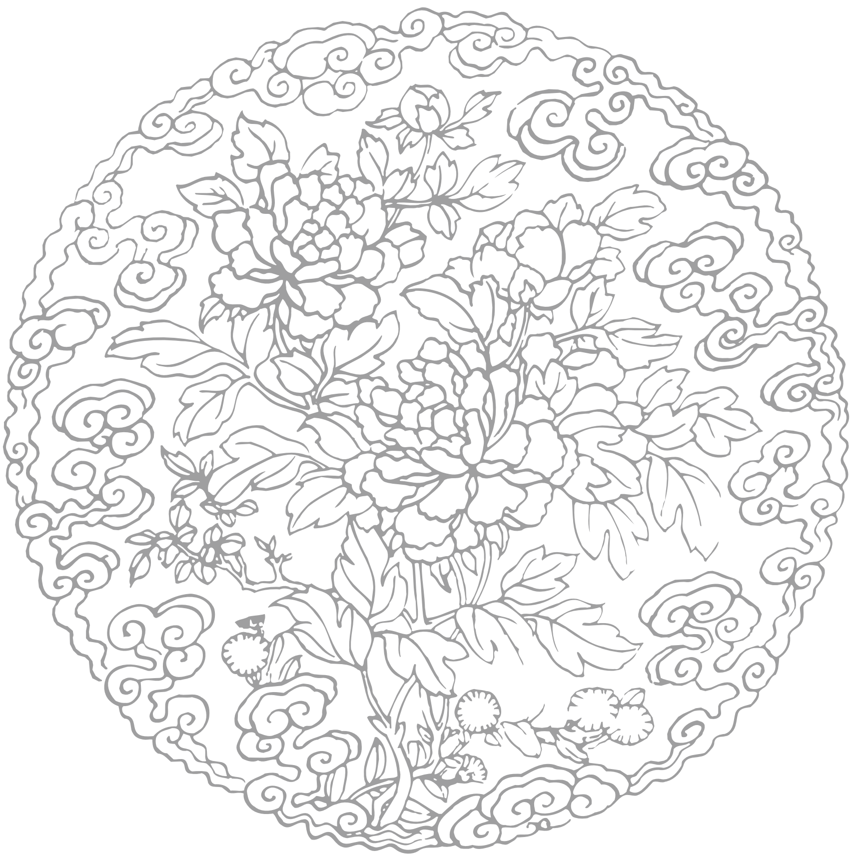
ICBC (London) Limited

2006

Report and Financial Statements

中国工商银行（伦敦）
ICBC（London）



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Chairman's Statement

Ms. WANG Lili
Chairman

Last year our parent company in China, ICBC Limited, made history. On October 27th 2006 the Bank launched a simultaneous public listing on the stock exchanges in both Shanghai and Hong Kong - the most successful IPO in history - raising over $19 billion. In the early months of trading the share price rose taking the Bank to the position of the second largest Bank in the world by market capitalization. This is a clear indication of the market's assessment of the strength of our parent and its important role in the future development of China and, indeed, the World.

Against this background the performance of ICBC (London), although rather more modest, is also impressive. I am delighted to report that the Bank has continued to exceed the plans put in place when it first opened its doors in the City of London by achieving a pre-tax profit of $3.277 million in 2006 (2005 - $594,000), well ahead of our set-up target. This, at a time when the margins available on good quality assets are extremely fine. Our Assets increased over 2005 by more than 50% as a direct result of our strategy to build up a longer term loan portfolio and we have continued our prudent approach to risk control.

During the year there were a number of changes affecting the Board. In May, Mr. Kang Pan, one of the founder Directors of the Bank, resigned from the Board to move to other duties in the Group and his Board post was filled by Ms Mei Tao, our Treasurer and Deputy General Manager. I would like to thank Mr. Pan for his contribution to the Bank; in particular for his assistance for establishing our subsidiary here in London, and I extend a warm welcome to Ms Tao on her appointment to the Board. I would like, also, to thank my fellow directors, the management team and the staff of the Bank for their diligence and their contribution during the year.

Lili Wang
Chairman

Managing Director's Review of the Business

Introduction

I am delighted to announce that, in the first complete year since becoming Managing Director of ICBC (London) Limited, the Bank has continued to deliver a better than planned performance whilst maintaining a strong governance structure and prudent lending policy.

Summary of Business

For the year ended 31 December 2006, we generated a pre-tax profit of $3.277 million (2005: $594,000). This increase was due to growth in revenue, with lower incremental overhead costs.

Net interest income contributed more than 86% of the total operating income. This reflects our concentration to date on corporate banking with much of the income being derived from our larger portfolio of long term loans.

Fees and commission income also rose by more than 30%. This was mainly from our growing trade finance businesses and also, from participation fees earned on syndicated loans. The increase in other operating income is due mainly to gains on foreign exchange business.

