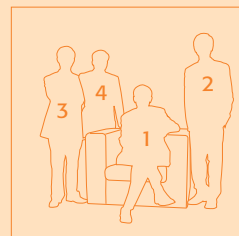




高層管理人員 Senior Management

1. 朱琦 (董事總經理暨行政總裁)
2. 黃遠輝 (董事暨副總經理)
3. 張懿 (董事暨副總經理)
4. 鄧錦新 (助理總經理暨財務總監)

1. Zhu Qi (Managing Director & Chief Executive Officer)
2. Wong Yuen Fai (Director & Deputy General Manager)
3. Zhang Yi (Director & Deputy General Manager)
4. Tang Kam Sun (Assistant General Manager & Chief Financial Officer)



Management's Discussion & Analysis

Overview

The year 2004 continued to be a challenging year for the Hong Kong banking industry, as banks grappled with high liquidity in the banking system and weak loan demand. Nevertheless, with the strong rebound in the retail sector, property and stock markets, the confidence of Hong Kong people revived as well as the unemployment rate going down, which made the overall asset quality of retail banking business improved in 2004. However, due to the forthcoming implementation of new Basel Capital Accord and Financial Reporting Standards, banks will continue to devote more resources to strengthen their overall risk management and internal reporting systems in order to well prepare for meeting the new requirements and challenges in year 2005.

Financial Review

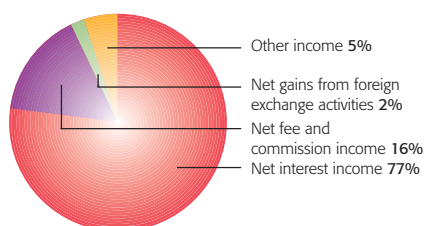
Despite the challenges and opportunities presented in 2004, the Group recorded substantial growth in profitability during the year. Consolidated profit attributable to shareholders reached HK\$760 million, representing an increase of 46% over the HK\$522 million achieved in 2003. The remarkable growth in earnings was due to significant growth in net interest income. Interest-bearing assets increased from HK\$61.3 billion to HK\$85.5 billion. Earnings per share was HK\$0.80 (2003: HK\$0.71). Return on average assets and return on average common equity were 0.9 % and 10.3% respectively (2003: 0.8% and 10.2%).

Net interest income for the year 2004 surged by 55% to HK\$1,275 million, mainly due to 50% surge in total loans, representing an increase of HK\$20.9 billion from HK\$41.8 billion in 2003 to HK\$62.7 billion in 2004 as well as the net interest margin having widened by 14 basis points from 1.32% to 1.46%.

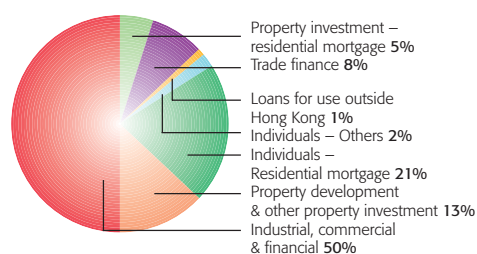
Other operating income also recorded an increase of HK\$49 million to HK\$370 million. The Group will continue materializing the revenue synergy from the acquisition of Belgian Bank. The proportion of non-interest income to total operating income was 23% (2003: 28%).

Operating expenses increased HK\$376 million to HK\$690 million (2003: HK\$314 million) mainly due to inclusion of the Belgian Bank. Hence, the cost to income ratio (excluding amortization of goodwill of HK\$54 million) increased from 27.4% in 2003 to 41.9% in 2004. The Group's total number of staff was 1,345 as at 31 December 2004, compared with 591 at the end of 2003.

Income Composition 2004



Loans Composition 2004



Management's Discussion & Analysis

As a result of the recovering economy and our prudent credit assessment policies, the Group recorded a HK\$22 million net write-back of bad and doubtful debts for the year 2004, among which HK\$57 million general provision was made as the loan book expanded and HK\$79 million specific provision was written back. Compared with last year, net specific provision reduced significantly by HK\$141 million, or 229%, mainly due to strong rebound in the market price of property collaterals for mortgage loans.

Total exceptional income was HK\$55 million, including HK\$40 million mainly arising from disposal and revaluation of the bank premises, of which profit from sale and leaseback of the ICBC Asia Building and write-back of impairment loss were HK\$32 million and HK\$8 million respectively and profit from sale of held-to-maturity and non-trading securities was HK\$15 million.

