



中國工商銀行(亞洲)

ICBC (Asia)

INDUSTRIAL AND COMMERCIAL BANK OF CHINA (ASIA) LIMITED

中國工商銀行(亞洲)有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 349)

ANNOUNCEMENT OF 2005 FINAL RESULTS

The Directors of Industrial and Commercial Bank of China (Asia) Limited (“the Bank” or “ICBC (Asia)”) are pleased to announce the audited consolidated results of the Bank and its subsidiaries (“the Group”) for the year ended 31 December 2005 as follows:-

ANNUAL ACCOUNTS

The accounting policies and basis of preparation of the audited final results of the Group are consistent with those adopted in the Group’s audited 2004 annual financial statements, except for the changes in accounting policies made thereafter in adopting certain new and revised Hong Kong Financial Reporting Standards (“HKFRSs”) and Hong Kong Accounting Standards (“HKASs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”).

(A) Consolidated Profit and Loss Information

	Note	31 Dec 2005 HK\$'000	31 Dec 2004 HK\$'000	Change %
Interest income		4,180,031	2,311,367	81%
Interest expense		(2,864,034)	(1,036,529)	176%
Net interest income		1,315,997	1,274,838	3%
Other operating income	(1)	<u>716,988</u>	<u>370,427</u>	94%
Operating income		2,032,985	1,645,265	24%
Operating expenses	(2)	<u>(890,225)</u>	<u>(744,309)</u>	20%
Operating profit before impairment losses/ provisions		1,142,760	900,956	27%
Net (loss)/gain from disposal/reversal of revaluation				
deficits of property, plant and equipment		(699)	40,116	-102%
Net loss on disposal of non-trading securities		—	(71)	100%
Net gain on disposal of held-to-maturity securities		185	15,638	-99%
Net gain on disposal of available-for-sale securities		65,509	—	—
Net gain on disposal of loans		6,162	—	—
Write-back of bad and doubtful debts		—	21,557	-100%
Impairment losses on non-trading securities		—	(200)	100%
Impairment losses on loans and advances		<u>(6,324)</u>	<u>—</u>	
Operating profit		1,207,593	977,996	23%
Share of profits/(losses) of associates		260	(41,225)	100%
Loss on disposal of an associated company		—	(92)	100%
Profit before income tax		1,207,853	936,679	29%
Income tax expense	(3)			
- Hong Kong		(179,757)	(164,147)	10%
- Overseas		(23,705)	2,307	-1,128%
- Deferred tax		(23,790)	(14,448)	65%
Profit attributable to the equity holders of the Group		980,601	760,391	29%
Earnings per share	(4)			
- Basic		HK\$0.91	HK\$0.80	14%
- Diluted		HK\$0.91	HK\$0.76	20%
Dividends	(5)			
- Interim dividend declared during the year		201,827	146,715	38%
- Final dividend proposed after the balance sheet date		<u>392,441</u>	<u>324,869</u>	21%
		<u>594,268</u>	<u>471,584</u>	26%

(B) Consolidated Balance Sheet Information

	<i>Note</i>	31 Dec 2005	31 Dec 2004	Change
		<i>HK\$'000</i>	<i>Restated HK\$'000</i>	<i>%</i>
Assets				
Cash and short term funds		25,317,238	13,845,905	83%
Placements with and advances to banks and other financial institutions	(6)	2,469,645	5,811,673	-58%
Trade bills	(6)	1,992,380	1,859,246	7%
Trading securities		247	—	—
Derivative financial instruments		44,720	—	—
Financial assets at fair value through profit or loss		1,690,010	—	—
Non-trading securities		—	2,716,081	-100%
Loans and advances to customers	(6)	68,152,663	59,500,978	15%
Investment securities:		13,219,310	13,047,042	1%
- available-for-sale		10,137,811	—	
- held-to-maturity		3,081,499	13,047,042	
Investment in associates		28,484	28,332	1%
Intangible assets		1,080,854	998,054	8%
Property, plant and equipment		211,342	229,099	-8%
Leasehold land and land use rights		91,704	93,029	-1%
Deferred income tax assets		—	27,403	-100%
Other assets		1,100,726	1,186,808	-7%
Total assets		<u>115,399,323</u>	<u>99,343,650</u>	16%
Liabilities				
Deposits from banks and other financial institutions		25,095,384	17,520,277	43%
Derivative financial instruments		157,802	—	—
Deposits from customers	(7)	60,990,148	56,058,169	9%
- At fair value through profit or loss		487,255	—	
- At amortised cost		60,502,893	56,058,169	
Certificate of deposits issued		9,351,305	7,345,360	27%
- At fair value through profit or loss		4,506,081	—	
- At amortised cost		4,845,224	7,345,360	
Debt securities in issue		2,978,615	3,095,423	-4%
- At fair value through profit or loss		2,978,615	—	
- At amortised cost		—	3,095,423	
Other liabilities		1,604,308	1,420,221	13%
Current income tax liabilities		8,333	14,553	-43%
Deferred income tax liabilities		4,799	—	—
Total liabilities		<u>100,190,694</u>	<u>85,454,003</u>	17%
Capital and Reserves attributable to the Group's equity holders				
Loan capital	(8)	5,338,775	5,348,229	0%
Share capital		2,242,518	2,095,930	7%
Retained earnings	(9)	2,106,340	1,461,177	44%
Other reserves	(9)	5,520,996	4,984,311	11%
Total equity		<u>15,208,629</u>	<u>13,889,647</u>	9%
Total equity and liabilities		<u>115,399,323</u>	<u>99,343,650</u>	16%

(C) Consolidated statement of changes in equity

	31 Dec 2005 <i>HK\$'000</i>	31 Dec 2004 <i>HK\$'000</i>
Total equity (excluding loan capital) as at 1 January 2005, as previously reported	8,541,418	5,917,305
Effect of adopting HKAS 17, 32 & 39	221,468	—
Total equity (excluding loan capital) as at 1 January 2005, as restated	8,762,886	5,917,305
Revaluation surplus on bank premises	25,791	—
Write back of impairment loss on bank premises	—	64,069
Change in fair value of available-for-sale securities	(171,750)	—
Change in fair value of non-trading securities	—	(82,974)
Change in deferred taxation	27,838	16,260
Share of revaluation gain of investment properties held by an associate	—	39
Exchange reserve realised on disposal of a foreign company	—	239
Exchange difference arising on translation of results of a foreign subsidiary	(122)	122
Net losses not recognised in the profit and loss account	(118,243)	(2,245)
Profit attributable to shareholders	980,601	760,391
Effect from merger with Belgian Bank	1,427	—
Dividends	(526,696)	(394,664)
Issue of ordinary shares	769,939	2,286,696
Share issue expenses	(60)	(26,035)
Capital duty for the increase in authorized ordinary share capital	—	(30)
Total equity (excluding loan capital) as at 31 December 2005	<u>9,869,854</u>	<u>8,541,418</u>

1. **Statutory accounts**

The financial information set out in this report does not constitute the Group's statutory accounts for the year ended 31 December 2005 but there is no material difference as compared to those accounts. The statutory accounts for the year ended 31 December 2005 will be available from the website of The Stock Exchange of Hong Kong Limited.

2. **Basis of preparation and accounting policies**

The accounting policies and basis of preparation adopted in these audited consolidated condensed financial statements are consistent with those adopted in the Group's 2004 Annual Report except for the new adoption of new /revised HKFRSs and HKASs as disclosed in note 3 below.

