



## | Introduction |

ICBC (London) Limited is a wholly-owned subsidiary of the Industrial and Commercial Bank of China Limited – China’s largest bank. It was the first office to be opened in London of a Chinese mainland-based Bank since the establishment of the People’s Republic in 1949 and, when it was opened in 2003, it represented the largest single investment in the UK of any Chinese company.

The Industrial and Commercial Bank of China Limited manages roughly a quarter of the total banking assets in China and has been voted Bank of the Year in China by both Euromoney and Bankers magazine for a number of years now. ICBC ranks amongst the very largest banks in the World by any of the measures commonly used for such rankings.



**ICBC(LONDON)Limited** |  
Annual Report and Accounts 2005 |

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## | CHAIRMAN'S STATEMENT |



**Madame Lili Wang**

Last year was a momentous year for the ICBC Group. In China, our parent company, ICBC, was recapitalised and disposed of many of its non-performing loans. Then, in October 2005, the Bank was restructured and converted into a joint-stock commercial bank under the name of ICBC Limited. The result is an outstandingly strong bank with assets in excess of \$779.7 billion, a core capital adequacy ratio of 8.11%, an NPL ratio of 4.69% and a cost income ratio of 39.4 %.

Against this background, ICBC (London) limited has successfully continued to establish its presence in London and I am delighted to report that we moved into profit this year ahead of the Bank's initial forecasts. During 2006 we shall build upon this strong base by expanding our product range, enhancing our systems by making optimum use of systems resources throughout the Group, and developing more services to meet the needs of ICBC group customers worldwide.

During 2005 our first Managing Director, Kexin Zhang, moved on to another role within the ICBC Group and he was replaced by Jinlei Xu who brings a wealth of experience from our parent bank. I would like to thank Kexin for his invaluable work during the Bank's early days in London and to welcome Jinlei who, I know, will make a major contribution in driving the Bank through the next stage of its development. I would like, also, to thank my fellow directors, the management team and the staff of the Bank for their diligence and hard work during the year.



**Lili Wang**

**Chairman**

## MANAGING DIRECTOR'S REPORT |

### Introduction

I am delighted to present the 2005 Annual Report and Accounts for ICBC (London) Limited. I joined the Bank in March 2005 from the Tokyo Branch of our parent bank and I was pleased to have inherited an operation which, despite its infant status - having opened only 18 months earlier, was already operating as a well oiled machine and creating its niche in the London Market. Indeed in 2005 - only our 2<sup>nd</sup> year of operation - we declared a profit of \$594,000 after provisions. This was ahead of plan and in contrast with our overall loss after provisions of \$431k in 2004.



ICBC (LONDON) LTD

### Summary of Business

Two thousand and five was very much a year of consolidation for us and, whilst we did not expand our balance sheet significantly during the year, we developed our computer and support systems to ensure we had the infrastructure in place to cope with future business growth. In the first half of the year we migrated our main computer processing systems to a mainframe

in Shenzhen, China owned and operated by our parent company specifically for servicing the needs of overseas subsidiaries and branches. The migration was completed ahead of schedule without any disruption to our accounting and our accounts are totally 'ring-fenced' in the new centre thus ensuring complete confidentiality of data. This development enlarges our processing capacity as well as providing more security and an enhanced level of contingency.

In all aspects of our new business growth we continued to focus on our strong links with China. We achieved growth in our personal banking services and we were particularly successful in attracting significantly increased levels of customer deposits and in launching and expanding a new remittance service for personal customers. Our corporate banking services also had a strong Chinese flavour: we focused on China-related trade finance deals and developed contacts with many companies who are seeking to expand trade between the UK and China so that we will be well positioned to help facilitate and finance this trade. In wholesale markets we have consolidated our existing alliances and made new alliances among the international banking community in London.

## **Developments in 2006 and beyond**

In 2006 we will build upon the sound business base we now have in London by expanding our product range to meet customer needs, by working in conjunction with our parent bank to provide a wider range of services to their customers visiting the UK and by using our superior knowledge of China and the Chinese marketplace to develop our corporate banking business.