Our expenses for 2006 were maintained at the same level as the previous year. The increases in staff costs (necessary to cope with the increase in business) and other operating charges for the year were offset by the absence of any general provision for doubtful debts in 2006, whereas $1 million provision was made in 2005. However, in view of our adoption of FRS 26 this year, we decided to make a collective impairment provision based on the perceived risks inherent in our lending book and the view of the major risk agencies. This figure amounts to $962,000 and is a transitional adjustment through reserves.

When compared with December 2005, the balance sheet at the end of 2006 shows a healthy growth: total assets were increased by more than 50%. This was mainly due to our continuing marketing efforts to build up our long term loan portfolio as evident from the increase in loans to banks and customers.

Financial investments available for-sale ("AFS")/Debt securities mainly consisted of FRN's and FRB's which we hold for investment purposes. AFS securities have increased by more than 60% in 2006 when compared with 2005. Our new debt securities acquisitions are mainly banks with high investment ratings.

The Bank's assets are primarily financed by inter-bank and inter-group deposits. We have, however, continued to increase our customer deposits and this reflects our determination to develop our corporate banking services as well as to help in meeting funding requirements.

With the adoption of FRS 25 and FRS 26 in the current year, financial instruments were re-designated or remeasured i.e. debt securities were re-designated as "financial investments AFS". Further, loans and advances were remeasured at amortised cost using the effective interest rate method, and derivative financial instruments were recognised at fair value on the balance sheet. An available-for-sale reserve and a cash flow hedge reserve were established in 2006 in line with the accounting standard requirements.

Whilst our corporate business grew significantly during the year our retail business was also further developed although the growth was rather more modest. In the summer we launched, on a pilot basis, a student account package for students visiting the UK from China and we continued to develop our other products such as the current account package and personal remittances.

In the autumn we were delighted when our parent - ICBC Limited - invited us to become a sub-custodian in relation to the Chinese Qualified Domestic Investor Scheme. Funds under management are currently of the order of $200 million.

Developments in 2007 and beyond

Having established a sound operating platform we will in 2007 continue to develop all parts of the business with a particular emphasis on our retail products and delivery offerings.

International Trade Finance

We have established considerable expertise in this area, particularly in relation to the financing of trade between China and other countries. We will continue to build upon this sound base by seeking new counterparties and offering a large range of different trade-related services including forfaiting, supplier and buyer credits, letters of guarantee and acceptances.

Corporate Banking

Whilst continuing to operate in the syndicated loans market, we will also seek to develop further our bilateral lending offering a range of banking facilities to corporate customers including loans and syndications, trade services, cash management and foreign exchange. We have already established a well diversified portfolio but, naturally, we are particularly interested in China-related risks.

We will also seek to develop further our business with small and medium sized enterprises in 2007. We will be offering current account services, trade services and small loans at competitive prices.

Retail banking

During 2007 we will be marketing our student account package to a wider audience in China and promoting our personal banking services more aggressively to the Chinese market in the UK. A number of initiatives are planned for 2007 to make our personal banking product offerings more attractive to customers and to enhance access to our services. We will continue to develop and promote the remittance service and foreign exchange facilities. Also we will continue to work closely with our parent to ensure that we provide a good service to their customers visiting the UK.

许金雷

Jinlei Xu

Directors

Lili Wang (Chairman)

Jinlei Xu

Mei Tao (Appointed on 26 May 2006)

Kang Pan (Resigned on 26 May 2006)

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

Board of Directors

Ms. WANG Lili
Chairman

In addition to being Chairman of ICBC (London) Ltd and Vice Chairman of ICBC (Asia) Ltd, Ms. Wang Lili is Executive Vice President of Industrial and Commercial Bank of China (ICBC). In this role she is responsible for international business, overseas business, corporate banking, treasury and legal affairs of the Bank. Ms. Wang is also the China member for ABAC (APEC Business Advisory Committee) and a member of WLN (Women Leaders Network of the World). She has been a member of the ICC Executive Board since 2003.

Ms. Wang was among the first international finance professionals in China following China's economic reforms and policy of openness. Prior to joining ICBC, Ms. Wang was with the Bank of China (BOC) and gained vast experience in areas ranging across FX trading, derivatives, capital markets financing and credit risk management. She served successively as General Manager of Overseas Institutions Administration Department, Credit Management Department and Risk Management Department. In 1998, she was named Executive Assistant President and Chairman of Bank of China (Canada) Ltd and of Hong Kong based, Yien Yieh Commercial Bank.

Ms. Wang, a graduate of Nankai University, also has an M.B.A in international banking and finance from the University of Birmingham.

Jinlei Xu
Managing Director

Jinlei Xu was appointed Managing Director and CEO of ICBC (London) Limited in March, 2005 having first joined the ICBC Group in 1989. He has held several senior roles within the Group including; Deputy General Manager of International Department, General Manager of Foreign Exchange Treasury Department and General Manager of ICBC Tokyo Branch.