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year.

3. **Impact of new / revised HKFRSs and HKASs**

The HKICPA has issued a number of new / revised HKFRSs, and HKASs and Interpretations, which are generally effective for accounting periods beginning on or after 1 January 2005. The Group has adopted the following HKFRSs and HKASs issued up to 31 December 2005 which are pertinent to its operations and relevant to these financial statements:

- HKAS 1 "Presentation of Financial Statements"
- HKAS 7 "Cash Flow Statements"
- HKAS 17 "Leases"
- HKAS 24 "Related Party Disclosures"
- HKAS 28 "Investments in Associates"
- HKAS 30 "Disclosures in the Financial Statements of Banks and Similar Financial Institutions"
- HKAS 32 "Financial Instruments: Disclosure and Presentation"
- HKAS 36 "Impairment of Assets"
- HKAS 38 "Intangible Assets"
- HKAS 39 "Financial Instruments: Recognition and Measurement"
- HKFRS 3 "Business Combinations"
- HKFRS 5 "Non-current Assets Held For Sale and Discontinued Operations"

These HKFRSs and HKASs prescribe new accounting measurement and disclosure practices. The major and significant effects of the adoption of these HKFRSs and HKASs on the Group's accounting policies and on amounts disclosed in the financial statements are summarised as follows:

- (a) The adoption of revised HKAS 17 "Leases" has resulted in a change in accounting policy relating to leasehold land. Leasehold land and buildings were previously carried at cost less accumulated depreciation and impairment loss. Following the adoption of HKAS 17 "Leases", a lease of land and building should be split into a lease of land and a lease of building in proportion to the relative fair values of the leasehold interests in the land element and the building element of the lease at inception. The land lease prepayment is stated at cost and amortised over the period of the lease or where there is impairment, the impairment is expensed in the profit and loss account, whereas the leasehold building is stated at fair value. Previously included in property, plant and equipment is the land element of the leasehold properties, which is now disclosed as leasehold land and land use rights.
- (b) In prior periods, positive goodwill was amortised on a straight-line basis over its useful life and was subject to impairment testing when there were indications of impairment. With effect from 1 January 2005, in accordance with HKFRS 3 "Business Combinations" and HKAS 36 "Impairment of Assets", the Group no longer amortises positive goodwill. Such goodwill is tested annually for impairment, including in the year of its initial recognition, as well as when there are indications of impairment. Impairment losses are recognised when the carrying amount of the cash generating unit to which the goodwill has been allocated exceeds its recoverable amount. The new policy in respect of positive goodwill has been applied prospectively in accordance with the transitional arrangements under HKFRS 3 "Business Combinations". As a result, comparative amounts have not been restated, but the cumulative amount of amortisation as at 1 January 2005 has been offset against the cost of the goodwill.
- (c) The adoption of HKAS 32 "Financial Instruments: Disclosure and Presentation" and HKAS 39 "Financial Instruments: Recognition and Measurement" has resulted in a change in accounting policy for recognition, measurement, disclosure and presentation of financial assets and liabilities. It has also resulted in the recognition of derivatives at fair value and the change in the recognition and measurement of hedging activities.

In prior year, where the Group had doubt on the ultimate recoverability of any loans and advances in full, specific provision was made to reduce the carrying value of the asset, taking into account available collateral, to the expected net realisable value based on the Group's assessment of the potential losses on those identified loans and advances on a case-by-case basis. In addition, amounts had been set aside as a general provision for bad and doubtful debts. On adoption of HKAS 39 "Financial Instruments: Recognition and Measurement", impairment allowances are made on a financial asset when there is objective evidence of impairment as a result of the occurrence of certain loss events after the initial recognition of the financial asset, and these loss events will have impact on the estimated future

cashflows of the financial assets. Impairment loss is assessed individually for individually significant financial assets, and individually or collectively for financial assets that are not individually significant. Where objective evidence of impairment exists, the recoverable amount of an asset is calculated by discounting the future cash flows to the present value using the original effective interest rate taking into account the value of collateral, if any. The difference between the carrying amount and the recoverable amount of the asset is recognised as impairment.

(d) Summary of the effects of changes in the above accounting policies

(i) *Effect on opening balance of total equity at 1 January 2005 (as adjusted)*

	Retained profits HK\$'000	Capital and other reserves HK\$'000	Total HK\$'000
Effect of new policy (increase/(decrease))			
Prior period adjustments:			
<i>HKAS 17</i>			
Fixed assets	(3,612)	(132,636)	(136,248)
Deferred tax	—	23,212	23,212
	<u>(3,612)</u>	<u>(109,424)</u>	<u>(113,036)</u>
<i>HKAS 39</i>			
Available-for-sale securities	110,780	150,391	261,171
Fair value through profit and loss securities	(24,200)	—	(24,200)
Deposits and balances of banks and other financial institutions	6,376	—	6,376
Deposits from customers	6,614	—	6,614
Derivatives	(105,511)	—	(105,511)
Certificate of deposits issued	(18,546)	—	(18,546)
Issued debts	20,673	—	20,673
Impairment allowance - individual	47,690	—	47,690
Impairment allowance - collective	201,784	—	201,784
Funding swap	(3,414)	—	(3,414)
Current tax	1,329	—	1,329
Deferred tax	<u>(35,312)</u>	<u>(24,150)</u>	<u>(59,462)</u>
	208,263	126,241	334,504
Total effect as at 1 January 2005	<u>204,651</u>	<u>16,817</u>	<u>221,468</u>

(ii) *Estimated effect of changes in the accounting policies on consolidated income statement for the period ended 31 December 2005.*

HK\$'000

Effect of new policy (increase/(decrease))

HKFRS 3

Amortisation of goodwill **64,140**

HKAS 17

Depreciation **3,232**

Land lease prepayment amortisation **(1,324)**

1,908

HKAS 39

Available-for-sale securities **(56,968)**

Fair value through profit and loss securities **(27,796)**

Deposits and balances of banks and other financial institutions **(6,368)**

Deposits from customers **11,986**

Derivatives **(9,991)**

Certificate of deposits issued **79,858**

Issued debts **81,018**

Impairment allowance - individual **23,174**

Impairment allowance - collective **171,509**

Deferred tax **(30,014)**

Current tax **(16,610)**

219,798

Total effect for the period **285,846**

Effect on earnings per share:

- Basic **HK\$0.27**

- Diluted **HK\$0.27**

Notes

(1) **Other operating income**

	31 Dec 2005 <i>HK\$'000</i>	31 Dec 2004 <i>HK\$'000</i>
Fees and commission income	412,355	277,746
Less: fees and commission expense	<u>(9,789)</u>	<u>(6,427)</u>
Net fees and commission income	402,566	271,319
Net gain from foreign exchange activities	199,361	40,019
Net gain from trading securities	689	6,665
Net gain on disposal of fair value through profit and loss securities	21,340	—
Net realised loss from disposal of available-for-sale securities	(56,968)	—
Net loss from fair value through profit and loss securities	(27,796)	—
Net gain from fair value through profit and loss financial liabilities	166,494	—
Net loss on derivative financial instruments	(9,991)	—
Dividend income from investments in securities:		
- Listed investments	—	1,512
- Unlisted investments	3,228	5,893
Others	<u>18,065</u>	<u>45,019</u>
Total operating income	<u>716,988</u>	<u>370,427</u>

(2) **Operating expenses**

	31 Dec 2005 <i>HK\$'000</i>	31 Dec 2004 <i>HK\$'000</i>
Staff costs		
- Salary and other costs	462,895	363,302
- Redundancy payment	425	—
- Employee benefit expenses	<u>28,850</u>	<u>23,707</u>
	492,170	387,009
Premises and equipment expenses, excluding depreciation		
- Rental of premises	92,822	70,000
- Others	<u>71,209</u>	<u>55,390</u>
	164,031	125,390
Depreciation and amortisation expenses	68,248	89,855
Auditors' remuneration	3,611	3,213
Others	<u>162,165</u>	<u>138,842</u>
Total operating expenses	<u>890,225</u>	<u>744,309</u>

(3) **Taxation**

Hong Kong profits tax has been calculated at the rate of 17.5% (2004: 17.5%) on the estimated assessable profits arising in Hong Kong for the year. Taxation for overseas branches and subsidiaries is charged at the appropriate current rates of taxation ruling in the relevant countries.

