promoters, namely, Jianyin, State Grid, Shanghai Baosteel and Yangtze Power, and their respective associates, each of whom is a connected person of us under Chapter 14A of the Listing Rules.

The provision of loans and credit facilities by us to our connected persons in the ordinary and usual course of our business and on normal commercial terms that are comparable or no more favourable than those offered to independent third parties are exempt continuing connected transactions under Rule 14A.65(1) of the Listing Rules, and thus are exempt from all reporting, announcement and independent shareholders' approval requirements of the Listing Rules.

Service contracts between us and our directors and supervisors

We entered into a service contract with each of our directors and supervisors for a term of three years (commencing from the date of their election and ending on the date of the annual general meeting of the final year of the term of their office). Each service contract contains indemnification provisions covering losses in connection with the services of the relevant director or supervisor, except for any losses arising from

REPORT OF THE BOARD OF DIRECTORS

his or her gross negligence, wilful misconduct or dishonesty. These contracts are exempt connected transactions under Rule 14A.31(6) of the Listing Rules, and thus are exempt from the reporting, announcement and independent shareholders' approval requirements of the Listing Rules.

CORPORATE GOVERNANCE

We are committed to maintaining the highest standard of corporate governance practices. Information on the corporate governance practices adopted by the Bank and our compliance with the Model Code is set out in the "Corporate Governance Report".

REMUNERATION POLICY FOR THE DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

We have established, and continually seek to improve a fair and transparent performance evaluation system and incentive mechanism for our directors, supervisors and senior management.

We have a remuneration package comprising salary, annual bonus and long-term incentive scheme for the chairman and vice-chairman of our Board, chairman of the board of supervisors, other executive directors and employee supervisors representing shareholders. Non-executive directors, non-employee supervisors representing shareholders, external supervisors and supervisors representing employees are remunerated by way of a stipend. The Bank participates in the relevant PRC mandatory retirement schemes for its directors, supervisors and senior management.

We have established interim provisions for the remuneration of directors, supervisors and senior management. Details of the remuneration of our directors, supervisors and senior management are set out in notes 10 and 36(c) of the "Financial Statements".

The Bank's long term incentive scheme (including a management share appreciation rights scheme and employee shares policy) was approved by its shareholders in 2005 which will be implemented subject to obtaining the necessary approvals.

COMPLIANCE WITH HKMA SUPERVISORY POLICY MANUAL ON FINANCIAL DISCLOSURE BY LOCALLY INCORPORATED AUTHORISED INSTITUTIONS

In preparing the financial statements for 2005, the Bank has fully complied with the guidelines set out in the *Supervisory Policy Manual on Financial Disclosure by Locally Incorporated Authorised Institutions* ("Guidelines") issued by the HKMA except for the following:

- The Guidelines require separate disclosure of the movements in the allowances for loan impairment losses for individually assessed loans and for collectively assessed loans. We did not break down the movements in the allowances for loan impairment losses into allowances for individually assessed loans and collectively assessed loans, however, we disclosed the movements on an aggregate basis in the notes to our financial statements.
- The Guidelines require separate disclosure of the amount of new allowances charged to the income statement and the amount of allowances released back to the income statement in the movement of allowances for loan impairment losses. We did not segregate the amount of new allowances from the amount of allowances released back, and, in lieu of that, we disclosed these two amounts on a net basis in the notes to our financial statements.

The Bank expects to be able to make such disclosures by 31 December 2006.

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AUDITORS

KPMG were appointed as the international auditors of the Bank for the year ended 31 December 2005. A resolution for the reappointment of KPMG as the auditors of the Bank for the year ended 31 December 2006 will be proposed at the forthcoming annual general meeting of the Bank.

By order of the Board of Directors



Chairman

6 April 2006