



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)

ANNOUNCEMENT OF 2003 ANNUAL 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 2003 as follows:

AUDITED ANNUAL ACCOUNTS

The accounting policies and basis of preparation of the audited annual results of the Group are consistent with those adopted in the Group's audited 2002 annual accounts except for the adoption of the revised SSAP 12 "Income Taxes" that prescribes the accounting treatment for income taxes to account for the current and future tax consequences of the future recovery and settlement of the carrying amount of assets and liabilities in the Group's balance sheet and transactions during the current period that should be recognised in the Group's financial statements. The principal impact of the revision of this SSAP on this announcement is presented in notes 6 and 10, which are now more extensive than previously required and include a reconciliation between the accounting profit and the tax expense for the year.

(A) Consolidated Profit and Loss Account

	Note	Year Ended		Change %
		31 Dec 2003 HK\$'000	31 Dec 2002 HK\$'000	
Interest income		1,617,989	1,472,029	
Interest expense		(794,842)	(782,840)	
Net interest income		823,147	689,189	19%
Other operating income	(4)	321,340	390,732	-18%
Operating income		1,144,487	1,079,921	6%
Operating expenses	(5)	(314,055)	(307,260)	2%
Amortisation of goodwill		(35,498)	(35,498)	
Operating profit before provisions		794,934	737,163	8%
Charge for bad and doubtful debts – specific	(3)	(61,426)	(123,561)	-50%
Charge for bad and doubtful debts – general		(67,810)	(57,951)	17%
Operating profit after provisions	(1)	665,698	555,651	20%
Net gain/(loss) on disposal of fixed assets		1,411	(4,885)	
Impairment losses on bank premises		(11,858)	–	
Net gain on disposal and redemption of held-to-maturity securities and non-trading securities		16,164	28,269	
Write back of provisions on held-to-maturity securities and non-trading securities		–	1,252	
Write back of provisions on property available for sale		5,369	–	
Share of net results of associated companies		(31,621)	(9,458)	
Profit before taxation		645,163	570,829	13%
Taxation	(6)	–	–	
Bank and subsidiaries		–	–	
– Hong Kong		(123,033)	(96,194)	
– Overseas		–	–	
Associates		–	–	
Profit attributable to shareholders		522,130	474,635	10%
Dividends	(7)	346,573	289,307	

Per share:				
• Basic earnings	(8)			
– reported basis		HKS0.71	HKS0.69	3%
– cash basis		HKS0.77	HKS0.75	3%
• Diluted earnings	(8)			
– reported basis		HKS0.63	HKS0.60	5%
– cash basis		HKS0.67	HKS0.65	3%
• Dividends	(7)			
– interim		HKS0.12	HKS0.10	20%
– final		HKS0.26	HKS0.25	4%
Total		<u>HKS0.38</u>	<u>HKS0.35</u>	9%

(B) Consolidated Balance Sheet

	Note	31 Dec 2003 HK\$'000	(Restated) 31 Dec 2002 HK\$'000	Change %
Assets				
Cash and short-term funds		13,551,535	15,775,840	-14%
Placements with banks and other financial institutions				
– maturing between one and twelve months		4,718,871	1,033,844	356%
Trade bills	(9)	789,998	108,280	630%
Certificates of deposit held		7,554,710	1,931,179	291%
Trading securities			38,525	
Held-to-maturity securities		4,675,928	6,519,256	-28%
Advances and other accounts	(9)	41,465,577	33,266,929	25%
Non-trading securities		1,344,174	2,023,640	-34%
Deferred tax assets	(10)	8,026	–	
Investment in associates		161,467	193,306	-16%
Goodwill		621,212	656,710	-5%
Fixed assets		428,126	714,480	-40%
		<u>75,319,624</u>	<u>62,261,989</u>	21%
Liabilities				
Deposits and balances of banks and other financial institutions		22,251,182	12,334,120	80%
Deposits from customers	(11)	35,392,938	38,751,030	-9%
Certificates of deposit issued		6,913,873	1,429,002	384%
Deferred tax liabilities	(10)	–	50,722	
Current taxation		14,075	61,123	-77%
Other accounts and provisions		651,947	474,348	37%
		<u>65,224,015</u>	<u>53,100,345</u>	23%
Capital Resources				
Loan capital	(12)	4,178,304	3,254,730	28%
Ordinary share capital of HK\$2 each		1,248,749	1,248,749	0%
Convertible non-cumulative preference share capital of HK\$5 each		1,011,096	1,011,096	0%
Reserves	(13)	3,657,460	3,647,069	0%
		<u>10,095,609</u>	<u>9,161,644</u>	10%
		<u>75,319,624</u>	<u>62,261,989</u>	21%

Notes:

(1) Analysis of operating results

	31 Dec 2003 HK\$'000	31 Dec 2002 HK\$'000
Consolidated except for UBCBM	687,191	564,189
UB China Business Management Co. Ltd. ("UBCBM") (Note 2)	(21,493)	(8,538)
	<u>665,698</u>	<u>555,651</u>

(2) Highlights of the operating results of UBCBM which have been consolidated above are as follows:

	31 Dec 2003 HK\$'000	31 Dec 2002 HK\$'000
Interest income	6,682	12,476
Interest expenses	–	–
Net interest income	6,682	12,476
Other operating income	2,591	890
Operating income	9,273	13,366
Operating expenses	(653)	(156)
Operating profit before provisions	8,620	13,210
Charge for bad and doubtful debts – specific (Note 3)	(31,545)	(22,617)
Write back of provisions for bad and doubtful debts – general	1,432	869
Operating loss	<u>(21,493)</u>	<u>(8,538)</u>

(3) Analysis of charge for bad and doubtful debts – specific

	31 Dec 2003 HK\$'000	31 Dec 2002 HK\$'000
UBCBM loans (note 2)	31,545	22,617
Non-UBCBM loans	29,881	100,944
	<u>61,426</u>	<u>123,561</u>
Additional provisions	99,032	195,854
Less: Provisions written back	(37,606)	(72,293)
	<u>61,426</u>	<u>123,561</u>

(4) Other operating income

	31 Dec 2003 HK\$'000	31 Dec 2002 HK\$'000
Fees and commission income	264,833	331,631
Less: fees and commission expense	(2,620)	(2,363)
Net fees and commission income	262,213	329,268
Net gain from foreign exchange activities	9,787	8,233
Net gain from trading securities	1,353	2,271
Dividend income from investments in securities:		
– Listed investments	3,401	6,299
– Unlisted investments	4,451	1,678
Others	40,135	42,983
	<u>321,340</u>	<u>390,732</u>

(5) Operating expenses

Including depreciation on fixed assets for the year ended 31 December 2003 amounting HK\$20,712,000 (2002: HK\$25,479,000).

(6) Taxation

Hong Kong Profits Tax has been calculated at the rate of 17.5% (2002: 16%) on the estimated assessable profits arising in Hong Kong for the year. The amount of taxation charged/(credited) to the consolidated profit and loss account represents:

	31 Dec 2003 HK\$'000	(Restated) 31 Dec 2002 HK\$'000
Current taxation:		
– Hong Kong profits tax	137,140	88,376
– Under provisions in prior years	585	24
Deferred taxation relating to the origination and reversal of temporary differences	(12,818)	7,794
Deferred taxation resulting from an increase in tax rate	(1,874)	–
	<u>123,033</u>	<u>96,194</u>

The taxation on the Group's profit before taxation differs from the theoretical amount that would arise using the taxation rate in Hong Kong as follows:

	31 Dec 2003 HK\$'000	31 Dec 2002 HK\$'000
Profit before taxation	645,163	570,829
Calculated at a taxation rate of 17.5% (2002: 16%)	112,904	91,333
Income not subject to taxation	(2,359)	(2,262)
Expenses not deductible for taxation purposes	13,777	7,099
Decrease in opening net deferred tax liabilities resulting from an increase in tax rate	(1,874)	–
Under provisions in prior periods	585	24
Taxation charge	<u>123,033</u>	<u>96,194</u>

(7) Dividends

	31 Dec 2003 HK\$'000	31 Dec 2002 HK\$'000
Interim dividend, HK\$0.12 (2002: HK\$0.10) per share, paid to:		
– Convertible preference shareholders	24,266	20,222
– Ordinary shareholders	74,925	62,437
Proposed final dividend, HK\$0.26 (2002: HK\$0.25) per share, to be paid to:		
– Convertible preference shareholders	52,577	50,555
– Ordinary shareholders	194,805	156,093
	<u>346,573</u>	<u>289,307</u>

(8) Earnings per share

The calculation of basic earnings per share is based on the profit attributable to ordinary shareholders (net of dividends paid and payable on convertible preference shares) for the year of HK\$445,287,000 (2002: HK\$403,858,000) and on 624,374,304 (2002: 588,681,975) shares, being the weighted average number of ordinary shares in issue during the year.

The calculation of diluted earnings per share is based on the profit attributable to shareholders of HK\$522,130,000 (2002: HK\$474,635,000) and on 826,593,522 (2002: 790,901,193) shares, being the weighted average number of ordinary shares and convertible preference shares in issue during the year.

The calculation of earnings per share on cash basis is based on the respective earnings per share adjusted for goodwill amortised for the year. This supplementary information is considered a useful additional indication of performance.