(4) **Earnings per share**

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Group by the weighted average number of ordinary shares in issue during the year.

	31 Dec 2005	31 Dec 2004
Profit attributable to equity holders of the Group (thousands)	980,601	760,391
Weighted average number of ordinary shares in issue (thousands)	1,076,479	950,122
Basic earnings per share	<u>HK\$0.91</u>	<u>HK\$0.80</u>

Diluted earnings per share is calculated by adjusting weighted average number of shares outstanding to assume conversion of all dilute potential ordinary shares.

	31 Dec 2005	31 Dec 2004
Profit attributable to equity holders of the Group (thousands)	980,601	760,391
Weighted average number of ordinary shares and convertible preference shares (thousands)	1,076,479	1,003,163
Diluted earnings per share	<u>HK\$0.91</u>	<u>HK\$0.76</u>

(5) **Dividends**

	31 Dec 2005 <i>HK\$'000</i>	31 Dec 2004 <i>HK\$'000</i>
Interim dividend paid of HK\$0.18 (2004: HK\$0.14) per ordinary share	201,827	146,715
Proposed final dividend of HK\$0.35 (2004: HK\$0.31) per ordinary share	<u>392,441</u>	<u>324,869</u>
	<u>594,268</u>	<u>471,584</u>

(6) **Total loans and advances**

	31 Dec 2005 <i>HK\$'000</i>	31 Dec 2004 <i>HK\$'000</i>
Advances to customers	68,299,287	60,190,657
Advances to banks and other financial institutions	104,694	679,016
Trade bills	<u>2,001,557</u>	<u>1,869,961</u>
Gross loans and advances	<u>70,405,538</u>	<u>62,739,634</u>
Less: impairment allowance / provision for bad and doubtful debts		
- Individual	(267,418)	—
- Collective	(209,583)	—
- Specific provision	—	(332,544)
- General provision	—	(503,535)
Accrued interest	321,200	135,778
Less: provision for accrued interest	—	(93)
	<u>70,249,737</u>	<u>62,039,240</u>

Impaired loans / non-performing loans are analysed as follows

	31 Dec 2005 <i>HK\$'000</i>	31 Dec 2004 <i>HK\$'000</i>
Gross impaired loans (i)	661,076	—
Impairment allowances made in respect of such loans	267,418	—
As a percentage of total loans and advances	0.9%	—
Gross non-performing loans (ii)	—	764,877
Specific provisions made in respect of such loans	—	332,544
As a percentage of total loans and advances	—	1.3%
Amount of interest in suspense	—	69,176

(Note i) Impaired loans are defined as those loans having objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a “loss event”) and that loss event has an impact on the estimated future cash flows of the loans that can reliably estimated.

(Note ii) Non-performing loans are loans and advances to customers on which interest is being placed in suspense or on which interest accrual has ceased under the requirement of HKMA.

Upon adoption of HKAS 39, the concepts of suspended interest and non-performing loans are no longer relevant as interest continues to be recognised on the recoverable element of impaired loans.

There were no impaired advances to banks and other financial institutions as at 31 December 2005 nor advances on which interest is being placed in suspense or on which interest accrual has ceased as at 31 December 2004 nor were there any individual impairment allowances / specific provision made for them on these two respective dates.

(7) **Deposits from customers**

	31 Dec 2005 <i>HK\$'000</i>	31 Dec 2004 <i>HK\$'000</i>
Demand deposits and current accounts	2,992,817	3,415,738
Savings deposits	8,839,142	10,843,446
Time, call and notice deposits	<u>49,158,189</u>	<u>41,798,985</u>
	<u>60,990,148</u>	<u>56,058,169</u>

(8) **Loan capital**

Loan capital represents floating rate subordinated debt qualifying for inclusion as supplementary capital in accordance with the Third Schedule to the Banking Ordinance.

(9) **Reserves**

	31 Dec 2005	31 Dec 2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
Ordinary share premium	5,323,893	4,700,602
Convertible preference share premium	16,126	16,126
Bank premises revaluation reserve	26,956	110,638
Investment revaluation reserve	(79,996)	(62,377)
Exchange reserve	—	122
General reserve	234,017	219,200
Retained profits*	<u>2,106,340</u>	<u>1,461,177</u>
	<u>7,627,336</u>	<u>6,445,488</u>
Proposed dividends not provided for	<u>392,441</u>	<u>324,869</u>

* As at 31 December 2005, the Group has earmarked a “Regulatory Reserve” of HK\$352,028,000 from the retained profits. The regulatory reserve is maintained to satisfy the provisions of the Hong Kong Banking Ordinance for prudential supervision purpose. Movements in the reserve are made directly through retained earnings and in consultation with the Hong Kong Monetary Authority.

(10) **Off-balance sheet exposures**

(a) **Contingent liabilities and commitments**

The following is a summary of the contractual amounts of each significant class of contingent liabilities and commitments:

	31 Dec 2005	31 Dec 2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
Direct credit substitutes	1,429,763	1,448,759
Transaction-related contingencies	131,935	292,890
Trade-related contingencies	2,698,287	2,742,368
Other commitments	13,602,099	15,102,129
- With an original maturity of under 1 year or which are unconditionally cancellable	9,886,108	8,027,091
- With an original maturity of 1 year and over	<u>371,097</u>	<u>247,339</u>
Forward deposits placed	<u>28,119,289</u>	<u>27,860,576</u>

(b) Derivatives

The following is a summary of the amounts of each significant type of derivatives:

	31 Dec 2005 <i>HK\$'000</i>	31 Dec 2004 <i>HK\$'000</i>
Exchange rate contracts		
-Forwards	2,427,966	5,993,405
-Swaps	22,484,615	22,016,734
-Currency options purchased	1,644,858	2,266,297
-Currency options written	<u>1,665,317</u>	<u>2,272,254</u>
	<u>28,222,756</u>	<u>32,548,690</u>
Interest rate contracts		
-Interest rate swaps	29,125,145	35,220,123
-Interest rate options purchased	4,487,346	4,502,864
-Interest rate options written	<u>4,487,346</u>	<u>4,352,864</u>
	<u>38,099,837</u>	<u>44,075,851</u>
Other contracts		
-Equity options purchased	35,505	83,455
-Equity options written	<u>35,505</u>	<u>83,455</u>
	<u>71,010</u>	<u>166,910</u>
	<u>66,393,603</u>	<u>76,791,451</u>

The contractual or notional amounts of off-balance sheet instruments provide only an indication of the volume of business outstanding at the balance sheet date and bear little relation to the underlying risks of the exposures.