Mr. Xu has a Master's Degree in Banking and Finance from Tianjin University of Economics and Finance and an MBA from Hong Kong University. He has served as Chairman of Chinese Banks Association in Japan and as a Member of the fourth Executive Council of the China Urban Finance Academy.

Mei Tao

Deputy Managing Director

Mei Tao was appointed Deputy Managing Director of ICBC (London) Limited in May, 2006 having first joined the ICBC Group in 1989. She also has served as Head of Treasury of ICBC (London). She has held several senior roles within the Group including; General Manager of Banking Department of ICBC Beijing Branch, Deputy General Manager of Treasury Department and Deputy General Manager of Corporate Banking Department of ICBC Beijing Branch.

Ms. Tao has a Master's Degree in Banking and Finance from Renmin University of China (RUC).

Graham Penny

Non-executive director

Graham Penny was appointed a non-executive director in April 2003 after having spent many years with a major UK banking Group. During his career he covered both domestic and international banking and has a very wide experience of banking in Asia, Europe and the Middle East. He is Chairman of the bank's Audit Committee and a member of Remuneration Committee. He is an Associate of the Institute of Bankers, a member of the Guild of International Bankers, an Associate of the Institute of Internal Auditors UK and Ireland and a member of the Institute of Directors. Mr. Penny is also on the Board of another London-based subsidiary of an international Bank.

Edwin S. Lacy

Non-executive director

Edwin Lacy was appointed a Non Executive Director of ICBC (London) Limited in September 2003 when the Bank was established in London. Mr. Lacy has worked in international banking for more than 40 years: half of which has been spent as the General Manager of the London Branches of banks from America, France and Indonesia. Mr. Lacy is Chairman of the Bank's Remuneration Committee and he is on the Board of two other London-based Subsidiaries of international banks.

Directors' report

The directors present their report and the financial statements of the Company for the year ended 31 December 2006.

Financial statements

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

Business review and future developments

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

The financial statements of the Company for the year to 31 December 2006 incorporate, for the first time, the requirements of FRS 25 and FRS 26. These requirements change the way the Company accounts for changes in fair value of financial instruments, resulting in increased volatility in profit and loss.

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 $2,342,000 (Profit for 2005: $457,000). 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 financial statements (Note 23).

Events since the balance sheet dates

There have been no significant events since the balance sheet date.

Directors and their interests

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

Lili Wang (Chairman)
Jinlei Xu
Mei Tao (Appointed on 26 May 2006)
Kang Pan (Resigned on 26 May 2006)
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, within the meaning of Section 324 of the Companies Act 1985.

Statement of directors' responsibilities

The directors are responsible for the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under the law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The financial statements are required by law to give a true and fair view of the state of affairs of the Company and of the profit of the Company for that 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 UK 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 that 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. They 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.

Directors' statement as to disclosure of information to auditors.

The directors who were members of the board at the time of approving the directors' report are listed above. Having made enquiries of fellow directors and of the company's auditors, each of these directors confirms that:

- To the best of each director's knowledge and belief, there is no information relevant to that preparation of their report of which the company's auditors are unaware; and
- Each director has taken all the steps a director might reasonably be expected to have taken to be aware of relevant audit information and to establish that the company's auditors are aware of that information.

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
27 March 2007

Independent auditors' report
to the members of ICBC (London) Limited

We have audited the financial statements of ICBC (London) Limited ("the Company") for the year ended 31 December 2006 which comprise the Profit and Loss Account, the Balance Sheet, the Statement of Total Recognised Gains and Losses and the related notes 1 to 24. These financial statements have been prepared under 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

The directors' responsibilities for preparing the financial statements in accordance with applicable law and United Kingdom Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

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 whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition, we report to you if, in our opinion, 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 other transactions is not disclosed.

We read other information contained in the Annual Report, and consider whether it is consistent with the audited financial statements. This other information comprises only the directors' report, the chairman's statement and the managing director's review of the business. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 31 December 2006 and of the Company's profit for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

Ernst & Young LLP

Ernst & Young LLP
Registered Auditor
London
27 March 2007

Profit and loss account

for the year ended 31 December 2006

	Notes	2006 $000	2005 $000
Interest receivable from financial investments		2,310	1,508
Other interest receivable		14,771	8,172
Interest payable		(10,260)	(4,816)
Net interest income		6,821	4,864
Fees and commissions receivable		582	442
Fees and commissions payable		(40)	(31)
Foreign exchange gain/(loss)		440	(147)
Other operating income		79	117
Non-interest income		1,061	381
Total income		7,882	5,245
Personnel expenses		2,438	2,056
Depreciation and amortisation		179	45
Provisions for bad and doubtful debts		-	1,000
Other operating expenses		1,988	1,550
Operating expenses		4,605	4,651
Profit on ordinary activities before tax	2	3,277	594
Tax on profit on ordinary activities	5	(935)	(137)
Profit for the financial year		2,342	457

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

The notes on pages 12 to 31 form part of these financial statements.