(9) Total advances and other accounts

	31 Dec 2003			31 Dec 2002
	Consolidated except for UBCBM HK\$'000	UBCBM HK\$'000	Consolidated HK\$'000	Consolidated HK\$'000
Advances to customers	40,122,059	253,378	40,375,437	32,409,985
Advances to banks and other financial institutions	637,502	–	637,502	354,994
Trade bills	797,978	–	797,978	109,374
Provisions for bad and doubtful debts:				
– Specific	(145,295)	(163,164)	(308,459)	(270,127)
– General	(342,064)	(227)	(342,291)	(274,481)
	<u>41,070,180</u>	<u>89,987</u>	<u>41,160,167</u>	<u>32,329,745</u>
Accrued interest and other accounts	1,051,656	44,377	1,096,033	1,046,906
Provisions for accrued interest	(625)	–	(625)	(1,442)
	<u>42,121,211</u>	<u>134,364</u>	<u>42,255,575</u>	<u>33,375,209</u>

(10) Deferred tax assets and deferred tax liabilities

Deferred taxation are calculated in full on temporary differences under the liability method using a principal taxation rate of 17.5% (2002: 16%). The movement in deferred tax assets/(liabilities) account as follows:

	31 Dec 2003 HK\$'000	31 Dec 2002 HK\$'000
At 1st January, as previously stated	(6,289)	(6,289)
Effect of adopting of SSAP 12	(44,433)	(54,515)
At 1st January, as restated	(50,722)	(60,804)
Deferred taxation credited/(charged) to profit and loss account	14,692	(7,794)
Deferred taxation credited to equity	44,056	17,876
At 31st December	<u>8,026</u>	<u>(50,722)</u>

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The following amounts, determining after appropriate offsetting, are shown in the balance sheet.

	31 Dec 2003 HK\$'000	31 Dec 2002 HK\$'000
Deferred tax assets	43,698	29,103
Deferred tax liabilities	(35,672)	(79,825)
	<u>8,026</u>	<u>(50,722)</u>

The amounts shown in the balance sheet include the following:

	31 Dec 2003 HK\$'000	31 Dec 2002 HK\$'000
Deferred tax assets to be recovered after more than 12 months	43,698	29,103
Deferred tax liabilities to be settled after more than 12 months	(33,953)	(76,963)

(11) Deposits from customers

	31 Dec 2003 HK\$'000	31 Dec 2002 HK\$'000
Demand deposits and current accounts	1,052,903	689,385
Savings deposits	4,674,028	2,150,712
Time, call and notice deposits	29,666,007	35,910,933
	<u>35,392,938</u>	<u>38,751,030</u>

(12) 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.

(13) Reserves

	31 Dec 2003 HK\$'000	(Restated) 31 Dec 2002 HK\$'000
Ordinary share premium	1,786,686	1,786,686
Convertible preference share premium	505,496	505,496
Bank premises revaluation reserve	118,816	343,149
Investment revaluation reserve	6,080	27,794
Exchange reserve	(239)	(21)
General reserve	219,200	219,200
Retained profits	1,021,421	764,765
	<u>3,657,460</u>	<u>3,647,069</u>
Proposed dividends not provided for	<u>247,382</u>	<u>206,648</u>

(C) Supplementary Information**(1) Advances to customers – By industry sectors**

	31 Dec 2003			31 Dec 2002
	Consolidated except for UBCBM HK\$'000	UBCBM HK\$'000	Consolidated HK\$'000	Consolidated HK\$'000
Loans for use in Hong Kong				
Industrial, commercial and financial				
– Property development	2,603,588	–	2,603,588	1,549,711
– Property investment	4,530,143	35,546	4,565,689	4,738,696
– Financial concerns	4,703,357	–	4,703,357	2,383,681
– Stockbrokers	28,765	–	28,765	30,636
– Wholesale and retail trade	1,001,553	156,411	1,157,964	1,539,200
– Civil engineering works	953,962	–	953,962	766,555
– Manufacturing	3,312,613	–	3,312,613	1,452,387
– Transport and transport equipment	6,058,827	–	6,058,827	4,832,851
– Electricity, gas and telecommunications	1,305,959	–	1,305,959	1,518,066
– Hotels, boarding houses & catering	1,066,807	–	1,066,807	1,138,859
– Others	4,059,757	21,273	4,081,030	3,358,114
Individuals				
– Loans for the purchase of flats in the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	91,024	–	91,024	118,356
– Loans for the purchase of other residential properties	7,884,687	7,159	7,891,846	6,337,275
– Others	597,389	–	597,389	697,311
Trade finance	1,533,940	32,989	1,566,929	1,058,464
Loans for use outside Hong Kong	389,688	–	389,688	889,823
	40,122,059	253,378	40,375,437	32,409,985

(2) Advances to customers – By geographical areas

At 31 December 2003 and 31 December 2002, over 90% of the Group's advances to customers, 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.