The aggregate replacement costs and credit risk weighted amounts of the above off-balance sheet exposures are:

	31 Dec 2005		31 Dec 2004	
	Replacement	Credit risk		
	cost	weighted	Replacement	Credit risk
	amount	amount	cost	amount
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Contingent liabilities and commitments	—	6,338,082	—	5,159,075
Exchange rate contracts	111,974	75,752	85,360	92,370
Interest rate contracts	537,187	149,296	320,926	95,144
Other contracts	<u>533</u>	<u>—</u>	<u>1,010</u>	<u>—</u>
	<u>649,694</u>	<u>6,563,130</u>	<u>407,296</u>	<u>5,346,589</u>

The replacement costs and credit risk weighted amounts of the off-balance sheet exposures do not take into account the effects of bilateral netting arrangements.

(11) **Segmental information - By class of business**

The Group comprises three business segments. Commercial and retail banking includes retail banking, commercial lending and trade finance. Treasury and markets activities include foreign exchange, money market and capital market activities. Corporate and investment banking activities mainly comprise corporate banking, the provision of debt capital markets and corporate finance and advisory services.

	Commercial and retail banking	Treasury and markets	Corporate and investment banking	Unallocated	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
For the year ended 31 December 2005					
Net interest income	881,432	181,973	222,265	30,327	1,315,997
Operating profit before impairment losses	597,684	372,260	284,956	(112,140)	1,142,760
Profit before taxation	<u>552,456</u>	<u>419,633</u>	<u>283,762</u>	<u>(47,998)</u>	<u>1,207,853</u>
For the year ended 31 December 2004					
Net interest income	778,637	386,609	162,145	(52,553)	1,274,838
Operating profit before provisions	534,599	376,458	175,020	(185,121)	900,956
Profit before taxation	<u>500,574</u>	<u>389,717</u>	<u>168,080</u>	<u>(121,692)</u>	<u>936,679</u>

(D) **Supplementary Financial Information (Unaudited)**

(1) **Loans and advances to customers**

(a) **Gross advances to customers - By industry sectors**

	31 Dec 2005	31 Dec 2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
Loans for use in Hong Kong		
Industrial, commercial and financial		
- Property development	4,202,630	2,694,880
- Property investment	10,554,322	8,347,495
- Financial concerns	3,709,737	4,022,477
- Stockbrokers	91,305	19,159
- Wholesale and retail trade	1,665,212	2,306,936
- Civil engineering works	830,649	665,885
- Manufacturing	6,195,831	6,354,464
- Transport and transport equipment	9,323,538	8,555,892
- Electricity, gas and telecommunications	1,140,181	1,378,126
- Hotels, boarding houses & catering	1,232,911	2,070,985
- Others	5,136,568	4,825,332
Individuals		
- Loans for the purchase of flats in the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	130,242	128,481
- Loans for the purchase of other residential properties	11,447,846	12,512,124
- Credit card advances	51,198	63,315
- Others	980,815	1,038,187
Trade finance	5,501,227	4,547,376
Loans for use outside Hong Kong	<u>6,105,075</u>	<u>659,543</u>
	<u>68,299,287</u>	<u>60,190,657</u>

(b) **Advances to customers - By geographical areas**

At 31 December 2005 and 31 December 2004, over 90% of the Group's advances to customers, impaired/ non-performing loans and overdue loans were made to counterparties located in Hong Kong. In determining this analysis, no account has been taken of transfer of risk with respect to claims guaranteed by a party in a country, which is different from that of the counterparty.

(2) **Overdue, Rescheduled and Repossessed Assets**

(a) **Overdue advances**

	Gross advances <i>HK\$'000</i>	% of advances to customers	Market value of collateral <i>HK\$'000</i>	Amount of secured balance <i>HK\$'000</i>	Amount of unsecured balance <i>HK\$'000</i>	Individual impairment allowance <i>HK\$'000</i>	Specific provision made <i>HK\$'000</i>
As at 31 December 2005							
Three to six months overdue	107,362	0.2%	52,429	27,500	79,862	42,894	—
Six months to one year overdue	96,417	0.1%	22,797	12,039	84,378	71,133	—
Over one year overdue	<u>136,180</u>	<u>0.2%</u>	<u>21,114</u>	<u>13,326</u>	<u>122,854</u>	<u>107,994</u>	<u>—</u>
	<u>339,959</u>	<u>0.5%</u>	<u>96,340</u>	<u>52,865</u>	<u>287,094</u>	<u>222,021</u>	<u>—</u>
As at 31 December 2004							
Three to six months overdue	35,488	0.1%	44,299	28,544	6,944	—	8,311
Six months to one year overdue	17,875	0.0%	21,287	14,308	3,567	—	4,133
Over one year overdue	<u>425,329</u>	<u>0.7%</u>	<u>126,326</u>	<u>109,407</u>	<u>315,922</u>	<u>—</u>	<u>253,572</u>
	<u>478,692</u>	<u>0.8%</u>	<u>191,912</u>	<u>152,259</u>	<u>326,433</u>	<u>—</u>	<u>266,016</u>

There were no advances to banks and other financial institutions which were overdue for over three months as at 31 December 2005 and 31 December 2004.

(b) **Other overdue assets**

	31 Dec 2005 <i>HK\$'000</i>	31 Dec 2004 <i>HK\$'000</i>
Accrued interest:		
- Three to six months overdue	105	299
- Six months to one year overdue	—	193
- Over one year overdue	<u>2</u>	<u>188</u>
	107	680
Rescheduled assets	<u>152</u>	<u>370</u>
	<u>259</u>	<u>1,050</u>

(c) **Rescheduled advances**

	31 Dec 2005 <i>HK\$'000</i>	31 Dec 2004 <i>HK\$'000</i>
Rescheduled advances (net of overdue loans over 3 months)	<u>68,749</u>	<u>115,945</u>
% of advances to customers	<u>0.1%</u>	<u>0.2%</u>

There were no advances to banks and other financial institutions which were rescheduled as at 31 December 2005 and 31 December 2004.

(d) **Repossessed assets**

At 31 December 2005, the estimated market value of the repossessed assets of the Group amounted to HK\$9,110,000 (2004: HK\$25,003,000).

(3) **Capital adequacy ratio and capital base**

(a) **Capital adequacy ratio**

	31 Dec 2005		31 Dec 2004	
	Unadjusted ratio	Adjusted ratio	Unadjusted ratio	Adjusted ratio
Capital adequacy ratio	<u>15.8%</u>	<u>15.7%</u>	<u>17.4%</u>	<u>17.4%</u>

The unadjusted capital adequacy ratio is computed on the consolidated basis which comprises the positions of the Bank and its subsidiaries as required by the Hong Kong Monetary Authority for its regulatory purposes, and is in accordance with the Third Schedule to the Banking Ordinance.

The adjusted capital adequacy ratio which takes into account market risks as at the balance sheet date is computed in accordance with the Guideline "Maintenance of Adequate Capital Against Market Risks" issued by the Hong Kong Monetary Authority and on the same consolidated basis as for unadjusted capital adequacy ratio.