Statement of recognised gains and losses

for the year ended 31 December 2006

	2006	2005
	$'000	$'000
Profit for the financial year	2,342	457
Change in fair value of financial investments available-for-sale	59	-
Change in hedge reserve	10	-
	---------------	---------------
Total recognised gains and losses relating to the year	2,411	457
Effect of FRS 26 implementation (Note 24)	786	-
	---------------	---------------
Total recognised gains and losses since last annual report	3,197	457
	==============	==============

Reconciliation of movement in shareholders' funds

for the year ended 31 December 2006

	2006	2005
	$'000	$'000
Profit for the financial year	2,342	457
Change in fair value of financial investments available-for-sale	59	-
Change in hedge reserve	10	-
	---------------	---------------
Net addition to shareholders' funds	2,411	457
	---------------	---------------
Opening shareholders' funds as previously reported	98,451	97,994
Effect of FRS 26 implementation (Note 24)	786	-
	---------------	---------------
	99,237	97,994
	---------------	---------------
Closing shareholders' funds	101,648	98,451
	==============	==============

The notes on pages 12 to 31 form part of these financial statements.

Balance sheet
at 31 December 2006

	Notes	2006 $000	2005 $000
Assets			
Cash and balances at central banks		50	38
Loans and advances to banks	6	205,716	119,898
Loans and advances to customers	7	128,034	103,425
Derivative financial instruments	8	20	-
Debt securities	9	-	36,970
Financial investments available-for-sale	9	61,699	-
Tangible fixed assets	10	303	458
Prepayments, accrued income and other assets	11	2,859	2,784
Deferred tax assets	12	80	-
Total assets		398,761	263,573
Liabilities			
Deposits by banks	13	272,799	151,491
Customer accounts	14	20,461	12,200
Derivative financial instruments	8	6	-
Other liabilities		502	308
Accruals and deferred income	15	2,322	986
Corporation tax		1,023	137
Total liabilities		297,113	165,122
Share capital and reserves			
Authorised and called up share capital	16	100,000	100,000
Retained earnings/(Accumulated losses)		2,184	(1,549)
Available-for-sale reserve		(550)	-
Cash flow hedge reserve		14	-
Equity shareholders' funds		101,648	98,451

Total liabilities and share capital and reserves		398,761	263,573
		==============	==============
Memorandum Items			
Contingent liabilities and commitments	18	118,884	62,965
		==============	==============

These financial statements were approved by the directors on 27 March 2007 and are signed on their behalf by:

Jinlei Xu   Mei Tao

The notes on pages 12 to 31 form part of these financial statements.

Notes to the financial statements
at 31 December 2006

1. Accounting policies

Basis of accounting

The financial statements of ICBC (London) Limited were approved for issue by the Board of Directors on 27 March 2007.

The financial statements have been prepared in accordance with applicable Accounting Standards in the UK as defined in Section 256. 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 modified to include the revaluation of derivatives and other financial instruments.

Changes in accounting policies

During the year, the following accounting policy changes have been applied.

As permitted by FRS 25 and FRS 26, the company has utilised the exemption not to restate comparative information in accordance with these standards. Had FRS 25 and FRS 26 been applied from 1 January 2005, the debt securities would have been carried at fair value rather than at cost. The foreign currency and interest rate swaps and forward rate agreements would have also been carried at fair value rather than on accrual basis. Details of adoption as at 1 January 2006 are given in Note 24.

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.

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.

Financial instruments

The classification of financial instruments at initial recognition depends on the purpose for which the financial instruments were acquired and their characteristics. All financial instruments are measured initially at their fair value plus, in the case of financial assets and financial liabilities not at fair value through profit or loss, any directly attributable incremental costs of acquisition or issue.

(i) Loans and advances to banks and customers

Loans and advances to banks and customers are financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market. There are not entered into with the intention of immediate or short-term resale and are not classified in any of the other categories as described in FRS 26. After initial measurement, loan and advances to banks and customers are subsequently measured at amortised cost using the effective interest rate method, less allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the effective interest rate. The amortisation is included in 'interest receivable' in the income statement. The losses arising from the impairment are recognised in the income statement.

(ii) Financial investments available-for-sale

Financial investments available-for-sale are those which are designated as such or do not qualify to be classified as any of the other categories as described in FRS 26.

At the initial recognition of financial investments available-for-sale, all financial instruments (debt securities) are to be carried at fair value. After initial measurement, financial investments available-for-sale are subsequently measured at fair value. Unrealised gains and losses are recognised directly in equity in the available-for-sale reserve. When the security is disposed of, the cumulative gain or loss previously recognised in equity is recognised in the income statement. Where the Company holds more that one investment in the same security they are deemed to be disposed of on a first-in first-out basis. Interest earned whilst holding financial investments available-for-sale is reported as interest income using the effective interest rate. The losses arising from impairment of such investments are recognised in the income statement and removed from the available-for-sale reserve.