(3) Non-performing loans

	Gross advances HK\$'000	% of advances to customers	Market value of collateral HK\$'000	Specific provision made HK\$'000	Interest suspended HK\$'000
As at 31 December 2003					
Consolidated except for UBCBM	436,292	1.1%	334,202	145,242	38,695
UBCBM	232,105	0.6%	62,116	163,164	78,984
Consolidated	668,397	1.7%	396,318	308,406	117,679
As at 31 December 2002					
Consolidated	738,932	2.3%	488,654	267,275	157,980

Non-performing loans are advances on which interest is being placed in suspense or on which interest accrual has ceased.

There were no advances to banks and other financial institutions on which interest is being placed in suspense or on which interest accrual has ceased as at 31 December 2003 and 31 December 2002 nor where there any specific provision made for them on these two days.

(4) Overdue advances

	Gross advances HK\$'000	% of advances to customers	Market value of collateral HK\$'000	Amount of secured balance HK\$'000	Amount of unsecured balance HK\$'000	Specific provision made HK\$'000
As at 31 December 2003						
Consolidated except for UBCBM						
Three to six months overdue	38,943	0.1%	44,929	35,556	3,387	3,574
Six months to one year overdue	50,991	0.1%	39,426	35,886	15,105	17,082
Over one year overdue	232,578	0.6%	151,583	120,590	111,988	103,124
	322,512	0.8%	235,938	192,032	130,480	123,780
UBCBM						
Six months to one year overdue	79,555	0.2%	–	–	79,555	59,666
Over one year overdue	109,845	0.3%	39,550	31,225	78,620	74,566
	189,400	0.5%	39,550	31,225	158,175	134,232
Consolidated						
Three to six months overdue	38,943	0.1%	44,929	35,556	3,387	3,574
Six months to one year overdue	130,546	0.3%	39,426	35,886	94,660	76,748
Over one year overdue	342,423	0.9%	191,133	151,815	190,608	177,690
	511,912	1.3%	275,488	223,257	288,655	258,012
As at 31 December 2002						
Consolidated						
Three to six months overdue	52,925	0.2%	47,905	41,562	11,363	9,570
Six months to one year overdue	22,505	0.1%	26,355	21,907	598	1,304
Over one year overdue	378,542	1.1%	305,299	251,956	126,586	113,971
	453,972	1.4%	379,559	315,425	138,547	124,845

There were no advances to banks and other financial institutions which were overdue for over three months as at 31 December 2003 and 31 December 2002.

(5) **Other overdue assets**

	31 Dec 2003 HK\$'000	31 Dec 2002 HK\$'000
Accrued interest:		
– Three to six months overdue	233	473
– Six months to one year overdue	342	488
– Over one year overdue	3,442	4,422
	<u>4,017</u>	<u>5,383</u>
Rescheduled assets	78	71
	<u>4,095</u>	<u>5,454</u>

(6) **Repossessed assets**

Assets acquired by repossession of collateral for realisation continue to be reported as advances. Provision is made on the shortfall between the expected sales proceeds from realisation of the repossessed assets and the outstanding advances.

At 31 December 2003, the repossessed assets of the Group amounted to HK\$35,464,000 (2002: HK\$107,113,000).

(7) **Rescheduled advances**

	31 Dec 2003			31 Dec 2002
	Consolidated except for UBCBM HK\$'000	UBCBM HK\$'000	Consolidated HK\$'000	Consolidated HK\$'000
Rescheduled advances (Excluding advances overdue for 3 months)	<u>54,328</u>	<u>7,159</u>	<u>61,487</u>	<u>232,682</u>
% of advances to customers	0.2%	0.0%	0.2%	0.7%

There were no advances to banks and other financial institutions which were rescheduled as at 31 December 2003 and 31 December 2002.

(8) **Reconciliation**

	31 Dec 2003			31 Dec 2002
	Consolidated except for UBCBM HK\$'000	UBCBM HK\$'000	Consolidated HK\$'000	Consolidated HK\$'000
Overdue loans (Note 1)	322,512	189,400	511,912	453,972
Rescheduled loans (Note 2)	<u>54,328</u>	<u>7,159</u>	<u>61,487</u>	<u>232,682</u>
	376,840	196,559	573,399	686,654
Less: Overdue loans on which interest is still being accrued	(3,367)	–	(3,367)	(3,475)
Less: Rescheduled loans on which interest is still being accrued	(14,516)	–	(14,516)	(20,796)
Add: Non-performing loans which are not overdue for more than three months or rescheduled	<u>77,335</u>	<u>35,546</u>	<u>112,881</u>	<u>76,549</u>
Non-performing loans	<u>436,292</u>	<u>232,105</u>	<u>668,397</u>	<u>738,932</u>

Notes:

1) Overdue loans are advances which are overdue for over three months.