The components of the total capital base after deductions include the following items:

	31 Dec 2005	31 Dec 2004
	HK\$'000	HK\$'000
Core capital:		
Paid up ordinary share capital	2,242,518	2,095,930
Ordinary share premium	5,323,893	4,700,602
Convertible preference share premium	16,126	16,126
Reserves	1,404,323	1,309,690
Deduct: Goodwill	(936,520)	(870,514)
	<u>8,050,340</u>	<u>7,251,834</u>
Eligible supplementary capital:		
Reserves on revaluation of land and interests in land	18,917	77,420
Reserves on revaluation of holding of securities not held for trading purpose	(67,821)	(2,390)
General provision for doubtful debts	—	503,535
Collective impairment allowances for impaired assets and regulatory reserve	561,611	—
Perpetual subordinated debts	1,930,612	1,932,904
Term subordinated debts	3,408,163	3,415,325
	<u>5,851,482</u>	<u>5,926,794</u>
Total capital base before deductions	13,901,822	13,178,628
Deductions from total capital base	(624,075)	(608,471)
Total capital base after deductions	<u>13,277,747</u>	<u>12,570,157</u>

(b) **Liquidity ratio**

	31 Dec 2005	31 Dec 2004
Average liquidity ratio for the year ended	<u>36.5%</u>	<u>37.8%</u>

The average liquidity ratio for the year is the simple average of each calendar month's average liquidity ratio, which is computed on the consolidated basis as required by the Hong Kong Monetary Authority for its regulatory purposes, and is in accordance with the Fourth Schedule to the Banking Ordinance.

(4) Currency concentration

The net position in foreign currencies are disclosed when each currency constitutes 10% or more of the total net position in all foreign currencies.

	US\$ <i>HK\$'000</i>	EUR <i>HK\$'000</i>	JPY <i>HK\$'000</i>	AUD <i>HK\$'000</i>	RMB <i>HK\$'000</i>	Total <i>HK\$'000</i>
As at 31 December 2005						
Spot assets	45,309,000	—	1,806,000	—	274,000	47,389,000
Spot liabilities	(54,237,000)	—	(227,000)	—	(193,000)	(54,657,000)
Forward purchases	17,817,000	—	420,000	—	1,485,000	19,722,000
Forward sales	(8,349,000)	—	(1,921,000)	—	(1,508,000)	(11,778,000)
Net option position	(16,000)	—	(1,000)	—	—	(17,000)
Net long position	<u>524,000</u>	<u>—</u>	<u>77,000</u>	<u>—</u>	<u>58,000</u>	<u>659,000</u>
As at 31 December 2004						
Spot assets	35,587,000	3,964,000	—	3,219,000	175,000	42,945,000
Spot liabilities	(51,425,000)	(1,852,000)	—	(3,178,000)	(116,000)	(56,571,000)
Forward purchases	27,449,000	482,000	—	131,000	1,296,000	29,358,000
Forward sales	(11,622,000)	(2,598,000)	—	(159,000)	(1,294,000)	(15,673,000)
Net long/(short) position	<u>(11,000)</u>	<u>(4,000)</u>	<u>—</u>	<u>13,000</u>	<u>61,000</u>	<u>59,000</u>

(5) Cross-border claims

The Group analyses cross-border claims by geographical areas. In determining this analysis, it has been taken into account the transfer of risk with respect to claims guaranteed by a party in a country different from that of the counterparty. Those areas which constitute 10% or more of the aggregate cross-border claims are as follows:

	Banks and other financial institutions <i>HK\$ million</i>	Public sector entities <i>HK\$ million</i>	Others <i>HK\$ million</i>	Total <i>HK\$ million</i>
As at 31 December 2005				
Asia Pacific excluding Hong Kong	10,659	483	8,569	19,711
North and South America	1,001	438	5,776	7,215
Middle East and Africa	609	—	792	1,401
Europe	<u>20,334</u>	<u>97</u>	<u>1,049</u>	<u>21,480</u>
As at 31 December 2004				
Asia Pacific excluding Hong Kong	12,045	569	4,702	17,316
North and South America	838	303	3,865	5,006
Europe	<u>9,698</u>	<u>2,146</u>	<u>1,181</u>	<u>13,025</u>

Results

The Board of Directors is pleased to announce that the Group has achieved a record breaking consolidated profit attributable to shareholders of HK\$981 million for the year ended 31 December 2005, representing an increase of 29% over the HK\$760 million achieved in 2004. Earnings per share was HK\$0.91 (2004: HK\$0.80). Return on average assets and return on average common equity were 0.9% and 11% respectively (2004: 0.9% and 10.3%).

Final Dividend

The Directors are pleased to declare a final dividend of HK\$0.35 per ordinary share for the year ended 31 December 2005 (2004: final dividend of HK\$0.31). The dividends will be paid in cash to shareholders whose names are on the Register of Members at the close of business on 20 April 2006. The payment will be made by cheque to be despatched to shareholders by ordinary mail on or about 16 May 2006.

Closure of Register of Members

The Register of Members of the Bank will be closed from Friday, 21 April 2006 to Thursday, 27 April 2006, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the dividend, all transfers documents, accompanied by the relevant share certificates must be lodged for registration with the Bank's Share Registrars, Tengis Limited at 26/F., Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong before 4:00 p.m. on Thursday, 20 April 2006.

Financial Review

The Group has achieved a consolidated profit attributable to shareholders of HK\$981 million for the year ended 31 December 2005, representing an increase of 29% over the HK\$760 million achieved in 2004.

Net interest income for the period ended December 2005 increased HK\$41 million or 3% to HK\$1,316 million. The improvement came from 12% loans growth was partially offset by the narrowing of interest margin from 1.46% to 1.19%, which was mainly caused by the adoption of HKAS 39, where the interest from funding swap was reclassified to other operating income. When excluding this effect, the interest margin was 1.32%.

Other operating income surged up 94% to HK\$717 million from HK\$370 million for the same period of 2004. The increase was mainly due to the reclassification of funding swap interest, the increase in fees and commission benefited from healthy loan growths, the full year effect of the acquisition of Belgian Bank as well as the increase in trading profits on investment in securities. The ratio of other operating income to the total operating income increased to 35%, compared with 23% for the same period of 2004.

Operating expenses increased HK\$201 million or 29% to HK\$890 million from HK\$689 million (excluding goodwill amortization HK\$55 million). The cost to income ratio from 41.9% to 43.8%, mainly due to the full year effect of the acquisition of the Belgian Bank and

computer enhancement expense. Nevertheless, the ratio has been slightly improved by 1% when compared with 44.9% recorded in the period ended June 2005. In 2006, the Group is confident to improve the ratio by enhancing cross selling, achieving branch rationalization and releasing cost synergy.

The consolidated impairment losses on loans and advances was HK\$6 million.

For the period ended December 2005, the group realized HK\$66 million gain from disposal of investment securities.

Financial Position

The consolidated total assets of the Group reached HK\$115,399 million as at 31 December 2005, representing an increase of HK\$16,055 million or 16%, compared with HK\$99,344 million as at 31 December 2004.

Consolidated total loans and advances increased by HK\$7,666 million or 12% to HK\$70,406 million as at 31 December 2005. New loans of HK\$1,059 million were attributed to the acquisition of Chinese Mercantile Bank, while the rest were mainly derived from Corporate and Hire Purchase loans.

Total customer deposits amounted to HK\$60,990 million, this represented an increase of 9%, as compared with HK\$56,058 million as at 31 December 2004.

Total certificate of deposits issued amounted to HK\$9,351 million, this represented an increase of 27%, compared with HK\$7,345 million as at 31 December 2004. These deposits can provide the bank with long-term and low cost funding.