In November 2004, the Bank's equity interest in The Tai Ping Insurance Company, Limited ("Tai Ping") had been diluted from 24.9% to 12.45% since the Bank had renounced all its rights to participate in the additional capital injection of Tai Ping. Accordingly, the investment was classified as non-trading securities. Nevertheless, the Bank has an option to increase its equity interest in Tai Ping from 12.45% to 24.9% within six months from the date of the Option Deed entered into between the Bank and the other shareholders of Tai Ping, or such later date as the parties may extend pursuant to the terms of the Option Deed.

Balance Sheet

Following the successful completion of the acquisition of Belgian Bank on 30 April 2004, the total assets of the Group were increased to HK\$99.3 billion as at 31 December 2004, a 32% rise when compared with 31 December 2003. As at 31 December 2004, total loan outstanding amounted to HK\$62.7 billion. Compared with HK\$41.8 billion over the same period last year, it recorded an increase of 50% or HK\$20.9 billion. The additional new loans were mainly derived from blue chip and PRC companies, resulting in an improvement in the quality of loans. In addition, residential mortgages, trade finance, hire purchase and leasing also contributed to the assets growth.

Additional debt securities were secured in order to achieve higher return of our assets portfolio. As at 31 December 2004, total investment in debt securities increased 25% to HK\$17.1 billion, representing 17% of total assets. Our investments were concentrated on quality bonds with ratings of BBB- and above.

In line with our business development efforts and in order to improve our loans to deposits ratio, the Group has issued HK\$7.35 billion Certificates of Deposit in total. For the first time, the Group issued a 5-year US\$400 million Eurodollar bond in September 2004. The issue received extremely strong demand, attributable to the brand name of the ICBC Group and "A2" long term credit rating given by Moody's. Subscription amount topped US\$1,400 million, which was 4.7 times the amount initially offered. As a response, the final amount issued was increased from US\$300 million to US\$400 million.

Management's Discussion & Analysis

Capital and Liquidity Management

The capital base was augmented via the issuance of new ordinary shares and subordinated floating rate notes. In February 2004, the Bank issued 124,874,000 new ordinary shares at a price of HK\$11.25 per share through placement. Moreover, the Bank issued US\$150 million subordinated floating rate notes to the ultimate holding company in April, in order to further strengthen the capital base for coping with future business development.

At the end of 2004, the adjusted consolidated capital adequacy ratio for the Group was 17.4%, up 0.7% when compared with the same ratio of 16.7% at the end of December 2003, which was a healthy level when compared with International Settlements' minimum requirement of 8%. The Group maintained an adequate level of capital in 2004 and the average liquidity ratio amounted to 37.8% (2003: an average of 41.3%), which was well above the statutory requirement of 25%.

Asset Quality

Non-performing loans as at 31 December 2004 amounted to HK\$765 million (2003: HK\$668 million). Non-performing loan ratio decreased further from 1.7% as at 31 December 2003 to 1.3% as at 31 December 2004.

As at 31 December 2004, provisions for bad and doubtful debts aggregated HK\$836 million, which included HK\$333 million of specific provisions and general provisions of HK\$503 million.

As a matter of fact, overdue loans decreased from HK\$512 million as at 31 December 2003 to HK\$479 million as at 31 December 2004.

Credit Ratings from Moody's

In April 2004, Moody's assigned first-time ratings to the Bank. Long-term deposit ratings of A2, stable outlook; Short-term deposit ratings of Prime-1, stable outlook; Bank financial strength rating of D, positive outlook.

Retail Banking

With the continuous supports from the Central Government by introducing various policies, including "Pan-PRD Regional Cooperation Agreement" besides the "CEPA", "Individual Traveler" and "Renminbi business arrangement", it had stimulated the economic recovery of Hong Kong and obviously boomed the climate of retail business sector. The property market, stock market and the whole economy showed strong ascending sign while the overall business-operating environment of 2004 was relatively stable under the continuous capital inflow with the expectation of revaluation of Renminbi.



ICBC (Asia) is committed to better its branch network. The new Yaumatei Branch allows the customers to enjoy full banking services at larger premises.

Management's Discussion & Analysis

In the area of residential mortgage business, our revenue performance was significantly improved. The low interest rate environment and continuous price rise of property market had led to improvement of negative-equity cases and the confidence of Hong Kong people to purchase residential property. However, as the accumulative price rise became significant, purchase transactions started to slow down. Banks were shifting to mortgage re-financing business and the interest spread for mortgage loan had further tightened. During the year, we had co-operated with several main estate developers to provide tailor-made mortgage loan plans to homebuyers. Although the competition was fierce, our total mortgage loans outstanding increased by 58% to HK\$12.64 billion as at 31 December 2004 compared with last year. The Group shall also strive to keep the portfolio stable by proactively monitoring the market situation and adjusting our business strategies accordingly.