## **Personal Banking**

We will develop further our product range to provide an enhanced service to personal customers - especially those visiting from China - and, in particular, make it easier for them to access their money. We will work closely with our parent bank to help ensure that customers of ICBC Limited coming to study in the UK or simply visiting the UK are able to access a range of banking services. Further, we will continue to attract new customer deposits by offering attractive terms for fixed term deposits.

## Corporate Banking

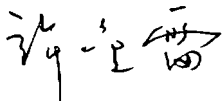
We will actively seek to provide banking services to large companies and SMEs operating in the UK-China market. We aim to develop services in the name of ICBC (London) limited which will be attractive to these customers and we will also facilitate introductions to branches of ICBC Limited in China.

We will continue to participate in the syndicated loans market in 2006 - particularly where there is a Chinese dimension. We will also be actively seeking to expand further our, already substantial, trade services business. We will continue to provide finance in US Dollars, Sterling and Euros.

## Foreign Exchange and Money Markets

Since opening the Bank we have offered foreign exchange facilities in Sterling US Dollars and Euros on a modest scale and we will continue to serve our customers' needs in this area. Our money transfer product has been extremely successful and will continue to be promoted actively in 2006.

In addition to the products and services mentioned above, we provide advice and information on a variety of issues primarily in relation to operations and interests in China.



Jinlei Xu

Managing Director



## | Board of directors and other information |

### **Directors**

Lili Wang (Chairman)

Kexin Zhang (Resigned on 23 March 2005)

Jinlei Xu (Appointed on 23 March 2005)

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

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## | Directors' report |

*The directors present their report and the financial statements of the Company for the year ended 31 December 2005.*

### **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 profit for the Company for the year, after taxation, amounted to \$457,000 (loss for 2004: \$431,000). The credit 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.

## **Financial Instruments**

The Company's financial risk management objectives and policies are discussed in the Notes to the attached financial instruments (note 21).

## **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 (Resigned on 23 March 2005)

Jinlei Xu (Appointed on 23 March 2005)

Kang Pan

Graham Penny

Edwin Lacy

No contracts of significance in relation to the Company's business in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year, 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.

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



John Kerr  
Company Secretary

## | Independent auditors' report |

to the members of ICBC(London)Limited

We have audited the financial statements of ICBC (London) Limited ("the Company"), which comprise the Balance Sheet as at 31 December 2005, the Profit and Loss Account, and a summary of significant accounting policies and other explanatory notes. 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 2005 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

*Ernst & Young*

*29 March 2006*

Ernst & Young LLP

Registered Auditor

London

## | Profit and loss account |

for the year ended 31 December 2005

	<i>Notes</i>	<i>2005</i> \$000	<i>2004</i> \$000
Interest receivable from debt securities		1,508	1,645
Other interest receivable		8,172	3,492
Interest payable		(4,816)	(2,022)
<b>Net interest income</b>		<b>4,864</b>	<b>3,115</b>
Fees and commissions receivable		442	468
Fees and commissions payable		(31)	(26)
Foreign exchange (loss)/gain		(147)	23
Other operating income		117	9
<b>Non-interest income</b>		<b>381</b>	<b>474</b>
<b>Total income</b>		<b>5,245</b>	<b>3,589</b>
Administrative Expenses	3	2,056	1,880
Depreciation and amortisation		45	236
Other operating charges		1,550	1,404
Provisions for bad and doubtful debts		1,000	500
<b>Operating expenses</b>		<b>4,651</b>	<b>4,020</b>
<b>Profit/(loss) on ordinary activities before tax</b>	2	<b>594</b>	<b>(431)</b>
Tax on profit/(loss) on ordinary activities	5	(137)	-
<b>Profit/(loss) for the financial year</b>	15	<b>457</b>	<b>(431)</b>

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 10 to 22 form part of these financial statements.