Capital Adequacy Ratio and Liquidity Ratio

At the end of 2005, the adjusted consolidated capital adequacy ratio for the Group was 15.7% (2004: 17.4%). The Group maintained an adequate level of capital in 2005 and the average liquidity ratio amounted to 36.5% (2004: an average of 37.8%).

Impaired/ Non-performing loans

Consolidated impaired loans decreased by HK\$104 million to HK\$661 million as at 31 December 2005, compared with HK\$765 million as at 31 December 2004. The consolidated impaired loan ratio was reduced from 1.3% to 0.9%.

As at 31 December 2005, the cumulative loan impairment allowances (previously referred to as the “provisions for bad and doubtful debts”) aggregated to HK\$477 million (2004: HK\$836 million), which included HK\$267 million (2004: HK\$333 million) of individual impairment allowance and HK\$210 million (2004: HK\$503 million) of collective impairment. The drop of the impairment allowance was mainly due to the improvement of assets quality and the adoption of HKAS 39.

Overdue loans decreased from HK\$479 million as at 31 December 2004 to HK\$340 million as at 31 December 2005.

Business Review

Below is a summary of the performances of our individual business operations in 2005 and their outlook for 2006.

Retail Banking Business

2005 was a milestone of our retail banking development, we have successfully integrated with Belgian Bank on 10 Oct, which contribute to our massive growth of retail banking business bases and a double growth of our branch network to 42 branches. Moreover, the smooth integration and swiftly cooperation among our branches after the merger help to uplift our service capability, solidify our business bases and pave a strong platform for our future branch rationalization and retail business development.

To manage our expanded branch network, we implemented Branch Zone Management after merger by splitting our branch network into 6 zones: Hong Kong Central, Hong Kong East, Kowloon Central, Kowloon East, New Territories West and New Territories East. We appointed the branch managers of the core branch in each zone to be the zone managers to assist and coordinate the business development of the branches within their zones.

In respect of branch rationalisation, following the relocation of the Yaumatei Branch in September 2004, we have relocated and expanded the Tsimshatsui East Branch, Shamshuipo Branch and Sheung Wan Branch in 2005 to provide a more comfortable branch environment. By offering a wide range of banking facilities such as Deposit Box and Securities Investment Centre, it significantly improves the business development capability of the branch network. The business performance of the Tsimshatsui East Branch and the Shamshuipo Branch are better than expected.

Mortgage business in Hong Kong was volatile in 2005. While the HK property market was bullish in the first half year, the property prices and number of property transactions were decreased as a result of increasing interest rate. The HK property market was quiet in the end of 2005. It is expected that property price will remain steady in 2006. Like previous years, our bank will not lead the market in the price competition but will revise our pricing strategy from time to time with reference to competitors' offers so as to maintain our market share in the mortgage business. Similar to most small to medium sized banks, our capital cost is relatively high and lacks the price competency of those big leading banks. To maintain our competitive power in mortgage business, we will further improve our mortgage loan products and raise our customer service so as to suit customer needs.

We have opened up our mortgage business in Beijing after our hard work in 2005. Our loan portfolio in Mainland had reached HK\$500 million at the end of year 2005, representing an 84% increase as compared with that of 2004. In 2006, we expect the business in Shanghai will be more or less the same as 2005, whilst the business in Beijing is expected to grow steadily. Other than current developed locations in mainland, we are going to expand our mortgage business in 2006 to some other major cities, like Nanjing, Chengdu, Hangzhou, Suzhou and Kunshan.

Due to historical constraints, we were relatively less active in providing personal unsecured loan products. Since the gradual recovery of the HK economy in recent years and the establishment of personal positive credit data sharing, our peers are active in further developing personal credit business. As our integration project was a main focus, we did not expand this business area in 2005. In 2006, we shall develop more personal unsecured loan products to the market, such as unsecured overdraft and personal revolving loans etc., to increase, year by year, interest income generated from high yield loan products and to achieve a more reasonable and balanced retail lending portfolio.

Hire Purchase and Leasing Business has achieved a remarkable growth of 28.7% compared with 2004, it accounted for over 9% of the bank's total loan portfolio. In 2005, our Taxi / Public Light Bus loan grew significantly. Our market share is around 15% which is top 5 in the market. Past due ratio was well stood at below 0.15% during the year. It was well below the statistical figure of about 0.28% according to the HKMA. However, due to higher funding cost, profitability has largely trimmed down. In 2006, we not only aim at achieving a growth in our hire purchase and leasing business growth with a balance of risk and profit, but also aim at developing new products and cross-selling opportunities to work towards the bank in the leading position.

In 2005, our group continued to enhance the wealth management services and expanded the investment products range. Five batches of Certificate of Deposit and one batch of Structured Deposit were issued for customers' subscription. During the same period, we cooperated with different international financial institutions to offer 17 structured products that linked to stocks price or credit performance. We lined up with one renowned fund house in the first quarter and succeeding the business relationship between Belgian Bank and their fund houses in October. We totally offered more than 400 funds managed by 11 fund houses. We extended the business of Equity Linked Investment to participate in the distribution of Callable Equity-Linked Deposit offered by Bank Macquarie. Moreover, as part of the development of the wealth management business, we launched a promotion program for new deposit and unit trusts business in the second quarter and reduced the minimum deposit amount for High Yield Currency-Linked Deposit in June. Both of them aimed to make the investment products more attractive and competitive in the retail market and to extend the products to more potential customers. We cooperated with the Treasury Markets Forum of Hong Kong to offer the RMB Non-Deliverable Forward Contract for retail customers in November. Customer can have more options for RMB investment. Further to the People's Bank of China has agreed to expand the RMB business, we have launched deposit accounts for "designated merchants" as well as increased the transaction limit for exchange of RMB cash and remittance of RMB to the mainland for personal customers in December.

New insurance products including Savings Plan 8 Plus, Rainbow Age Whole Life Plan and Peaceful Age Whole Life Plan were launched to provide customers with life protection as well as savings plan. Meanwhile, the Accidental Emergency Medical & Hospitalization Insurance was launched to provide customers with medical treatment protection via network of authorized hospitals on the mainland.

In 2005, we have proactively expanded our e-channel services so as to offer more convenient services to our customers. Apart from the launch of Internet Securities Service, enhanced Personal Internet Banking and Commercial Internet Banking, we have also revamped our website to project a new image for our bank and facilitate our customer to search our information via internet.

During 2005, we also acted as the receiving bank of the following Chinese enterprises, “Air China”, “China Shenhua Energy”, “Bank of Communications”, “China Construction Bank” and “Xiamen Port” in their initial public offering (IPO) activities.

Treasury and Markets

Despite intense competition among financial institutions and the volatile market environment, Treasury and Markets (“T&M”) was able to keep its profitability up in 2005.

This year, T&M put strong emphasis on marketing and sales of financial products. We successfully strengthened relationships with Government-linked institutions, large listed companies and SMEs in funding and structured product business, especially after the merger with Belgian Bank. As a result, revenues from marketing sales and intermediary service increased remarkably.

T&M has set up Chinese Yuan Non-Deliverable Forward (“NDF”) and currency options trading functions in 2005. This enabled the Bank to become one of the first bank in Hong Kong to introduce the “Retail CNY NDF” service in November. Dealers were able to quote highly competitive prices for customer transactions. Moreover, this is a new stream of revenue from customer flow trading.