2) Rescheduled loans which have been overdue for more than three months under the revised repayment terms are included under overdue advances and not rescheduled advances.

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

(i) **Contingent liabilities and commitments**

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

	31 Dec 2003 HK\$'000	31 Dec 2002 HK\$'000
Direct credit substitutes	2,107,357	2,491,814
Transaction-related contingencies	188,505	126,649
Trade-related contingencies	919,114	627,797
Other commitments		
– With an original maturity of under 1 year or which are unconditionally cancellable	5,307,690	4,161,036
– With an original maturity of 1 year and over	8,066,276	9,261,792
Forward deposits placed	87,069	49,438
	<u>16,676,011</u>	<u>16,718,526</u>

(ii) Derivatives

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

	31 Dec 2003 HK\$'000	31 Dec 2002 HK\$'000
Exchange rate contracts		
Forwards	2,089,629	6,574,033
Swaps	28,803,775	13,738,041
Currency options purchased	335,466	5,690,033
Currency options written	335,466	5,690,038
	<u>31,564,336</u>	<u>31,692,145</u>
Interest rate contracts		
Interest rate swaps	16,424,687	10,582,050
Interest rate options purchased	2,072,947	1,469,850
Interest rate options written	1,301,891	1,085,886
	<u>19,799,525</u>	<u>13,137,786</u>
Other contracts		
Equity options purchased	50,116	44,914
Equity options written	50,116	44,914
	<u>100,232</u>	<u>89,828</u>
	<u>51,464,093</u>	<u>44,919,759</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 cost and credit risk weighted amounts of the above off-balance sheet exposures are:

	31 Dec 2003		31 Dec 2002	
	Replacement cost HK\$'000	Credit risk weighted amount HK\$'000	Replacement cost HK\$'000	Credit risk weighted amount HK\$'000
Contingent liabilities and commitments		4,441,136		5,049,274
Exchange rate contracts	60,765	76,905	48,251	46,153
Interest rate contracts	337,633	85,374	405,508	98,022
Other contracts	334	-	238	-
	<u>398,732</u>	<u>4,603,415</u>	<u>453,997</u>	<u>5,193,449</u>

There was no bilateral netting arrangement on the above off-balance sheet instruments.

(10) 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 HK\$'000	Treasury and markets HK\$'000	Corporate and investment banking HK\$'000	Unallocated HK\$'000	Total HK\$'000
For the year ended					
31 December 2003					
Net interest income	337,466	312,017	159,310	14,354	823,147
Operating profit/(loss) before provisions	206,768	293,836	326,446	(32,116)	794,934
Profit before taxation	<u>144,881</u>	<u>304,059</u>	<u>312,805</u>	<u>(116,582)</u>	<u>645,163</u>

(10) Segmental information – By class of business (Continued)

	Commercial and retail banking HK\$'000	Treasury and markets HK\$'000	Corporate and investment banking HK\$'000	Unallocated HK\$'000	Total HK\$'000
For the year ended					
31 December 2002 (Restated)					
Net interest income	257,108	219,945	147,951	64,185	689,189
Operating profit before provisions	177,713	222,864	372,084	(35,498)	737,163
Profit before taxation	<u>82,924</u>	<u>249,383</u>	<u>325,967</u>	<u>(87,445)</u>	<u>570,829</u>

(11) Capital adequacy ratio and capital base

	31 Dec 2003		31 Dec 2002	
	Unadjusted ratio	Adjusted ratio	Unadjusted ratio	Adjusted ratio
Capital adequacy ratio	<u>16.7%</u>	<u>16.7%</u>	<u>17.9%</u>	<u>17.8%</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 2003 HK\$'000	(Restated) 31 Dec 2002 HK\$'000
Core capital:		
Paid up ordinary share capital	1,248,749	1,248,749
Convertible non-cumulative preference shares	1,011,096	1,011,096
Ordinary share premium	1,786,686	1,786,686
Convertible non-cumulative preference share premium	505,496	505,496
Reserves	990,966	743,975
Deduct: Goodwill	(621,212)	(656,710)
	<u>4,921,781</u>	<u>4,639,292</u>
Eligible supplementary capital:		
Reserves on revaluation of land and interests in land	83,172	114,649
Reserves on revaluation of holding of securities not held for trading purpose	(15,852)	4,456
General provision for doubtful debts	342,291	274,481
Perpetual subordinated debts	1,931,584	1,000,000
Term subordinated debts	2,246,720	2,254,730
	<u>4,587,915</u>	<u>3,648,316</u>
Total capital base before deductions	9,509,696	8,287,608
Deductions from total capital base	(697,287)	(697,322)
Total capital base after deductions	<u>8,812,409</u>	<u>7,590,286</u>

(12) Liquidity ratio

	31 Dec 2003	31 Dec 2002
Average liquidity ratio for the year ended	<u>41.3%</u>	<u>35.9%</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.