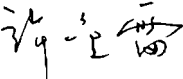


## Balance sheet |

at 31 December 2005

	Notes	2005 \$000	2004 \$000
<b>Assets</b>			
Cash and balances at central banks		38	48
Loans and advances to banks	6	119,898	140,100
Loans and advances to customers	7	103,425	82,596
Debt securities	8	36,970	41,952
Tangible fixed assets	9	458	739
Other assets	10	250	331
Prepayments and accrued income		2,534	2,372
		-----	-----
<b>Total assets</b>		<b>263,573</b>	<b>268,138</b>
		-----	-----
<b>Liabilities</b>			
Deposits by banks	11	151,491	165,499
Customer accounts	12	12,200	3,643
Other liabilities		308	247
Accruals and deferred income	13	986	755
Corporation tax		137	-
		-----	-----
<b>Total liabilities</b>		<b>165,122</b>	<b>170,144</b>
		-----	-----
<b>Share capital and reserves</b>			
Authorised and called up share capital	14	100,000	100,000
Profit and loss account		(1,549)	(2,006)
		-----	-----
<b>Equity shareholder's funds</b>	15	<b>98,451</b>	<b>97,994</b>
		-----	-----
<b>Total liabilities and share capital and reserves</b>		<b>263,573</b>	<b>268,138</b>
		-----	-----
<b>Memorandum Items</b>			
Contingent liabilities and commitments	16	62,965	101,041

These financial statements were approved by the directors on 27 March 2006 and are signed on their behalf by:

Jinlei Xu 

Kang Pan 

The notes on pages 10 to 22 form part of these financial statements.



# Notes to the financial statements |

at 31 December 2005

## 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 financial statements of the Company have been prepared in accordance with the specific provisions of Part VII of the Companies Act 1985 relating to banking companies / groups. The financial statements are prepared under the historical cost convention.

### 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:

# Notes to the financial statements |

at 31 December 2005

## 1. Accounting policies (continued)

- 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.

### 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.

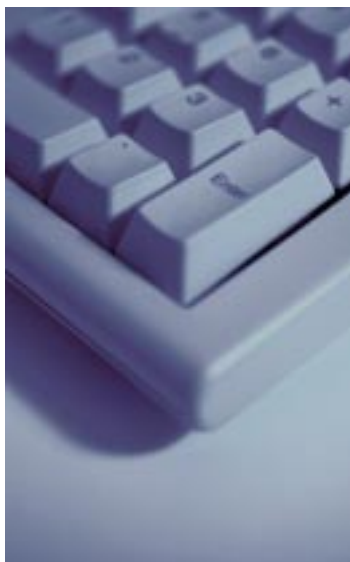
### Pension costs

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.

# Notes to the financial statements |

## at 31 December 2005

### 1. Accounting policies (continued)



#### 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 for long term investment purposes. 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	-	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 2005

### 2. Profit on ordinary activities before tax

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

	2005	2004
	\$000	\$000
Operating lease charges- property	551	582
Auditors' remuneration	76	77
Consultancy fees	21	126
Irrecoverable VAT	56	197

### 3. Staff costs

Staff costs (including directors) comprise the following:

	2005	2004
	\$000	\$000
Wages and salaries	1,498	1,462
Social security costs	288	250
Pensions costs	46	50
Other costs	224	118
	2,056	1,880

Employees

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

	2005	2004
	No.	No.
- Retail banking	6	6
- Corporate banking	4	3
- Investment banking	2	2
- Accounts and IT	4	3
- Administration	5	5
	21	19

### 4. Directors' emoluments

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

	2005	2004
	\$000	\$000
Emoluments	470	509
Company contributions paid to pension schemes	--	-

## Notes to the financial statements |

at 31 December 2005

### 5. Tax on profit/(loss) on ordinary activities

	2005	2004
	\$000	\$000
Profit/(loss) on ordinary activities before tax	594	(431)
Profit/(loss) on ordinary activities multiplied by standard rate of corporation tax in the UK of 30%	178	(129)
Expenses not deductible for tax purposes	334	24
Capital allowances for year in deficit of depreciation	9	4
Tax losses utilised in the year	(384)	-
Tax losses carried forward	-	101
<b>Current tax charge for year</b>	<b>137</b>	<b>-</b>

A deferred tax asset of \$457k (2004 - \$510k) 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

The maturity profile of advances to banks analysed by the remaining period as at 31 December to the contractual maturity dates is as follows:

	2005	2004
	\$000	\$000
Repayable:		
- on demand	860	178
- three months or less	41,362	29,023
- one year or less but over three months	23,114	78,351
- five years or less but over one year	54,562	32,548
	<b>119,898</b>	<b>140,100</b>