The asset and liability management (“ALM”) of the Bank is one of the important roles of our treasury operation. The ALM team continued to deliver outstanding performance. With accurate prediction of market movements and high standard of ALM techniques, remarkable revenue was produced. The team also put strong effort to maintain adequate liquidity and provide business units with sufficient funding for their business.

The Bank issued a total of HK\$25 billion certificates of deposits, denominated in various currencies. These deposits provided the Bank with long-term and low-cost funding. Out of the total, HK\$220 million comprised of 5 issues of structured certificates of deposits, which provided customers with more investment choices and enhanced their hedging and liability management capabilities.

The investment environment was unsettled in 2005. The rise in Fed Fund Rate, from 2.25% to 4.25%, translated into a higher funding cost of the Bank. The flattening of the yield curve also lowered the return of investment. Nevertheless, T&M achieved satisfactory results from investment using an active management strategy, which was in line with the market movement.

For bond origination, the Bank acted as a Co-Lead Manager in the US\$300 million Eurobond issuance for China Overseas Development in July and as the Lead Manager in the HK\$100 million floating rate certificate of deposit issued by Asia Commercial Bank in August.

The new accounting standards HKAS 32 and HKAS 39 have been adopted in 2005. All derivative financial instrument are marked to market. The change in fair value of the derivative financial instruments is recorded in the profit and loss account immediately.

The Group made every effort to keep its risk management and control capability in pace with business development. The first stage of the straight-through processing project, which aimed to enhance control and reduce manual errors, has been completed. Policies and guidelines were also revised for better risk and operational control.

The investment and business environment in 2006 would be challenging. The rising commodity prices and the less certain US monetary stance could tilt the investment landscape with little forewarning. Working under the guidance of the Board and its approved framework, the team of professionals in T&M will continue to exercise vigilance in this difficult environment and to manage the various business lines prudently.

Commercial Banking

2005 is another fruitful year for Commercial Banking. Benefiting from continued global economic recovery and blooming local market, customer advances and deposits registered strong growth at 30% and 23% respectively. Our professional relationship management team, stable lending policy and strong presence in China of the Bank's ultimate holding company - The Industrial and Commercial Bank of China (ICBC) - are also the major internal back-up for the success.

The Group continued to be customer and solution-driven to serve our target customers, of which Small and Medium Enterprises (SME) as well as Mid Caps are our focuses. New Services such as "New Commercial Internet Banking" empowered us with more capabilities to meet customer daily banking needs and "Factoring" to facilitate international trade on open account basis, which have contributed significantly to our business growth, particularly in Trade Finance which has surged by more than 33%. Thanks to good cross-border co-operations, commercial loans to Mainland China and Macau enjoyed encouraging increase as a result.

In spite of softening effect in the market brought about by hiking interest rates and high oil price, we still hold unabated optimism for the year of 2006. After the merger with Belgian Bank in October 2005, we start to benefit from these synergies. We will continue to go for higher return by putting forth skilled products like Trade Finance, Factoring and Equipment Finance as our focused sales. Apart from enhancing profitability, customer satisfaction remains to be our prime commitment.

Corporate Banking

Corporate and Investment Banking had an outstanding year despite strong competition and depressing yield on loans. It contributed HK\$284 million before tax to shareholders, an increase of 69% as compared to that of 2004.

The encouraging performance reflected the Bank's increasing focus towards valued added transactions and expanded geographic coverage. The success of these strategic moves also gained the Bank various recognition and awards.

We made significant progress in Mergers and Acquisitions Finance, Aviation Finance, Infrastructure Finance and China Properties Finance. We won the reward "Best Asia Pacific syndicated loan in 2005" by arranging US\$600 million financing for the largest cross boarder commercial acquisition for a PRC company, Lenovo Group Limited, in history. We also won the Bank's first financial advisory mandate relating to China property acquisition. Besides, we have arranged US\$39.2 million syndicated aircraft financing for Dragonair and HK\$680 million finance for Shenzhen Expressway. ICBC (Asia) is proud to get involved in these significant and successful deals of the year.

We successfully expanded our geographic coverage to high quality customers in the Asia Pacific and Middle Eastern regions. We won the Bank's first syndicated loan mandate in India, by arranging a US\$125 million syndicated term loan facility for ICICI Bank, the second largest commercial bank in India. We also won the Bank's first Mandated Lead Arranger role in Dubai and the Middle East by arranging US\$1.6 billion global syndicated loan facility for the acquisition of the global ports of CSX World Terminal by Dubai Port Authority.

Our strong position in the Hong Kong Corporate market remains intact. For example, during the year we were entrusted by CITIC Pacific, Great Eagle, Hang Lung, Hopewell, Hutchison Telecom, Kerry Holdings, Kingboard, Sun Hung Kai Properties, Sino Land, Tyson, U-Right, Wing Tai, and Yue Xiu to arrange syndicated facilities. We are proud to have developed a strong and mutually beneficial partnership with these important members of Hong Kong's business community.

During the year, we have solicited the Initial Public Offering (IPO) Receiving Bank businesses from our client China Shenhua Energy Limited and Ju Teng International Holdings Limited's listing. Our client China Netcom and Air China has now become one of the Bank's drivers for individual and brokerage customers.

Corporate and Investment Banking is pleased to have a successful year in 2005. Going forward, we will continue to build our expertise and expand our market coverage, with an aim to maximize the Bank's resources, and eventually to further enhance our return to shareholders.

Financial Institutions

Backed by ICBC's nationwide branch network in Mainland China, Financial Institutions Department had another successful year in 2005. In Trade Finance, though the portfolio remained stable due to changes in overall market environment, there was an increase of revenue by 22% in this financial year, and all transactions matured were settled in due course. In Cash Management, we continued to develop and to provide tailor-made remittance products to meet financial institutions' as well as their customers' needs. We had also

successfully extended our IPO Receiving Bank Service to this sector. Financial Institutions Department will focus on these three types of business in 2006 and, with QDII soon to be in place, we are prepared to provide custodian services to financial institutions of mainland China.

Credit Card Business

In 2005, to prepare for the merging of the credit card business with ICBC HK Branch, Belgian Bank credit cards were all rebranded under “ICBC Credit Cards” and full membership for VISA, MasterCard and CUP were approved. The Bank aims to grow the credit card business in line with the strategy of expanded products and services as an important player in the Hong Kong market.

With the continuous improvement of the local economy, in 2005, in the midst of the Bank’s integration, through continuous effort of the team, our card base recorded a growth of 14%, where the co-branded Caritas-HK Master Card recorded a growth rate of 33%. The total annual spending also increased by 3% as compared to 2004. The credit quality of the overall card portfolio continued to improve. The charge-off ratio and delinquency ratio improved by 2.63% and 1.46% respectively.

A series of marketing initiatives were launched to promote the card usage and acquisition. A new affinity card with The Hong Kong Association of Accounting Technicians Limited (HKAAT), served also as HKAAT membership card, was launched supporting the acquisition of young professionals. We have also offered various loyalty program with attractive year-round merchant offers, seasonal merchant discounts and lucky draws.

In 2006, our Group aim to ride on the larger scale card base after merging to focus on the deepening of customer relationship. We will launch all product cross-selling and card usage programs and promotions with focus on the unique dual currency card plus Xplore VISA and various affinity cards. With further system upgrades, we plan to introduce new card products, product features and tier pricing to keep up our competitiveness. We also plan to launch spending stimulation programs on each spending season with regular merchant offers. We will fully utilize our extended branch network and all business lines including Corporate and Commercial Banking, to acquire new cardholders from individuals, companies and large corporates.

