ICBC (London) Limited

Report and Financial Statements

For the period from 3 October 2002 to 31 December 2003

For the period from 3 October 2002 to 31 December 2003

Contents

For the period from 3 October 2002 to 31 December 2003

Registered No. 4552753

Directors
Lili Wang (Chairman)
Kexin Zhang
Kang Pan
Graham Penny
Edwin Lacy

Secretary
John Kerr

Auditors
Ernst & Young LLP
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London
SE1 2AF

Registered Office
Kings House
36 King Street
London
EC2V 8QQ

Directors' report

The directors present their report and the financial statements of the company for the period beginning 3 October 2002 to 31 December 2003.

Financial statements

This is the first set of financial statements of the company since its incorporation on 3 October 2002. Consequently, there are no corresponding amounts for the preceding financial period.

The financial statements are prepared in US Dollars as this is the underlying currency in which the company conducts its principal activities.

Results and dividends

The trading results for the period, and the company's financial position at the end of the period are shown in the attached financial statements.

No dividend has been paid and the directors do not recommend the payment of a dividend for the year.

The loss for the company for the period, after taxation, amounted to $1,575,647. The debit balance on the profit and loss account is to be carried forward.

Principal activities

The principal activities of the company are international banking and related services within the scope of permission granted to the company under the Financial Services and Markets Act 2000.

Future developments

Details of future developments have been included in the Managing Director's Report.

Directors and their interests

The directors who held office during the period were as follows:

Lili Wang (Chairman)	(Appointed 20 May 2003)
Kexin Zhang	(Appointed 20 May 2003)
Kang Pan	(Appointed 3 October 2002)
Graham Penny	(Appointed 20 May 2003)
Edwin Lacy	(Appointed 1 July 2003)

There are no disclosable directors' interests under Section 324 of the Companies Act 1985.

Directors' report

Statement of directors' responsibilities

Company Act 1985 requires the directors to prepare financial statements for each financial period which give a true and fair view of the state of affairs of the company as at the end of the financial period and of the profit or loss of the company for the financial period.

In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose, with reasonable accuracy at any time, the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. The directors are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Auditors

During the period, Ernst & Young LLP were appointed as auditors of the company. A resolution to reappoint them for the ensuing year will be proposed at the Annual General Meeting.

By order of the board

John Kerr

Company Secretary

8 March 2004

Independent auditors' report

to the members of ICBC (London) Limited

We have audited the company's financial statements for the period from 3 October 2002 to 31 December 2003 which comprise the Profit and Loss Account, Balance Sheet, Cash Flow Statement and the related notes 1 to 19. These financial statements have been prepared on the basis of the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies' Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members, as a body, for our audit work, for this report or for the opinions we have formed.

Respective responsibilities of the directors and the auditors

As described in the Statement of Directors' Responsibilities, the company's directors are responsible for preparing the financial statements in accordance with applicable United Kingdom law and Accounting Standards.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion, the financial statements give a true and fair view of the state of the company's affairs as at 31 December 2003 and of its loss for the period then ended and have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young LLP
Registered Auditor
London

Profit and loss account

for the period beginning 3 October 2002 to 31 December 2003

	Notes	*2003* $
Interest receivable from debt securities		70,858
Other interest receivable		650,940
Interest payable		(826)
Net interest income		720,972
Fees and commissions receivable		13,239
Fees and commissions payable		(2,357)
Foreign exchange gain		55,553
Other operating income		3,877
Non-interest income		70,312
Total income		791,284
Administrative expenses		
- Staff costs	3	1,029,836
- Depreciation and amortisation		135,728
- Other operating charges		1,201,367
Operating expenses		2,366,931
Loss on ordinary activities before tax	2	(1,575,647)
Tax on loss on ordinary activities	5	–
Retained loss for the financial period	13	(1,575,647)

The company has no recognised gains or losses other than the results for the period as set out above. Accordingly, no statement of total recognised gains and losses has been prepared.

All activities of the company are considered to relate to continuing operations.

The notes on pages 7 to 16 form part of these financial statements.

Balance sheet
at 31 December 2003

	Notes	*2003* *$*
Assets		
Cash and balances at central banks		95,923
Loans and advances to banks	6	77,981,045
Debt securities	7	20,042,558
Tangible fixed assets	8	910,345
Other assets	9	169,781
Prepayments and accrued income		370,791
Total assets		99,570,443
Liabilities		
Customer accounts	10	1,054,121
Other liabilities		77,541
Accruals and deferred income	11	14,428
Total liabilities		1,146,090
Share capital and reserves		
Called up share capital	12	100,000,000
Profit and loss account		(1,575,647)
Equity shareholder's funds	13	98,424,353
Total liabilities and share capital and reserves		99,570,443
Memorandum Items		
Commitments	14	6,796,018

These financial statements were approved by the directors on the 8 March 2004 and are signed on their behalf by:

....