Gross advances to banks by geographical area:

	2005	2004
	\$000	\$000
India	35,132	46,632
China	18,659	35,460
Korea	17,000	16,175
United Kingdom	15,690	-
South Africa	-	21,156

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

	2005	2004
	\$000	\$000
Amounts include:		
Due from parent undertaking	13,746	25

## Notes to the financial statements | at 31 December 2005

### 7. Loans and advances to customers

	2005	2004
	\$000	\$000
Loans and advances to customers	104,925	83,096
Provisions for bad and doubtful debts	(1,500)	(500)
Net loans and advances to customers	103,425	82,596

The maturity profile of advances to non-bank customers analysed by the remaining period as at 31 December to the contractual maturity dates is as follows:

	2005	2004
	\$000	\$000
- on demand	-	-
- three months or less	10,111	13,108
- one year or less but over three months	25,000	1,272
- five years or less but over one year	48,963	51,652
- over five years	20,851	17,064
- allowance for credit losses	(1,500)	(500)
	103,425	82,596

Gross advances to customers by geographical area:

	2005	2004
	\$000	\$000
Hong Kong	63,400	50,720
China	33,748	21,382
United Kingdom	7,778	10,994
Provisions for bad and doubtful debts		
At 1 January	500	-
New and additional provisions	1,000	500
At 31 December	1,500	500

## Notes to the financial statements |

at 31 December 2005



### 8. Debt securities

	2005 \$000	2004 \$000
Balance at 1 January	42,000	20,000
Additions	-	22,000
Disposals	(5,000)	-
Unamortised premium	(30)	(48)
<b>Balance at 31 December</b>	<b>36,970</b>	<b>41,952</b>
<b>Market value</b>	<b>36,865</b>	<b>42,102</b>

#### Analysed by maturity:

	2005 \$000	2004 \$000
- due within one year	-	-
- due after one year	36,970	41,952

#### Analysed by listing status:

	2005 \$000	2004 \$000
- listed	36,970	41,952
- unlisted	-	-

#### Analysed by sector:

	2005 \$000	2004 \$000
- private sector	36,970	41,952
- public sector	-	-

## Notes to the financial statements |

at 31 December 2005

### 9. Tangible fixed assets

	<i>Leasehold improvements</i>	<i>Office furniture and equipment</i>	<i>Computers</i>	<i>Motor vehicles</i>	<i>Total</i>
	\$000	\$000	\$000	\$000	\$000
-----					
Cost:					
At 1 January 2005	440	103	479	89	1,111
Additions	-	7	32	-	39
Disposals	-	-	(274)	-	(274)
	-----	-----	-----	-----	-----
At 31 December 2005	440	110	237	89	876
	-----	-----	-----	-----	-----
Depreciation:					
At 1 January 2005	140	32	185	15	372
Disposal	-	-	(126)	-	(126)
Charge for the year	88	21	45	18	172
	-----	-----	-----	-----	-----
At 31 December 2005	228	53	104	33	418
	-----	-----	-----	-----	-----
Net book amount:					
At 31 December 2005	212	57	133	56	458
	-----	-----	-----	-----	-----
At 31 December 2004	300	71	294	74	739
	-----	-----	-----	-----	-----

### 10. Other assets

	2005	2004
	\$000	\$000
-----		
Amount owing from group undertakings	210	32
Assets recoverable	40	299
	-----	-----
	250	331
	-----	-----

### 11. Deposits by banks

	2005	2004
	\$000	\$000
-----		
Repayable:		
- on demand	2,395	603
- three months or less	131,146	115,296
- one year or less but over three months	17,950	49,600
	-----	-----
	151,491	165,499
	-----	-----



## Notes to the financial statements |

at 31 December 2005

<b>12. Customer accounts</b>		
	<i>2005</i>	<i>2004</i>
	<i>\$000</i>	<i>\$000</i>
Repayable:		
- on demand	4,075	210
- three months or less	6,971	2,457
- one year or less but over three months	1,154	976
	12,200	3,643

<b>13. Accruals and deferred income</b>		
	<i>2005</i>	<i>2004</i>
	<i>\$000</i>	<i>\$000</i>
Accrued interest	843	509
Unamortised income	143	245
	986	755