(iii) Deposits by banks and customer accounts

Deposits by banks and customer accounts which are borrowed funds not designated at fair value through profit or loss are classified as other financial liabilities, where the substance of the contractual arrangement results in the Company having an obligation either to deliver cash or another financial asset. After initial measurement, such borrowings are subsequently measured at amortised cost using the effective interest rate method. Amortised cost is calculated by taking into account any discount or premium on the issue and costs that are not an integral part of the effective interest rate.

(iv) Derivatives recorded at fair value

Derivatives include interest rate swaps, forward foreign exchange contracts and forward rate agreements. Derivatives are recorded at fair value and carried as assets when their fair value is positive and as liabilities when their fair value is negative.

Impairment of financial assets

(i) Loans and advances to banks and customers

For loans and advances to banks and customers carried at amortised cost, the Company first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Company determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are not individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset. Loans together with the associated allowance are written back when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to Company. If, in a subsequent year, the amount of estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to the income statement.

The present value of the estimated cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of available external credit ratings. Where external credit ratings are not available, internal ratings which are equivalent are used in assessing credit risks.

Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the years on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows reflect, and are directionally consistent with, changes in related observable data from year to year. The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

(ii) Financial investments available-for-sale

For financial investments available-for-sale, the Company assesses at each balance sheet date whether there is objective evidence that an investment or a group of investments is impaired. Impairment is assessed based on the same criteria as financial assets carried at amortised cost. Interest continues to be accrued at the original effective interest rate on the reduced carrying amount of the asset and is recorded as part of 'interest receivable'. If, in a subsequent year, the fair value increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the income statement, the impairment loss is reversed through the income statement.

Hedge accounting

The Company makes use of derivative instruments to manage exposures to interest rate and foreign currency risks, including exposures arising from forecast transactions. In order to manage particular risks, the Company applies hedge accounting for transactions which meet the specified criteria.

At inception of the hedge relationship, the Company formally documents the relationship between the hedged item and the hedging instrument, including the nature of the risk, the objective and strategy for undertaking the hedge and the method that will be used to assess the effectiveness of the hedging relationship.

Also, at the inception of the hedge relationship, a formal assessment is undertaken to ensure the hedging instrument is expected to be highly effective in offsetting the designed risk in the hedged item. Hedges are formally assessed each quarter. A hedge is regarded as highly effective if the changes in the cash flows attributable to the hedged risk during the period for which the hedge is designated are expected to offset in a range of 80% to 125%. For situations where the hedged item is a forecast transaction, the Company assesses whether the transaction is highly probable and presents an exposure to variations in cash flows that could ultimately affect the income statement.

For designated and qualifying cash flow hedges, the effective portion of the gain or loss on the hedging instrument is initially recognised directly in equity in the cash flow hedge reserve. The ineffective portion of the gain or loss on the hedging instrument is recognised immediately in the income statement.

When the hedged cash flow affects the income statement, the gain or loss on the hedging instrument is 'recycled' in the corresponding income or expense line of the income statement. When a hedging instrument expires, or is sold, terminated, exercised, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the hedged forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that are reported in equity is immediately transferred to the income statement.

Fair values

The fair value of debt securities is determined by reference to quoted values by third party brokers.

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

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 as incurred.

Operating leases

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

2. Profit on ordinary activities before tax

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

	2006	*2005*
	$000	*$000*
Operating lease charges- property	563	551
Auditors' remuneration	90	76
Consultancy fees	19	21
Irrecoverable VAT	137	56
	==============	==============

3. Staff costs

Staff costs (including directors) comprise the following:

	2006	*2005*
	$000	*$000*
Wages and salaries	1,737	1,498
Social security costs	325	288
Pensions costs	59	46
Other costs	317	224
	---------------	---------------
	2,438	2,056
	==============	==============

Employees

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

	2006	*2005*
	No.	*No.*
- Retail banking	7	6
- Corporate banking	5	4
- Investment banking	2	2
- Accounts and IT	4	4
- Administration	6	5
	---------------	---------------
	24	21
	==============	==============

4. Directors' emoluments

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

	2006	*2005*
	$000	*$000*
Emoluments	532	470
Company contributions paid to pension schemes	-	-
	==============	==============

5. Tax on profit on ordinary activities

The tax charge is made up as follows:

	2006	*2005*
	$000	*$000*
Current tax:		
UK corporation tax	1,024	137
Tax overprovided in previous year	(57)	-
Deferred tax:		
Origination and reversal of timing differences	(32)	-
Total charge for the year	935	137

The tax assessed on the profit on ordinary activities for the year is lower than the standard rate of corporation tax in the UK of 30% (2005: 30%). The differences are reconciled below:

	2006	*2005*
	$000	*$000*
Profit on ordinary activities before tax	3,277	594
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30%	983	178
Expenses not deductible for tax purposes	12	334
Capital allowances for year in deficit of depreciation	29	9
Tax overprovided in previous year	(57)	-
Deferred tax asset not recognised previously	(32)	-
Tax losses utilised in the year	-	(384)
Current tax charge for year	935	137

In the previous year, deferred tax asset of $457,000 was not recognised on the grounds that it was not considered more likely than not that there would be suitable taxable profits in future against which these could be offset. Following a successful year's operation in 2006, the directors are now confident that the asset will be recoverable.