Kexin Zhang Kang Pan

The notes on pages 7 to 16 form part of these financial statements.

Notes to the financial statements

at 31 December 2003

1. Accounting policies

Basis of accounting

The financial statements have been prepared in accordance with applicable Accounting Standards in the UK as defined in Section 256 and the Statements of Recommended Accounting Practice issued by the British Bankers' Association. The accounts of the Company are prepared in accordance with section 226 of, and Schedule 9 to the Companies Act 1985. The financial statements are prepared under the historical cost convention.

Financial statements

This is the first set of financial statements of the company since its incorporation on 3 October 2002. Consequently, there are no corresponding amounts for preceding financial period.

The financial statements are prepared in US Dollars as this is the underlying currency in which the company conducts its principal activities.

Cash flow statement

Under FRS1 (revised 1996), the company is exempt from the requirement to prepare a cash flow statement on the ground that it is consolidated in the financial statements of The Industrial and Commercial Bank of China, which are publicly available.

Income recognition

Interest income and expense from loans and deposits are recognised on an accruals basis. Fee income which represents a return for services provided is credited to income when the related service is performed.

Taxation

The charge for taxation is based on the profit or loss for the year and takes into account any taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more, or a right to pay less, tax in the future have occurred at the balance sheet date, with the following exceptions:

- provision is made for tax on gains on disposal of fixed assets that have been rolled over into replacement assets only where, at the balance sheet date, there is a commitment to dispose of the replacement assets with no likely subsequent roll over and/or available capital losses.
- deferred tax assets are recognised only to the extent that the Directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured on a non-discounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Notes to the financial statements

at 31 December 2003

1. Accounting policies (continued)

Taxation (continued)

Deferred taxation is provided in full on material timing differences, at the rates of taxation anticipated to apply when these differences crystallise, arising from the inclusion of items of income and expenditure in taxation computations in periods different from those for which they are included in the financial statements. This policy reflects the company's adoption of the Financial Reporting Standard No 19 on Deferred Taxation. Deferred tax assets are only recognised to the extent that the directors expect them to materialise.

Foreign currencies

Transactions in currencies other than US Dollars are recorded in US Dollars at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in currencies other than US Dollars are retranslated at the rate of exchange ruling at the balance sheet date. All differences are taken to the profit and loss account.

Derivatives and other financial instruments

Derivatives and other financial instruments transacted for hedging purposes are accounted for on a basis consistent with the treatment of the underlying instruments being hedged. Derivatives and other financial instruments transacted for trading purposes are valued at fair values and the resultant profits and losses are included in the profit and loss account.

Pension costs

The company does not operate a pension scheme. However, the company contributes to the personal pension schemes of each eligible employee. Contributions are charged to the profit and loss account or on accrual basis.

Provisions for bad and doubtful debts

Specific provisions are made against loans and advances when, in the opinion of the Directors, recovery in full is doubtful. A general provision may be made to cover bad and doubtful debts that have not been separately identified at the balance sheet date but are known to be present in a lending portfolio. Specific and general provisions are deducted from loans and advances. Loans and advances and suspended interest are written off in part or in full when there is no realistic prospect of recovery.

Debt securities

All debt securities and other fixed income securities are held as long-term investments and are intended to be held to maturity. These securities are stated at amortised cost, less provision for any permanent diminution in value. Premiums and discounts are amortised and taken to the profit and loss account over the period to maturity.

Tangible fixed assets and depreciation

Fixed assets are recorded at cost less any accumulated depreciation.

Depreciation is calculated to write down the cost of fixed assets to their estimated residual values on a straight-line basis over the period of their estimated useful economic lives as follows:

Leasehold improvements, office furniture, office equipment computers and motor vehicles	-	5 years

Operating leases

Rentals payable under operating leases are charged to the profit and loss account as incurred.