Chinese Mercantile Bank

The acquisition of Chinese Mercantile Bank (“CMB”) was completed on 12 August 2005.

CMB had rebuilt its management structure by setting up various departments, such as Marketing Department, Credit Risk Management Department, Treasury & Finance Management Department, Operation Department, Information Technology Department and Compliance Department. They had also renewed some of their operating procedures, including authorisation management, credit risk management, settlement management, as well as the Articles of Association.

CMB had strengthened the relationship with the government authorities and reported the acquisition as soon as it had accomplished the requirements to the People's Bank of China and China Banking Regulatory Commission. Application for operating RMB business has already been submitted to China Banking Regulatory Commission for approval.

CMB were awarded RMB 5,000,000 by Shenzhen Local Government for our future business development.

By the end of 2005, advances to customer increased from HK\$775 million to HK\$1,059 million, profit after tax was HK\$2 million.

For 2006, CMB plans to increase the loan portfolio, raise the non-interest income to total operating income ratio to 11.4% from 7.18%, and increase the deposits from corporate, individuals and financial institutions. In order to prepare for its RMB business, a committee had been established, consisting of the Chief Operation Officer, General Manager of Information and Technology Department and Compliance Manager. The committee will mainly be working on RMB business training, operation system and RMB business regulations.

Human Resources

On 10 October 2005, Belgian Bank was legally merged into the Bank. With this successful integration, the number of staff of the Bank was increased to 1,342 and the number of branches was increased to 42 and scattered all over the city.

The management believes that superior staff members are our greatest assets. As a result, the Group aims at attracting talents and retaining outstanding employees. We also implemented an effective incentive system that is in line with the Bank's profitability, the department's performance and the performance of individuals, so as to encourage our staff to dedicate to the Bank's objectives.

The Group highly values the training and development of our staff. To grow and retain talents, we organize various training programmes to enhance the skills and widen the work domain to enrich the knowledge of our staff. The Group also gives qualification awards to staff to encourage continuous development in academic and professional attainment.

In addition, to ensure the smooth integration with Belgian Bank, the Group, through a highly transparent communication mechanism, was committed to boost the morale of the staff, harmonize the value and philosophy of the staff and establish a new corporate culture.

To foster a sense of belonging and team spirit among staff members, the Group issues Staff Newsletters and has the Recreation Committee to organize and promote various activities for the staff, including staff picnics, festive buffet gatherings, interest classes, film shows, sports events like golf day, bowling, badminton, football and basketball matches. In February 2006, our staff members enjoyed a delightful night on the Group's Annual Dinner with various amusements and lucky draw.

Corporate Social Responsibility

As one of the founding members, the Bank received the “Caring Company” Award from The Hong Kong Council of Social Service in the recognition of achievements on various social services. The Bank continues to take pride in the assumption of chairmanship of the Caritas Fund Raising Committee. The Caring Company logo recognized our effort to “build a caring community spirit through cultivating corporate citizenship and strategic partnership between the business and social service sectors”.

This year, the Bank and staff volunteers were again committed to support Caritas-HK by soliciting donations from its customers in various fund raising activities including: cash donation, donation box at branches, TV charity show, sales of Caritas raffle tickets and the 7 bazaars. Our Bank was honored to be appointed again as the chairman of Caritas Fund Raising Campaign for the year 2005/06 — A well demonstrated of partnership in social service.

In May 2005, we organized a charity dance performance, entitled “Classical Retrospective”, to benefit Caritas-HK and Hong Kong Dance Company at the Grand Theatre of Hong Kong Cultural Centre. We received heart-felt support from our business partners and customers and raised around HK\$700,000 for both organizations.

In July, we held our second China study tour, entitled “The Development of Finance and Culture — Shanghai and Shanzi”, which was concluded successfully. The tour was fully supported by ICBC, Shanghai Branch and Shanzi Branch. 60 participants, including 45 secondary students from over 20 schools, teachers, social workers and bank staff joined the tour. Our Bank and business partners sponsored 37 students are recommended by their schools and respective social workers. The tour provided an invaluable opportunity to gain insight into China’s financial development.

In October, staff of all levels actively involved in the sales of raffle tickets and bazaars of Caritas-HK and solicitation of donations and gifts from business partners and customers. Over HK\$600,000 was raised for Caritas-HK in this single event.

In 2006, our Bank will continue to provide support in community service to demonstrate the commitment to and support for the local community, to help the less privileged and work towards the harmonious development of our society.

Compliance with the Guideline on “Financial Disclosure by Locally Incorporated Authorized Institutions”

The Bank has fully complied with the disclosure requirements as set out in the Supervisory Policy Manual entitled “Financial Disclosure by Locally Incorporated Authorized Institutions” issued by the Hong Kong Monetary Authority on 8 November 2002.

Corporate Governance

In the opinion of the Directors, the Group has complied with all the Code Provisions set out in the Appendix 14 Code on Corporate Governance Practices of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited throughout the year, except for the code provisions on the internal controls, which are to be implemented for the accounting periods commencing on or after 1 July 2005 and the deviations from certain code provisions as listed below:

1. Code Provision A.4.1: non-executive directors should be appointed for a specific term;
2. Code Provision A.4.2: all directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their appointment and every director should be subject to retirement by rotation at least once every three years;
3. Code Provision E.1.2: The chairman of the board should attend the annual general meeting; and
4. Code Provision E.2.1: The chairman of a meeting should ensure disclosure in the issuer's circulars to shareholders of the procedures for and the rights of shareholders to demand a poll in compliance with the requirements about voting by poll contained in rule 13.39(4).

Details of the considered reasons for the above deviations and/or steps taken or proposed to be taken by the Bank in order to comply with the relevant code provisions will be set out in the Corporate Governance Report of the Bank's Annual Report for the year ended 31 December 2005.

Model Code for Securities Transactions by Directors

The Bank has adopted the model code for securities transactions by directors set out in Appendix 10 of the Listing Rules as its own code of conduct regarding Directors' securities transactions. The Bank confirms that, having made specific enquiry of all Directors, the Directors have complied with the required standard set out in the Model Code for the year ended 31 December 2005.

Purchase, Sale or Redemption of the Bank's Listed Securities

During the year, the Bank has not redeemed any of its listed securities. Neither the Bank nor any of its subsidiaries has purchased or sold any of the Bank's listed securities.

Legal Merger of Hong Kong Operations

The Directors are also pleased to announce the merger of the Bank and Belgian Bank, Hong Kong Branch was completed on 10 October 2005. On the same day, the banking license of Belgian Bank, Hong Kong Branch was voluntarily revoked.

On behalf of the Board
Industrial and Commercial Bank of China (Asia) Limited
Dr. Jiang Jianqing
Chairman

Hong Kong, 21 March 2006

As at the date of this announcement, the Board of Directors comprises Mr. Zhu Qi, Mr. Wong Yuen Fai and Mr. Zhang Yi as executive directors, Dr. Jiang Jianqing, Ms. Wang Lili, Mr. Chen Aiping and Mr. Damis Jacobus Ziengs as non-executive directors and Professor Wong Yue Chim, Richard, SBS, JP, Mr. Tsui Yiu Wa, Alec and Mr. Yuen Kam Ho, George as independent non-executive directors.