6. Loans and advances to banks

	2006	*2005*
	$000	*$000*
Gross loans and advances to banks	206,050	119,898
Less: Allowance for impairment losses	(334)	-
Net loans and advances to customers	205,716	119,898

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

	2006	*2005*
	$000	*$000*
Repayable:		
- on demand	673	860
- three months or less	72,577	41,362
- one year or less but over three months	39,191	23,114
- five years or less but over one year	93,609	54,562
	---------------	---------------
	206,050	119,898
	==============	==============

Gross loans and advances to banks by geographical area:

	2006	*2005*
	$000	*$000*
China	44,593	18,659
India	41,402	35,132
United Kingdom	28,919	15,690
Korea	-	17,000
Other	91,136	33,417
	---------------	---------------
	206,050	119,898
	==============	==============

	2006	*2005*
	$000	*$000*
Amounts include:		
Due from parent undertaking	26,612	13,746
	==============	==============

	2006	*2005*
	$000	*$000*
Allowance for impairment losses		
At 1 January	-	-
Effect of FRS 26 implementation (Note 24)	334	-
	---------------	---------------
At 31 December	334	-
	==============	==============

7. Loans and advances to customers

	2006 *$000*	*2005* *$000*
Gross loans and advances to customers	128,662	104,925
Less: Allowance for impairment losses	(628)	-
Less: Provisions for bad and doubtful debts	-	(1,500)
Net loans and advances to customers	128,034	103,425

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

	2006 *$000*	*2005* *$000*
- on demand	-	-
- three months or less	48,400	10,111
- one year or less but over three months	22,118	25,000
- five years or less but over one year	35,144	48,963
- over five years	23,000	20,851
	128,662	104,925

Gross loans and advances to customers by geographical area:

	2006 *$000*	*2005* *$000*
China	35,856	33,748
United Kingdom	30,480	7,777
Hong Kong	22,613	63,400
Other	39,713	-
	128,662	104,925

Allowance for impairment losses		
At 1 January	-	-
Effect of FRS 26 implementation (Note 24)	628	-
At 31 December	628	-

	2006 $000	2005 $000
Provisions for bad and doubtful debts		
At 31 December 2005 / 1 January 2005	1,500	500
Effect of FRS 26 implementation (Note 24)	(1,500)	-
At 1 January 2006 / 1 January 2005	-	500
New and additional provisions	-	1,000
At 31 December 2006 / 31 December 2005	-	1,500

8. Derivative financial instruments

The Company is exposed to variability in future interest cash flows on non-trading assets and liabilities which bear interest at a variable rate. The Company uses interest rate swaps and forward rate agreements as cash flow hedges of these risks. Also, the bank is exposed to foreign exchange risks which are hedged with currency swaps.

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.

	2006			2005		
	Notional principal amount $000	Positive fair value $000	Negative fair value $000	Notional principal amount $000	Positive fair value $000	Negative fair value $000
Foreign exchange derivatives						
- Forward foreign exchange contracts	30,028	-	6	3,151	3	23
At 31 December	30,028	-	6	3,151	3	23
Interest rate derivatives						
- Swaps	3,269	20	-	6,127	-	8
- Forward rate agreements	6,750	-	-	42,150	22	-
At 31 December	10,019	20	-	48,277	22	8

At 31 December 2006, the Company had an interest rate swap of notional principal US$2,197,000 (2005: US$2,861,000). This reducing balance interest rate swap matures in May 2010. All other derivatives mature within 12 months.

9. Financial investments available-for-sale / Debt securities

	Financial investments available for-sale 2006 $000	*Debt securities 2005 $000*
Balance at 31 December 2005	-	36,970
Reclassification (Note 24)	36,970	(36,970)
Effect of FRS 26 implementation (Note 24)	(105)	-
Balance at 1 January 2006	36,865	-
Additions	33,651	-
Fair value adjustment and interest receivable	183	-
Disposals	(9,000)	-
Balance at 31 December 2006	61,699	-

Analysed by maturity:

	2006 $000	*2005 $000*
- due within one year	-	-
- due after one year	61,699	36,970

Analysed by listing status:

	2006 $000	*2005 $000*
- listed	28,127	36,970
- unlisted	33,572	-

Analysed by sector:

	2006 $000	*2005 $000*
- private sector	61,699	36,970
- public sector	-	-

10. Tangible fixed assets

	Leasehold improvements $000	*Office furniture and equipment $000*	*Computers $000*	*Motor vehicles $000*	*Total $000*
Cost:					
At 1 January 2006	440	110	237	89	876
Additions	11	-	13	-	24
Disposals	-	-	-	-	-
At 31 December 2006	451	110	250	89	900
Depreciation:					
At 1 January 2006	228	53	104	33	418
Disposal	-	-	-	-	-
Charge for the year	90	22	49	18	179
At 31 December 2006	318	75	153	51	597
Net book amount:					
At 31 December 2006	133	35	97	38	303
At 31 December 2005	212	57	133	56	458

11. Prepayments, accrued income and other assets

	2006	*2005*
	$000	*$000*
Accrued income	2,360	2,371
Prepayments	186	163
Amount owing from group undertakings	35	210
Assets recoverable	278	40
	2,859	2,784

12. Deferred tax assets

	2006	*2005*
	$000	*$000*
Deferred tax assets included in the balance sheet comprise the following:		
Deferred tax assets - Effect of FRS 26 implementation (Note 24)	48	-
Decelerated capital allowance	32	-
	80	-

13. Deposits by banks

	2006	*2005*
	$000	*$000*
Repayable:		
- on demand	7,523	2,395
- three months or less	237,628	131,146
- one year or less but over three months	27,648	17,950
	272,799	151,491

14. Customer accounts

	2006	*2005*
	$000	*$000*
Repayable:		
- on demand	2,317	4,075
- three months or less	17,054	6,971
- one year or less but over three months	1,090	1,154
	20,461	12,200

15. Accruals and deferred income

	2006	*2005*
	$000	*$000*
Accrued interest payable	1,547	843
Deferred income	775	143
	2,322	986

16. Share capital

	2006	*2005*
	$000	*$000*
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

17. Reconciliation of shareholders' funds and movement on reserves

	Share capital $000	*Profit and loss account* $000	*Available-for-sale reserve* $000	*Cash flow hedge reserve* $000	*Total share holders' funds* $000
At 1 January 2005	100,000	(2,006)	-	-	97,994
Profit for the year	-	457	-	-	457
At 31 December 2005	100,000	(1,549)	-	-	98,451
Effects of FRS 26 implementation (Note 24)	-	1,391	(609)	4	786
At 1 January 2006	100,000	(158)	(609)	4	99,237
Profit for the year	-	2,342	-	-	2,342
Available-for-sale reserve	-	-	59	-	59
Cash flow hedge reserve	-	-	-	10	10
At 31 December 2006	100,000	2,184	(550)	14	101,648

18. Memorandum items - contingent liabilities and commitments

	2006	*20045*
	$000	*$000*
Undrawn documentary credits and short-term trade related transactions	21,261	22,621
Undrawn loans and advances	83,934	37,193
Forward foreign exchange contracts	13,689	3,151
	---------------	---------------
	118,884	62,965
	==============	==============

Capital and operating lease commitments

At 31 December 2006, the Company had annual commitments under non-cancellable operating leases as set out below:

	2006	*2005*
	$000	*$000*
Within one year	-	-
Within two to five years	-	-
More than five years	489	429
	==============	==============

19. 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.

20. 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'.

21. Analysis of total assets and liabilities/shareholders' funds by currency

	2006 $000	2005 $000
Assets:		
Denominated in US Dollars	264,400	217,143
Denominated in currencies other than US Dollars	134,361	46,430
	---------------	---------------
Total assets	398,761	263,573
	==============	==============
Liabilities and shareholders' funds:		
Denominated in US Dollars	261,356	213,597
Denominated in currencies other than US Dollars	137,405	49,976
	---------------	---------------
Total liabilities and shareholders' funds	398,761	263,573
	==============	==============

22. 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.

23. 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.

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 2006 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

			2006				
	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*	*Total $000*
Assets							
Liquid assets	-	-	-	-	-	50	50
Loans and advances							
- to banks	135,523	59,953	8,613	1,961	-	(334)	205,716
- to customers	61,279	51,228	16,155	-	-	(628)	128,034
Financial investments							
Available-for-sale	-	-	-	54,694	7,005	-	61,699
Fixed and other assets	-	-	-	-	-	3,262	3,262
Total assets	196,802	111,181	24,768	56,655	7,005	2,350	398,761
Liabilities and shareholders' funds							
Deposits by banks	245,151	27,648	-	-	-	-	272,799
Customer accounts	19,371	1,090	-	-	-	-	20,461
Other liabilities	-	-	-	-	-	3,853	3,853
Shareholders' funds	-	-	-	-	-	101,648	101,648
Total liabilities and shareholders' funds	264,522	28,738	-	-	-	105,501	398,761
Interest rate sensitivity gap	(67,720)	82,443	24,768	56,655	7,005	(103,151)	-
Cumulative gap	(67,720)	14,723	39,491	96,146	103,151	-	-

Interest rate sensitivity table

2005	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	Total $000
Assets							
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
Total assets	64,248	115,261	43,138	32,130	7,016	1,780	263,573
Liabilities and shareholders' funds							
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
Total liabilities and shareholders' funds	144,587	19,078	26	-	-	99,882	263,573
Interest rate sensitivity gap	(80,339)	96,183	43,112	32,130	7,016	(98,102)	-
Cumulative gap	(80,339)	15,844	58,956	91,086	98,102	-	-

* 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.