Notes to the financial statements

at 31 December 2003

2. Loss on ordinary activities before tax

Loss on ordinary activities before tax is determined after taking account of the following:

	2003
	$
Operating lease charges- property	167,714
Auditors' remuneration:	
Audit services	53,447
Non-audit services	27,488
Consultancy fees	197,439
Irrecoverable VAT	283,943

3. Staff costs

Staff costs (including directors) comprise the following:

	2003
	$
Wages and salaries	839,062
Social security costs	97,008
Pensions costs	22,317
Other costs	71,449
	1,029,836

Employees

	2003
The average number of persons employed during the year was made up as follows:	
- Retail banking	5
- Corporate banking	2
- Investment banking	2
- Accounts and IT	3
- Administration	5
	17

4. Directors' emoluments

The directors' aggregate emoluments in respect of qualifying services were:

	2003
	$
Emoluments	352,220
Company contributions paid to pension schemes	–

Notes to the financial statements

at 31 December 2003

5. Tax on loss on ordinary activities

	2003
	$
Loss on ordinary activities before tax	(1,575,647)
Loss on ordinary activities multiplied by standard rate of corporation tax in the UK of 30%	(472,694)
Expenses not deductible for tax purposes	39,860
Capital allowances for period in excess of depreciation	(18,820)
Tax losses carried forward	451,654
Current tax charge for period	–

A deferred tax asset of $433k has not been recognised on the grounds that it is not sufficiently certain that there will be suitable taxable profits in future against which these can be offset.

6. Loans and advances to banks

	2003
	$
Repayable:	
- on demand	391,922
- three months or less	56,480,215
- one year or less but over three months	14,858,908
- five years or less but over one year	6,250,000
	77,981,045
Geographical analysis by location:	
Korea	21,177,805
Austria	20,000,000
Germany	15,300,000
United Kingdom	11,080,353
China	10,294,034

There were no other loan concentrations by geographical locations which exceeded 10% of total loans and advances to banks.

Amounts include:	
Due from parent undertaking	5,175

Notes to the financial statements

at 31 December 2003

7. Debt securities

	2003
	$
Balance at date of incorporation	–
Additions	20,000,000
Unamortised premium	42,558
Balance at 31 December 2003	20,042,558
Market value	19,998,000

The directors are of the opinion that the lower market value is not permanent as all debt securities are held for investment purposes.

	$
Analysed by maturity:	
- due within one year	–
- due after one year	20,042,558
	20,042,558
Analysed by listing status:	
- listed	20,042,558
- unlisted	–
	20,042,558

8. Tangible fixed assets

	Leasehold improvements	*Office furniture and equipment*	*Computers*	*Motor vehicles*	*Total*
	$	*$*	*$*	*$*	*$*
Cost:					
Additions	439,864	99,587	466,580	40,043	1,046,074
At 31 December 2003	439,864	99,587	466,580	40,043	1,046,074
Depreciation:					
Charge for the period	51,550	12,154	70,007	2,018	135,729
At 31 December 2003	51,550	12,154	70,007	2,018	135,729
Net book amount:					
At 31 December 2003	388,314	87,433	396,573	38,025	910,345

Notes to the financial statements

at 31 December 2003

9. Other assets

	2003
	$
Amount owing from group undertakings	169,781

10. Customer accounts

	2003
	$
Repayable:	
- on demand	163,346
- three months or less	–
- one year or less but over three months	890,775
	1,054,121

11. Accruals and deferred income

	2003
	$
Accrued interest	14,428

12. Share capital

	2003
	$
Authorised share capital:	
150,000,000 ordinary shares of $1 each	150,000,000
Allotted, called up and fully paid:	
Ordinary shares of $1 each, fully paid	
Balance at date of incorporation	
1 ordinary share of $1 each	1
Issued during the period	
99,999,999 ordinary shares of $1 each	99,999,999
Balance at 31 December 2003	
100,000,000 ordinary shares of $1 each	
	100,000,000

Notes to the financial statements

at 31 December 2003

13. Reconciliation of shareholders' funds and movement on reserves

	Share capital $	*Profit and loss account $*	*Total share holders' funds $*
At date of incorporation	1	–	1
Increase in share capital	99,999,999	–	99,999,999
Loss for the period	–	(1,575,647)	(1,575,647)
At 31 December 2002	100,000,000	(1,575,647)	98,424,353

14. Memorandum items – contingent liabilities and commitments

	2003 $
Commitments:	
Documentary credits and short-term trade related transactions	6,796,018

Capital and operating lease commitments

Future minimum lease payments of non-cancellable operating leases at the balance sheet date are as follows:

	2003 $
Within 1 year	444,503
After 1 year but within 5 years	1,778,015
After 5 years	4,148,701

Notes to the financial statements

at 31 December 2003

15. Financial instruments

A financial instrument is a contract that gives rise to a financial asset in one entity and a financial liability in another entity. The company is a provider of financial instruments, mainly in the form of commercial and retail loans and deposits. The company uses financial instruments to invest liquid asset balances, raise funding and to manage the risks arising from its operations. As at 31 December 2003, the company did not have derivative transactions.

