

ICBC (London) Limited

Report and Financial Statements

31 December 2004

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ICBC (London) Limited

For the year ended 31 December 2004

Registered No. 4552753

Directors

Lili Wang (Chairman)

Kexin Zhang

Kang Pan

Graham Penny

Edwin Lacy

Secretary

John Kerr

Auditors

Ernst & Young LLP

1 More London Place

London

SE1 2AF

Registered Office

Kings House

36 King Street

London

EC2V 8BB

Directors' report

The directors present their report and the financial statements of the company for the year ended 31 December 2004.

Financial statements

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 year, and the company's financial position at the end of the year 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 year, after taxation, amounted to \$431,000 (period ended 31 December 2003 - \$1,576,000). 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 year were as follows:

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

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

Statement of directors' responsibilities

Companies 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 year and of the profit or loss of the company for the financial year.

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.

Directors' report

Statement of directors' responsibilities (continued)

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

A resolution to reappoint Ernst & Young LLP for the ensuing year will be proposed at the Annual General Meeting.

By order of the board

Company Secretary

Independent auditors' report

to the members of ICBC (London) Limited

We have audited the company's financial statements for the year ended 31 December 2004 which comprise the Profit and Loss Account, Balance Sheet and the related notes 1 to 21. 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. Our responsibilities do not extend to any other information.

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 2004 and of its loss for the year 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 year ended 31 December 2004

	<i>Year ended 31 December 2004</i>	<i>Period ended 31 December 2003</i>
<i>Notes</i>	<i>\$000</i>	<i>\$000</i>
Interest receivable from debt securities	1,645	71
Other interest receivable	3,492	651
Interest payable	(2,022)	(1)
<i>Net interest income</i>	3,115	721
Fees and commissions receivable	468	13
Fees and commissions payable	(26)	(2)
Foreign exchange gain	23	56
Other operating income	9	4
<i>Non-interest income</i>	474	71
<i>Total income</i>	3,589	792
Administrative expenses		
- Staff costs	3 1,880	1,030
- Depreciation and amortisation	236	136
- Other operating charges	1,904	1,201
<i>Operating expenses</i>	4,020	2,367
<i>Loss on ordinary activities before tax</i>	2 (431)	(1,575)
Tax on loss on ordinary activities	5 -	-
<i>Retained loss for the financial year</i>	15 (431)	(1,575)

The company has no recognised gains or losses other than the results for the year 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 18 form part of these financial statements.

Balance sheet

at 31 December 2004

	<i>Notes</i>	<i>2004</i> \$000	<i>2003</i> \$000
Assets			
Cash and balances at central banks		48	96
Loans and advances to banks	6	140,100	77,981
Loans and advances to customers	7	82,596	–
Debt securities	8	41,952	20,043
Tangible fixed assets	9	739	910
Other assets	10	331	170
Prepayments and accrued income		2,372	371
Total assets		<u>268,138</u>	<u>99,571</u>
Liabilities			
Deposits by banks	11	165,499	–
Customer accounts	12	3,643	1,054
Other liabilities		247	78
Accruals and deferred income	13	755	14
Total liabilities		<u>170,144</u>	<u>1,146</u>
Share capital and reserves			
Called up share capital	14	100,000	100,000
Profit and loss account		(2,006)	(1,575)
Equity shareholder's funds	15	<u>97,994</u>	<u>98,425</u>
Total liabilities and share capital and reserves		<u>268,138</u>	<u>99,571</u>
Memorandum Items			
Commitments	16	101,041	6,796

These financial statements were approved by the directors on 17 March 2005 and are signed on their behalf by:

Kexin Zhang

Kang Pan

The notes on pages 7 to 18 form part of these financial statements.

Notes to the financial statements

at 31 December 2004

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, modified to include the revaluation of forward exchange position.

Financial statements

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 accrual 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 2004

1. Accounting policies (continued)

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 on an 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 year of their estimated useful economic lives as follows:

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

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 2004

2. Loss on ordinary activities before tax

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

	<i>Year ended 31 December 2004 \$000</i>	<i>Period ended 31 December 2003 \$000</i>
Operating lease charges- property	582	168
Auditors' remuneration:		
Audit services	77	53
Non-audit services	-	27
Consultancy fees	126	197
Irrecoverable VAT	197	284
	<u> </u>	<u> </u>

3. Staff costs

Staff costs (including directors) comprise the following:

	<i>Year ended 31 December 2004 \$000</i>	<i>Period ended 31 December 2003 \$000</i>
Wages and salaries	1,462	840
Social security costs	250	97
Pensions costs	50	22
Other costs	118	71
	<u> </u>	<u> </u>
	1,880	1,030
	<u> </u>	<u> </u>

Employees

The average number of persons employed during the year was made up as follows:

	<i>2004 No.</i>	<i>2003 No.</i>
- Retail banking	6	5
- Corporate banking	3	2
- Investment banking	2	2
- Accounts and IT	3	3
- Administration	5	5
	<u> </u>	<u> </u>
	19	17
	<u> </u>	<u> </u>