(13) 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\$ HK\$'000	EUR HK\$'000	RMB HK\$'000	Total HK\$'000
As at 31 December 2003				
Spot assets	26,204,000	475,000	50,000	26,729,000
Spot liabilities	(40,430,000)	(114,000)	-	(40,544,000)
Forward purchases	23,079,000	32,000	566,000	23,677,000
Forward sales	(8,678,000)	(407,000)	(566,000)	(9,651,000)
Net long/(short) position	<u>175,000</u>	<u>(14,000)</u>	<u>50,000</u>	<u>211,000</u>
As at 31 December 2002				
Spot assets	18,360,000	199,000	51,000	18,610,000
Spot liabilities	(29,789,000)	(224,000)	(40,000)	(30,053,000)
Forward purchases	16,903,000	38,000	79,000	17,020,000
Forward sales	(5,415,000)	(29,000)	(79,000)	(5,523,000)
Net long/(short) position	<u>59,000</u>	<u>(16,000)</u>	<u>11,000</u>	<u>54,000</u>

(14) Cross-border claims

The Group analyses cross-border claims by geographical areas. In determining this analysis, it has been taken into account of 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 HK\$'million	Public sector entities HK\$'million	Others HK\$'million	Total HK\$'million
As at 31 December 2003				
Asia Pacific excluding Hong Kong	13,479	1,269	4,275	19,023
North and South America	895	95	3,309	4,299
Europe	<u>9,665</u>	<u>-</u>	<u>928</u>	<u>10,593</u>
As at 31 December 2002				
Asia Pacific excluding Hong Kong	11,634	332	5,984	17,950
North and South America	229	-	1,554	1,783
Europe	<u>8,428</u>	<u>-</u>	<u>385</u>	<u>8,813</u>

RESULTS

Despite the unfavorable operating environment in the first half of the year, Industrial and Commercial Bank of China (Asia) Limited ("ICBC (Asia)" or the "Bank") achieved notable growth during the year.

For the year ended 31 December 2003, the Bank and its subsidiaries (the "Group") recorded consolidated profit attributable to shareholders of HK\$522 million, representing an increase of 10% over 2002. Earnings per share amounted to HK\$0.71.

FINAL DIVIDEND

The Directors are pleased to declare a final dividend of HK\$0.26 per ordinary and convertible preference share for the year ended 2003 (2002: final dividend of HK\$0.25). The dividends will be payable in cash to shareholders whose names are on the Register of Members at the close of business on 14 April 2004. The payment will be made by cheque to be dispatched to shareholders by ordinary mail on or about 14 May 2004.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Bank will be closed from Thursday, 15 April 2004 to Thursday, 22 April 2004, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the dividend, all transfers of shares, accompanied by the relevant share certificates must be lodged for registration with the Bank's Share Registrars, Tengis Limited at G/F, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong by no later than 4:00 p.m. on Wednesday, 14 April 2004.

FINANCIAL REVIEW

The Board of Directors is pleased to announce that despite the challenges and opportunities presented in 2003 and the unfavorable operating environment exacerbated by the SARS outbreak in the first half of the year, the Group recorded considerable growth in profitability during the year. Consolidated profit attributable to shareholders reached HK\$522 million, representing an increase of 10% over the HK\$475 million achieved in 2002. The remarkable growth in earnings was due to significant growth in net interest income. Interest-bearing assets increased from HK\$53.2 billion to HK\$68.0 billion. Earnings per share was HK\$0.71 (2002: HK\$0.69). Return on average assets and return on bearing common equity were 0.8% and 10.2% respectively (2002: 1.0% and 10.2% respectively).

Net interest income for the year 2003 surged by 19% to HK\$823 million, mainly due to a 27% increase in total loans, from HK\$32.9 billion in 2002 increase HK\$8.9 billion to HK\$41.8 billion in 2003, completely offsetting reductions in interest margin. Between the end of 2002 and 2003, net interest margin narrowed from 1.45% to 1.32%.

Other operating income decreased slightly by HK\$69 million to HK\$321 million, resulting from weakened demand for loans in 2003. Arrangement and commitment fees from syndication loans tapered off in 2003 as the Bank arranged a HK\$14.8 billion syndication loan for GH Water Supply (Holdings) Ltd., representing one of the largest syndication loans in Hong Kong in 2002, while no such huge demand of loans in 2003. The proportion of non-interest income to total operating income was 28% (2002: 36%).