The company has a formal structure for managing risk, including established risk limits and reporting lines and a system of control procedures. This structure is intended to be reviewed regularly by Senior Management who are charged with the responsibility for managing and controlling the exposures of the company.

The financial risks faced by the company cover credit risk, liquidity risk, interest rate risk and operational risk.

Credit risk

The company follows a conservative approach in granting credit. A structured approval process takes place and the Board has effective oversight of the company's credit procedures.

Liquidity risk

The company's liquidity policy is to maintain sufficient liquid resources to cover cash flow imbalances and fluctuations in funding to retain full public confidence in the solvency of the company and to enable the company to meet its financial obligations. This is achieved through maintaining a strong capitalisation and prudent levels of liquid assets and through management control of the growth of the business.

Interest rate risk

The company has incurred limited interest rate risk to date since its activities have primarily involved investing its capital in short-term financial instruments.

No interest rate risk limits have been set by the Board to date; however, the Board intends to formalise its interest rate risk management policy and set appropriate limits during the coming financial year.

The interest rate sensitivity exposure of the company at 31 December 2003 is set out on page 15. Items are allocated to time bands by reference to the earlier of the next contractual interest rate re-pricing date and the maturity date.

Notes to the financial statements

at 31 December 2003

15. Financial instruments (continued)

Interest rate sensitivity table

	2003						
	Not more than 3 months	*More than 3 months but not more than 6 months*	*More than 6 months but not more than 1 year*	*More than 1 year but not more than 5 years*	*More than 5 years*	*Non-interest bearing*	*Total*
	$	*$*	*$*	*$*	*$*	*$*	*$*
Assets							
Liquid assets	–	–	–	–	–	95,923	95,923
Loans and advances to banks	56,872,137	11,730,149	9,378,759	–	–	–	77,981,045
Debt securities*	–	–	–	10,000,000	10,042,558	–	20,042,558
Fixed and other assets	–	–	–	–	–	1,450,917	1,450,917
Total assets	56,872,137	11,730,149	9,378,759	10,000,000	10,042,558	1,546,840	99,570,443
Liabilities							
Customer accounts	163,346	–	890,775	–	–	–	1,054,121
Other liabilities	–	–	–	–	–	91,969	91,969
Shareholders' funds	–	–	–	–	–	98,424,353	98,424,353
Total liabilities	163,346	–	890,775	–	–	98,516,322	99,570,443
Interest rate sensitivity gap	56,708,791	11,730,149	8,487,984	10,000,000	10,042,558	(96,969,482)	–
Cumulative gap	56,708,791	68,438,940	76,926,924	86,926,924	96,969,482	–	–

* The entire amount of debt securities represents investment securities, which are stated at amortised cost.

Operational risk

The company defines operational risks as any potential losses that are not directly attributable to credit or other risks as described above. Operational procedures are reviewed regularly by Senior Management. The procedures are reviewed by internal audit at least annually, and with a frequency determined by the level of risk involved.

Fair values of financial assets and liabilities

The carrying values of the company's financial assets and liabilities as at 31 December 2003 are not significantly different than their respective fair values.

Notes to the financial statements

at 31 December 2003

16. Segmental information

The directors consider the loss on ordinary activities arises principally from the provision of international banking and related services and integral treasury dealing which are conducted by the company. The directors consider that no segmental information is required.

17. Related party transactions

The company was a wholly owned subsidiary of The Industrial and Commercial Bank of China for the period 3 October 2002 to 31 December 2003. Accordingly, the company has applied the exemption in paragraph 3 (c) of the Financial Reporting Standard 8 ('FRS 8'). This exempts the company from disclosure of transactions with related parties that are included in the consolidated financial statements of The Industrial and Commercial Bank of China.

The company is also exempt under the terms of paragraph 16 of FRS 8 from disclosing details of those transactions falling within the definition of 'banking transactions'.

18. Analysis of total assets and liabilities by currency

	2003
	$'000
Assets:	
Denominated in US Dollars	97,297
Denominated in currencies other than US Dollars	2,273
Total assets	99,570
Liabilities:	
Denominated in US Dollars	98,504
Denominated in currencies other than US Dollars	1,066
Total liabilities	99,570

19. Ultimate parent company

The ultimate parent company and controlling party is The Industrial and Commercial Bank of China, which is incorporated in China. The accounts of the company are consolidated in the group financial statements. Copies of the group financial statements of The Industrial and Commercial Bank of China are available from 55, Faxingmennei Dajie, Beijing, 100032, China.