24. Implementation of FRS 25 and FRS 26

The Company has implemented FRS 25 and FRS 26 for the first time in the financial statements for the year ended 31 December 2006.

The implementation of FRS 25 and FRS 26 is effective from their first adoption on 1 January 2006. Accordingly, the Company has prepared the financial statements which comply with FRS 25 and FRS 26 and applying the accounting policies in meeting their requirements as set out in Note 1.

The Company has also exercised under FRS 26 paragraph 108D, which allows exemption from restating comparative information before its adoption. Therefore comparative information on relevant accounts has been prepared in accordance to previous FRS13 for accounting period ending 31 December 2005.

FRS 25

Adoption of FRS 25 has resulted in certain changes in the disclosures related to financial instruments. The adoption of the presentational requirements of FRS 25 has had no impact on the opening position as at 1 January 2006.

FRS 26

The adoption of FRS 26 at 1 January 2006 has resulted in a net increase of $1,391,000 to retained earnings, $609,000 deficit in available-for-sale reserve and $4,000 to cash flow hedge reserve. The increase results from the following adjustments:

(i) Accounting for debt securities/financial investments available-for-sale

The Company has elected to designate debt securities as financial investments available-for-sale. Accordingly, following the adoption of FRS 26, debt securities of $36,970,000 previously reported at cost are now carried at fair value, this resulted in a decrease of assets by $323,000 and an increase in the deferred tax liability by $86,000, resulting in a net profit of $200,000 taken to the retained earnings and deficit of $609,000 taken to the fair value reserve.

(ii) Accounting for loans and advances to banks and customers

Under FRS 26, loans and receivables are stated at fair value and subsequently measured at amortised cost using the effective interest rate method. This resulted in an increase in assets of $519,000 and the deferred tax liability of $155,000, and resulting in a net profit of $364,000 taken to the retained earnings.

Further, with the introduction of impairment rules under FRS 26, the general provision for doubtful debts of $1,500,000, previously provided for loans and advances, has been reversed to retained profits. Collective impairment on loans and advances to banks and customers of $962,000 was made, which resulted in a decrease in assets of $962,000, an increase in deferred tax asset of $289,000 and resulting in a net loss of $673,000 taken to the retained earnings.

(iii) Accounting for derivatives held for hedge transactions

Under FRS 26, derivative financial instruments under designated and qualifying cash flow hedges, the effective portion of the gain or loss on the hedging instrument is initially recognised directly in equity in the cash flow hedge reserve. This resulted in an increase in assets by $30,000, an increase in liabilities of $26,000 and a net increase of $4,000 to cash flow hedge reserve.

Reconciliation showing the impact if FRS 26 adjustment as at 1 January 2006

	As at 31Dec 2005 $000	Accounting for debt securities $000	Accounting for loans and advances $000	Accounting for derivatives $000	Restated as at 1 Jan 2006 $000
Assets					
Cash and balances at central banks	38	-	-	-	38
Loans and advances to banks	119,898	-	(32)	-	119,866
Loans and advances to customers	103,425	-	1,089	-	104,514
Derivative financial instruments	-	-	-	30	30
Debt securities	36,970	(36,970)	-	-	-
Financial investments available-for-sale		36,865	-	-	36,865
Tangible fixed assets	458	-	-	-	458
Prepayments, accrued income and other assets	2,784	(218)	-	-	2,566
Deferred tax assets	-	(86)	134	-	48
	------				---------
Total assets	263,573				264,385
	========				========
Liabilities					
Deposits by banks	151,491	-	-	-	151,491
Customer accounts	12,200	-	-	-	12,200
Derivative financial instruments	-	-	-	26	26
Other liabilities	308	-	-	-	308
Accruals and deferred income	986	-	-	-	986
Corporation tax	137	-	-	-	137
	--------				---------
Total Liabilities	165,122				165,148
	--------				---------
Share capital and reserves					
Authorised and called up share capital	100,000	-	-	-	100,000
Accumulated losses	(1,549)	200	1,191	-	(158)
Available-for-sale reserve	-	(609)	-	-	(609)
Cash flow hedge reserve	-	-	-	4	4
	--------				---------
Equity shareholders' fund	98,451				99,237
	--------				---------
	263,573				264,385
	========				========

ICBC (London) Limited
Report and Financial Statements
31 December 2006

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