Notes to the financial statements

at 31 December 2004

4. Directors' emoluments

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

	2004 \$000	2003 \$000
Emoluments	509	352
Company contributions paid to pension schemes	–	–
	<u>509</u>	<u>352</u>

5. Tax on loss on ordinary activities

	<i>Year ended 31 December 2004 \$000</i>	<i>Period ended 31 December 2003 \$000</i>
Loss on ordinary activities before tax	(431)	(1,575)
Loss on ordinary activities multiplied by standard rate of corporation tax in the UK of 30%	(129)	(473)
Expenses not deductible for tax purposes	24	40
Capital allowances for year in deficit/(excess) of depreciation	4	(19)
Tax losses carried forward	101	452
Current tax charge for year	–	–
	<u>–</u>	<u>–</u>

A deferred tax asset of \$510k (2003 - \$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

	2004 \$000	2003 \$000
Repayable:		
- on demand	178	392
- three months or less	29,023	56,480
- one year or less but over three months	78,351	14,859
- five years or less but over one year	32,548	6,250
	<u>140,100</u>	<u>77,981</u>
Geographical analysis by location:		
India	46,632	–
China	35,460	10,294
South Africa	21,156	–
Korea	16,175	21,177
Austria	–	20,000
Germany	–	15,300
United Kingdom	–	11,080
	<u>140,100</u>	<u>77,981</u>

Notes to the financial statements

at 31 December 2004

6. Loans and advances to banks (continued)

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

	2004	2003
	\$000	\$000
Amounts include:		
Due from parent undertaking	25	5

7. Loans and advances to customers

	2004	2003
	\$000	\$000
Loans and advances to customers	83,096	–
Provision for bad and doubtful debts	(500)	–
Net loans and advances to customers	82,596	–
Repayable:		
- on demand	–	–
- three months or less	13,108	–
- one year or less but over three months	1,272	–
- five years or less but over one year	51,652	–
- over five years	17,064	–
- allowance for credit losses	(500)	–
	82,596	–
Geographical analysis by location:		
Hong Kong	50,720	–
China	21,382	–
United Kingdom	10,994	–
Provision for bad and doubtful debts		
At 1 January	–	–
New and additional provisions	(500)	–
At 31 December	(500)	–

8. Debt securities

	2004	2003
	\$000	\$000
Balance at the start of the period	20,000	–
Additions	22,000	20,000
Unamortised premium	(48)	43
Balance at 31 December 2004	41,952	20,043
Market value	42,102	19,998

Notes to the financial statements

at 31 December 2004

8. Debt securities (continued)

	2004 \$000	2003 \$000
Analysed by maturity:		
- due within one year	–	–
- due after one year	41,952	20,043
	<u>41,952</u>	<u>20,043</u>
Analysed by listing status:		
- listed	41,952	20,043
- unlisted	–	–
	<u>41,952</u>	<u>20,043</u>

9. Tangible fixed assets

	<i>Leasehold improvements</i> \$000	<i>Office furniture and equipment</i> \$000	<i>Computers</i> \$000	<i>Motor vehicles</i> \$000	<i>Total</i> \$000
Cost:					
At 1 January 2004	440	99	467	40	1,046
Additions	–	4	12	49	65
At 31 December 2004	<u>440</u>	<u>103</u>	<u>479</u>	<u>89</u>	<u>1,111</u>
Depreciation:					
At 1 January 2004	52	12	70	2	136
Charge for the year	88	20	115	13	236
At 31 December 2004	<u>140</u>	<u>32</u>	<u>185</u>	<u>15</u>	<u>372</u>
Net book amount:					
At 31 December 2004	<u>300</u>	<u>71</u>	<u>294</u>	<u>74</u>	<u>739</u>
At 31 December 2003	<u>388</u>	<u>87</u>	<u>397</u>	<u>38</u>	<u>910</u>

10. Other assets

	2004 \$000	2003 \$000
Amount owing from group undertakings	32	170
Assets recoverable	299	–
	<u>331</u>	<u>170</u>

Notes to the financial statements

at 31 December 2004

11. Deposits by banks

	<i>2004</i>	<i>2003</i>
	<i>\$000</i>	<i>\$000</i>
Repayable:		
- on demand	603	–
- three months or less	115,296	–
- one year or less but over three months	49,600	–
	<u>165,499</u>	<u>–</u>

12. Customer accounts

	<i>2004</i>	<i>2003</i>
	<i>\$000</i>	<i>\$000</i>
Repayable:		
- on demand	210	163
- three months or less	2,457	–
- one year or less but over three months	976	891
	<u>3,643</u>	<u>1,054</u>

13. Accruals and deferred income

	<i>2004</i>	<i>2003</i>
	<i>\$000</i>	<i>\$000</i>
Accrued interest	755	14
	<u>755</u>	<u>14</u>

14. Share capital

	<i>2004</i>	<i>2003</i>
	<i>\$000</i>	<i>\$000</i>
Authorised share capital:		
Ordinary shares of \$1 each	150,000	150,000
Allotted, called up and fully paid:		
Ordinary shares of \$1 each, fully paid	<u>100,000</u>	<u>100,000</u>