<b>14. Share capital</b>		
	<i>2005</i>	<i>2004</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	100,000	100,000

<b>15. Reconciliation of shareholders' funds and movement on reserves</b>			
	<i>Share capital</i>	<i>Profit and loss account</i>	<i>Total share holders' funds</i>
	<i>\$000</i>	<i>\$000</i>	<i>\$000</i>
At 1 January 2004	100,000	(1,575)	98,425
Loss for the year	-	(431)	(431)
At 31 December 2004	100,000	(2,006)	97,994
Profit for the year	-	457	457
At 31 December 2005	100,000	(1,549)	98,451

## Notes to the financial statements |

at 31 December 2005

### 16. Memorandum items - contingent liabilities and commitments

	2005	2004
	\$000	\$000
Undrawn documentary credits and short-term trade related transactions	22,621	8,463
Undrawn loans and advances	37,193	91,999
Forward foreign exchange contracts	3,151	579
	-----	-----
	62,965	101,041
	-----	-----

#### Capital and operating lease commitments

At 31 December 2005, the Company had annual commitments under non-cancellable operating leases as set out below:

	2005	2004
	\$000	\$000
Within one year	-	-
Within two to five years	-	-
More than five years	429	482
	-----	-----

### 17. Segmental information

The directors consider the profit 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.

### 18. Related party transactions

The Company was a wholly owned subsidiary of The Industrial and Commercial Bank of China for the year ended 31 December 2005. 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'.



## Notes to the financial statements |

at 31 December 2005

### 19. Analysis of total assets and liabilities by currency

	2005	2004
	\$000	\$000
-----		
Assets:		
Denominated in US Dollars	217,143	235,987
Denominated in currencies other than US Dollars	46,430	32,151
	-----	-----
<b>Total assets</b>	<b>263,573</b>	<b>268,138</b>
	-----	-----
Liabilities:		
Denominated in US Dollars	213,597	237,260
Denominated in currencies other than US Dollars	49,976	30,878
	-----	-----
<b>Total liabilities</b>	<b>263,573</b>	<b>268,138</b>

### 20. 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.

### 21. 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. 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 as well as requirements under the FSA guidelines. This is achieved through maintaining a strong capitalisation and prudent levels of liquid assets and through management control of the growth of the business.

# Notes to the financial statements |

at 31 December 2005

## 21. Financial instruments (continued)



### Foreign exchange risk

Foreign exchange risk is controlled by net short open and forward foreign exchange gap limits. Foreign exchange trading has not been a core activity of the Company during the year, and in the opinion of the directors, the risk inherent in these limits is considered to be minimal.

### Interest rate risk

The interest rate sensitivity exposure of the Company at 31 December 2005 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.

#### Interest rate sensitivity table

	2005						
	More than 3 months	More than 6 months	More than 1 year	More than 5 years	More than 5 years	Non- interest bearing	Total
	Not more than 3 months \$000	but not more than 6 months \$000	but not more than 1 year \$000	but not more than 5 years \$000	More than 5 years \$000		\$000
<b>Assets</b>							
Liquid assets	-	-	-	-	-	38	38
Loans and advances							
- to banks	42,221	57,363	18,138	2,176	-	-	119,898
- to customers	22,027	57,898	25,000	-	-	(1,500)	103,425
Debt securities*	-	-	-	29,954	7,016	-	36,970
Fixed and other assets	-	-	-	-	-	3,242	3,242
<b>Total assets</b>	<b>64,248</b>	<b>115,261</b>	<b>43,138</b>	<b>32,130</b>	<b>7,016</b>	<b>1,780</b>	<b>263,573</b>
<b>Liabilities</b>							
Deposits by banks	133,541	17,950	-	-	-	-	151,491
Customer accounts	11,046	1,128	26	-	-	-	12,200
Other liabilities	-	-	-	-	-	1,294	1,294
Shareholders' funds	-	-	-	-	-	98,588	98,588
<b>Total liabilities</b>	<b>144,587</b>	<b>19,078</b>	<b>26</b>	<b>-</b>	<b>-</b>	<b>99,882</b>	<b>263,573</b>
<b>Interest rate sensitivity gap</b>							
<b>sensitivity gap</b>	<b>(80,339)</b>	<b>96,183</b>	<b>43,112</b>	<b>32,130</b>	<b>7,016</b>	<b>(98,102)</b>	<b>-</b>
<b>Cumulative gap</b>							
<b>Cumulative gap</b>	<b>(80,339)</b>	<b>15,844</b>	<b>58,956</b>	<b>91,086</b>	<b>98,102</b>	<b>-</b>	<b>-</b>