With our cost containment efforts, operating expenses were effectively controlled and only edged up by 2% to HK\$314 million (2002: HK\$307 million). The cost income ratio (excluding amortisation of goodwill of HK\$35 million) dropped from 29% in 2002 to 27% in 2003. The Bank's total number of staff was 591 as at 31 December 2003, compared with 553 at the end of 2002.

As a result of the recovering economy and our prudent credit assessment policies, net charge for bad and doubtful debts for the year 2003 was HK\$129 million, among which HK\$68 million was related to building up of the general provisions as the loan book expanded and HK\$61 million related to net specific charge (after netting off provision write backs). Compared with last year, net specific provisions reduced significantly by HK\$62 million, or 50%, mainly due to reduced level of new charges by HK\$97 million despite the enlarged loan book.

Share of losses from associated companies enlarged from HK\$9 million in 2002 to HK\$32 million in 2003, mainly due to change of accounting policy of The Tai Ping Insurance Company, Limited.

Balance Sheet

Total assets were HK\$75.3 billion as at 31 December 2003, a 21% rise when compared with 31 December 2002. As at 31 December 2003, total loan outstanding amounted to HK\$41.8 billion, compared with HK\$32.9 billion over the same period last year, an increase of 27%. The additional new loans were mainly derived from blue chip and PRC companies, resulting in an improvement in the quality of loans. In addition, residential mortgages, trade finance, hire purchase and leasing also recorded satisfactory growth.

Additional debt securities were secured in order to achieve higher return of our assets portfolio. As at 31 December 2003, total investment in debt securities increased 28% to HK\$13.7 billion, representing 18% of total assets. Our investments were concentrated in quality bonds with ratings of BBB- and above.

On 31 December 2003, ICBC (Asia) entered into a sale and purchase agreement (the "SPA") with Generale Belgian Holding B.V. ("GBH") and Fortis Bank, pursuant to which ICBC (Asia) has agreed to purchase the entire issued share capital of Fortis Bank Asia HK ("FBAHK") from GBH, following a carve-out of the Excluded Assets (as defined in the SPA), subject to the conditions and on the terms of the SPA (the "Acquisition").

The consideration for the Acquisition was HK\$2,157 million which was to be satisfied by the allotment and issue of new shares in the capital of ICBC (Asia), representing 9% of the total issued share capital as at the date of completion of the Acquisition, as enlarged by such issuance, to GBH and the remaining balance of the consideration will be satisfied by cash. The Acquisition shall be completed on 30 April 2004, conditional upon approvals by the Hong Kong Monetary Authority and other regulatory authorities, as well as the fulfillment of certain conditions as stipulated in the SPA.

The Acquisition will create a substantially larger and stronger banking operation for ICBC (Asia) with an enhanced commercial and retail banking base for the Group and a significantly expanded branch network focusing on small to medium sized enterprises and retail customers, thereby complementing ICBC (Asia)'s current business and product profile, with particular emphasis in the corporate banking business.

In line with our business development efforts and in order to improve our loan to deposit ratio, the Bank has issued HK\$6.9 billion Certificates of Deposit in total as at 31 December 2003, compared with HK\$1.4 billion in last year, representing a significant increase of 384%. The Bank has also issued US\$120 million subordinated notes to the ultimate holding company to further strengthen the capital base.

Capital Adequacy Ratio and Liquidity Ratio

The capital base was augmented via the issuance of subordinated floating rate notes. In July 2003, the Bank issued US\$120 million subordinated notes to the ultimate holding company to further strengthen the capital base in order to cope with future business development.

At the end of 2003, the adjusted consolidated capital adequacy ratio for ICBC (Asia) was 16.7%, down 1.1% when compared with the same ratio of 17.8% at the end of December 2002. The Bank maintained an adequate level of capital in 2003 and the average liquidity ratio amounted to 41.3% (2002: an average of 35.9%).

Bad and Doubtful Debts

Non-performing loans as at 31 December 2003 amounted to HK\$668 million, decreasing by HK\$71 million from that at the year end of 2002. Cash recovered amounted to HK\$200 million and proceeds from disposal of foreclosed collaterals amounted to HK\$190 million. HK\$50 million of non-performing loans with full provision made was fully written off. Non-performing loan ratio decreased from 2.3% as at 31 December 2002 to 1.7% as at 31 December 2003.

As at 31 December 2003, provisions for bad and doubtful debts aggregated HK\$651 million, which included HK\$309 million of specific provisions and general provisions of HK\$342 million.