Notes to the financial statements

at 31 December 2004

15. Reconciliation of shareholders' funds and movement on reserves

	<i>Share capital \$000</i>	<i>Profit and loss account \$000</i>	<i>Total share holders' funds \$000</i>
At date of incorporation	–	–	–
Increase in share capital	100,000	–	100,000
Loss for the period	–	(1,575)	(1,575)
	<hr/>	<hr/>	<hr/>
At 31 December 2003	100,000	(1,575)	98,425
Increase in share capital	–	–	–
Loss for the year	–	(431)	(431)
	<hr/>	<hr/>	<hr/>
At 31 December 2004	100,000	(2,006)	97,994
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

16. Memorandum items – contingent liabilities and commitments

	<i>2004 \$000</i>	<i>2003 \$000</i>
Undrawn documentary credits and short-term trade related transactions	8,463	6,796
Undrawn loans and advances	91,999	–
Forward foreign exchange contracts	579	–
	<hr/>	<hr/>
	101,041	6,796
	<hr/> <hr/>	<hr/> <hr/>

Capital and operating lease commitments

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

	<i>2004 \$000</i>	<i>2003 \$000</i>
Within 1 year	482	445
After 1 year but within 5 years	1,926	1,778
After 5 years	4,013	4,149
	<hr/> <hr/>	<hr/> <hr/>

Notes to the financial statements

at 31 December 2004

17. 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 2004, the company did not have derivative transactions.

The company has a formal structure for managing risks, including establishing 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 interest rate sensitivity exposure of the company at 31 December 2004 is set out below. 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 2004

17. Financial instruments (continued)

Interest rate sensitivity table

	2004						Total \$000
	More than 3 months Not more than 3 months \$000	More than 3 months but not more than 6 months \$000	More than 6 months but not more than 1 year \$000	More than 1 year but not more than 5 years \$000	More than 5 years \$000	Non- interest bearing \$000	
Assets							
Liquid assets	–	–	–	–	–	48	48
Loans and advances							
- to banks	29,201	99,235	7,607	4,057	–	–	140,100
- to customers	18,060	65,036	–	–	–	(500)	82,596
Debt securities*	–	–	–	27,925	14,027	–	41,952
Fixed and other assets	–	–	–	–	–	3,442	3,442
Total assets	47,261	164,271	7,607	31,982	14,027	2,990	268,138
Liabilities							
Deposits by banks	115,899	49,600	–	–	–	–	165,499
Customer accounts	2,667	976	–	–	–	–	3,643
Other liabilities	–	–	–	–	–	1,002	1,002
Shareholders' funds	–	–	–	–	–	97,994	97,994
Total liabilities	118,566	50,576	–	–	–	98,996	268,138
Interest rate sensitivity gap	(71,305)	113,695	7,607	31,982	14,027	(96,006)	–
Cumulative gap	(71,305)	42,390	49,997	81,979	96,006	–	–

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

Notes to the financial statements

at 31 December 2004

17. Financial instruments (continued)

Interest rate sensitivity table

	2003						Total \$000
	More than 3 months Not more than 3 months \$000	More than 3 months but not more than 6 months \$000	More than 6 months but not more than 1 year \$000	More than 1 year but not more than 5 years \$000	More than 5 years \$000	Non- interest bearing \$000	
Assets							
Liquid assets	-	-	-	-	-	96	96
Loans and advances to banks	56,872	17,980	3,129	-	-	-	77,981
Debt securities*	-	-	-	10,000	10,043	-	20,043
Fixed and other assets	-	-	-	-	-	1,451	1,451
Total assets	56,872	17,980	3,129	10,000	10,043	1,547	99,571
Liabilities							
Customer accounts	163	-	891	-	-	-	1,054
Other liabilities	-	-	-	-	-	92	92
Shareholders' funds	-	-	-	-	-	98,425	98,425
Total liabilities	163	-	891	-	-	98,517	99,571
Interest rate sensitivity gap	56,709	17,980	2,238	10,000	10,043	(96,970)	-
Cumulative gap	56,709	74,689	76,927	86,927	96,970	-	-

* 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 2004 were not significantly different to their respective fair values.

Notes to the financial statements

at 31 December 2004

18. Segmental information

The directors consider the loss on ordinary activities to arise 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.

19. Related party transactions

The company was a wholly owned subsidiary of The Industrial and Commercial Bank of China for the year ended 31 December 2004. 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'.

20. Analysis of total assets and liabilities by currency

	<i>2004</i>	<i>2003</i>
	<i>\$000</i>	<i>\$000</i>
Assets:		
Denominated in US Dollars	235,987	97,298
Denominated in currencies other than US Dollars	32,151	2,273
Total assets	<u>268,138</u>	<u>99,571</u>
Liabilities:		
Denominated in US Dollars	237,260	98,505
Denominated in currencies other than US Dollars	30,878	1,066
Total liabilities	<u>268,138</u>	<u>99,571</u>

21. 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, Fuxingmennei Dajie, Beijing, 100032, China.