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

## | Notes to the financial statements |

at 31 December 2005

### 21. Financial instruments (continued)

#### Interest rate sensitivity table

	2004					Non- interest bearing \$000	Total \$000
	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		
<b>Assets</b>							
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
<b>Total assets</b>	<b>47,261</b>	<b>164,271</b>	<b>7,607</b>	<b>31,982</b>	<b>14,027</b>	<b>2,990</b>	<b>268,138</b>
<b>Liabilities</b>							
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
<b>Total liabilities</b>	<b>118,566</b>	<b>50,576</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>98,996</b>	<b>268,138</b>
<b>Interest rate</b>							
<b>sensitivity gap</b>	<b>(71,305)</b>	<b>113,695</b>	<b>7,607</b>	<b>31,982</b>	<b>14,027</b>	<b>(96,006)</b>	<b>-</b>
<b>Cumulative gap</b>	<b>(71,305)</b>	<b>42,390</b>	<b>49,997</b>	<b>81,979</b>	<b>96,006</b>	<b>-</b>	<b>-</b>

\* 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 Company's financial assets were held for non-trading purposes at 31 December 2005. The fair values of debt securities are disclosed under the relevant balance sheet note. The fair values are based on the market prices where a liquid and active market exists as defined by FRS 13.

The fair value of other non-trading balances approximate to their carrying value in the balance sheet.

## Notes to the financial statements |

at 31 December 2005

### 22. Financial derivatives and hedging

The Company enters into various types of transactions in the ordinary course of business that involve financial instruments with off-balance sheet risk. These instruments are used by the Company for market risk management of certain non-trading assets and liabilities.

In the following table, notional principal amounts indicate the volume of business outstanding at the balance sheet date and do not represent amounts at risk. The fair value of a derivative financial instrument represents the positive or negative cash flows which would have occurred had the rights and obligations arising from that instrument been closed out by the Company in an orderly market transaction at balance sheet date. The replacement cost is considered to be the same as the positive fair value.