Overdue loans increased from HK\$454 million as at 31 December 2002 to HK\$512 million as at 31 December 2003. Coverage ratio of overdue loans (i.e. specific provisions plus collaterals) was 94% (31 December 2002: 97%). The coverage ratio of overdue loans managed by UB China Business Management Co. Ltd. was 87%, while the remaining overdue loans of the Bank have a coverage ratio of 98%.

REVIEW AND PROSPECTS

Against the background of sluggish economy and the outbreak of Severe Acute Respiratory Syndrome (SARS), Hong Kong corporate loan transactions, by way of either new demand or re-financing, dropped by approximately 20% in the year 2003. Coupled with a continuously strong liquidity position of the banking sector, corporate loan yield was driven down, by about one-fifth.

Despite this, the Bank's leading position in the Hong Kong corporate loan market remains unchanged, evidenced by the Bank's high ranking in the Hong Kong syndication loan market as an arranger. During the year, we cautiously extended our reach beyond Hong Kong, by successfully forming alliances with key players in the international syndication market, and providing high yielding products to individual and institutional investors. Through actively promoting retail structural products, we successfully expanded our products to high net worth customers.

During the year, the Bank stepped up its efforts in the development of personal financial service and developed a range of investment products. Apart from traditional open-ended funds, we also took part in the marketing of funds and retail structural products. On the other hand, in view of overwhelming demand in Retail Certificates of Deposit ("RCDs"), the Bank issued three batches of RCDs with a total value of HK\$150 million and US\$10 million. In addition, we introduced an innovative investment product – the Target Redemption Deposit – and was well received by our customers. The Bank's Equity-Linked Deposit was approved by the Securities and Futures Commission in the fourth quarter.

Apart from marketing of its debut dual-currency card that carries both Renminbi and Hong Kong Dollar, a Hong Kong Dollar credit card – the ICBC Xplore Visa, which targets at the juvenile market, was marketed during the year. In spite of the difficulties in 2003, ICBC's Hong Kong Credit Card Centre achieved encouraging results during the year, with the issuance of more than 30,000 new cards and recorded sales volume of about HK\$100 million, in both Hong Kong Dollar and Renminbi transactions. In the third quarter, the Bank reached a partnership agreement with China Life Insurance (Overseas) Company Ltd under which the Bank will offer more comprehensive insurance services for its retail customers.

The Bank would acquire the retail and commercial business of FBAHK in 2004. Upon completion, FBAHK will be renamed Belgian Bank, marking a significant milestone for ICBC (Asia). With 22 retail branches in Hong Kong and 5 dedicated business centers for SMEs, the Bank will focus its business in retail customers as well as small to medium sized enterprises ("SMEs") in Hong Kong. Furthermore, the Acquisition is expected to strengthen our retail branch network, enabling us to offer more comprehensive services and products to a wider spectrum of customers. The Acquisition is also expected to enhance our operating income, broaden our asset base and increase the ratio of cross selling activities.

To the banking industry, the year 2004 is full of opportunities. Our business growth in future will hinge upon the development of a wide range of products, including corporate advisory, mergers and acquisitions, transport finance and project finance, complementing our traditional edge in the finance of properties and operating capital. The granting of personal Renminbi business, including credit cards, to local banks announced on 18 November 2003, is expected to provide enormous opportunities for local financial institutions. We will capitalise on the substantial card business of our parent company and seize this golden opportunity to expand our card receivable business in Hong Kong. We will also strengthen our cooperation with ICBC branches in the Mainland to grasp every new opportunity. Through strengthening our wealth management center, streamlining our branch network, accelerating the pace of product development and integrating our resources with FBAHK, we will strive to establish a solid and stable retail customer base that will help to increase the Bank's profitability. With the above measures, we will further enhance economy of scales, reinforce a marketing-oriented culture and increase our earning potential.

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.

COMPLIANCE WITH THE CODE OF BEST PRACTICE OF THE RULES GOVERNING THE LISTING OF SECURITIES ON THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "LISTING RULES")

In the opinion of the Directors, the Group has complied with the Code of Best Practice as set out in Appendix 14 of the Listing Rules throughout the year, except that the Non-Executive Directors and the Independent Non-Executive Directors are not appointed for specific terms but are subject to retirement by rotation and re-election at annual general meeting in accordance with the Bank's Articles of Association.

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.

DISCLOSURE OF INFORMATION ON THE WEBSITE OF THE STOCK EXCHANGE OF HONG KONG LIMITED ("HKSE")

A detailed results announcement containing all the information required by paragraphs 45(1) to 45(3) inclusive of Appendix 16 of the Listing Rules will be subsequently published on HKSE's website in due course.

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

Hong Kong, 22 March 2004