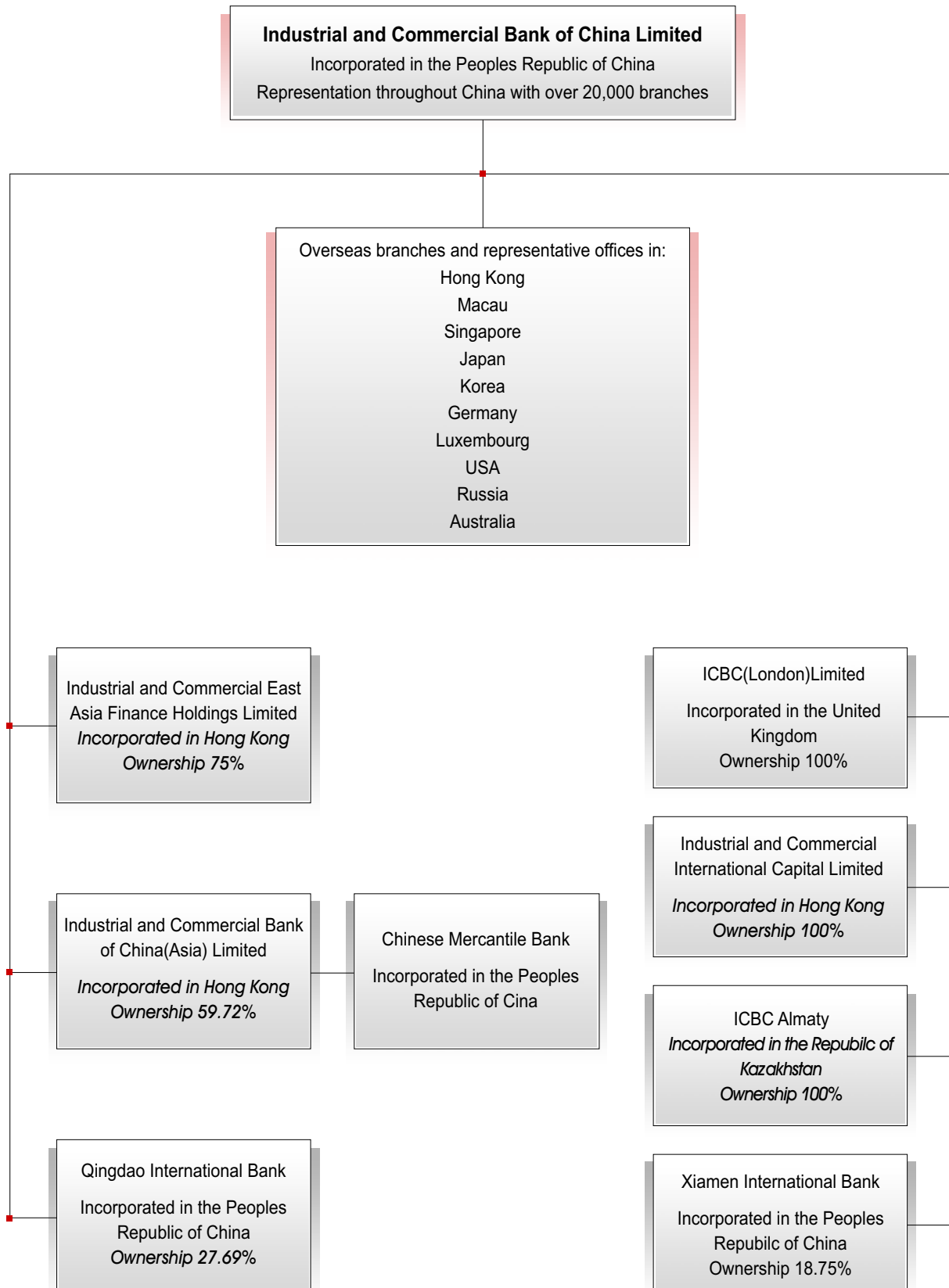
	2005			2004		
	<i>Notional principal amount</i> \$000	<i>Positive fair value</i> \$000	<i>Negative fair value</i> \$000	<i>Notional principal amount</i> \$000	<i>Positive fair value</i> \$000	<i>Negative fair value</i> \$000
-----						
Foreign exchange derivatives						
- Forward foreign exchange contracts	3,151	3	23	579	3	12
	-----	-----	-----	-----	-----	-----
At 31 December	3,151	3	23	579	3	12
	-----	-----	-----	-----	-----	-----
Interest rate derivatives						
- Swaps	6,127	-	8	-	-	-
- Forward rate agreements	42,150	22	-	15,000	-	-
	-----	-----	-----	-----	-----	-----
At 31 December	48,277	22	8	15,000	-	-
	-----	-----	-----	-----	-----	-----

As the Company uses the above instruments for hedging purposes, changes in the fair value of these instruments are recognised in the financial statements over the life of the underlying asset or liability being hedged. An analysis of these unrecognised gains and losses is as follows:

	<i>Gains</i> \$000	<i>(Losses)</i> \$000	<i>Net gains/</i> <i>(losses)</i> \$000
Unrecognised gains/(losses) on hedges at 1 January 2005	3	(12)	(9)
(Gains )/losses arising in previous years that were recognised in current year	(3)	12	9
Gains and losses arising in 2005 but not recognised	25	(31)	(6)
	-----	-----	-----
Unrecognised gains and losses at 31 December 2005	25	(31)	(6)
	-----	-----	-----
Of which			
- recognised in less than 12 months	25	(23)	2
- recognised in greater than 12 months	-	(8)	(8)
	-----	-----	-----
At 31 December 2005	25	(31)	(6)

At 31 December 2005, the Company had an interest rate swap of notional principal US\$2,861,000. This reducing balance interest rate swap matures in May 2010. All other derivatives mature within 12 months.

## ICBC Group companies and associates



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