ICBC (Asia) is among the first lot of Hong Kong banks to launch personal RMB business in February 2004.

Following the green light shed by the People's Bank of China, the Group was among the first lot of banks in Hong Kong providing personal Renminbi banking services in February 2004, including Savings Account, Fixed Deposit, Exchange and Remittance services. To continue providing our customers with innovative and value-added services, the Group launched Personal Predetermined-Rate Remittance Service, 95588 Phone Banking Roaming Service and Mortgage Plus - Auto Remittance for Mainland Mortgage Payment ("Mortgage Plus") for repayment of mortgage loan of Mainland property in Hong Kong.

For 2004, "Mortgage Plus", our mortgage product for Mainland China, had successfully lined up 8 quality projects with developers located mainly in Shanghai and Beijing. The performance was outstanding compared with last year; there were totally 210 loan applications and HK\$276 million loan booked.

On the insurance side, two more insurance companies were lined up and various insurance products such as Super Life Retirement Plan, Prosperous Life Insurance Plan, HospitalCare Protection Plan, HospitalCash Protection Plan and Accidental Emergency Medical Insurance, were launched in 2004.

We shall broaden our e-channels and provide more cost-efficient and value-added services by further using innovative technology. By adopting the Customer Relationship Management System, we shall strengthen the customer relationships, increase product cross-selling and non-interest income.

In order to provide a comprehensive services to our customers, we shall keep on upgrading and expanding our domestic branch network progressively through reformation and rationalization. In September 2004, our Yaumatei branch was relocated and expanded with new additional services such as ATM, safe deposit box and securities investment center. At the end of 2004, our branch network had increased to 42 retail branches (including those currently operating under the name of "Belgian Bank") in Hong Kong.



ICBC (Asia) acts as an agent of "ICBC Xplore VISA" launched by ICBC Hong Kong Credit Card Centre.

Management's Discussion & Analysis

Besides, the Group has embarked on a retail network enhancement program to relocate certain branches to more convenient locations and to expand further in 2005 by following our planning schedule in order to rationalise the branch network.

Although we were facing keen competition, business result of Hire Purchase and Leasing was out-performed with good quality loans and volume growth by over 50% in 2004. As of 30 September 2004, the Group's market share of taxi and public light bus increased to 11.8% and ranked top 5 in the market. We expect intense competition will continue in the coming year. Nonetheless, we are committed to render excellent customer services and obtain quality loan with reasonable profitability to achieve targeted business growth.

For 2005, we shall keep on promoting residential mortgage loans and hire purchase and leasing businesses along the track to increase our market share and return. We still look forward to the markets of Shanghai and Beijing in future, with target on high-end customers. We also expect a remarkable growth in the area of being IPO receiving bank and IPO financing business for mainland enterprises going for listing in Hong Kong.

In branch rationalization, we expect to relocate and expand several branches, in order to provide a more comfortable environment as well as diversified services such as securities trading and safe deposit box services to our customers.

In order to provide advanced and comprehensive services to our respective customers, we will continue to provide professional training for our staff, reinforce our marketing oriented culture, transplant Customer Relationship Management System, enhance cross-selling and sales management, strengthen wealth management business capability, rationalize branch network, and speed up product development. Through these initiatives, we shall be able to build up a more solid, massive and profitable retail customer base, strengthen our economy of scale, and improve our operational efficiency and profitability.

Treasury and Markets

For the Treasury products and activities, during 2004, the Bank acted as one of the co-managers for the institutional tranche of the "Hong Kong Link" bonds issued by the Government. The tranche, totalled HK\$3.8 billion, was well-received by the market and was finally over-subscribed by 4 times.

On the funding side, the Group issued the first Eurodollar bond for international investors in September 2004. Attributable to the brand name of ICBC Group and "A2" long term rating given by Moody's, the issue received extremely strong demand, which topped US\$1,400 million and was over-subscribed by 4.7 times. The final amount issued was increased from US\$300 million to US\$400 million.



The first Euro dollar bond of ICBC (Asia) was well received by international investors.

Management's Discussion & Analysis

In order to take advantage of the low interest rate environment, the Group issued HK\$4.97 billion equivalent structural certificates of deposit to institutional investors and HK\$1.02 billion equivalent structural certificates of deposit to retail customers during the year to lock in the long-term low-cost funding.

Treasury and Markets endeavours to keep customers abreast of latest market development and offered a number of new financial products to retail and corporate customers. These new products provided customers with more investment choices and enhanced their hedging and liability management capabilities. Fee income from these products also provided the Group another source of revenue. Furthermore, the addition of Belgian Bank's branch network to our sales channel further enhanced our marketing capability.

The Group also strives to keep its risk management and control capability in line with business development. The new deal capturing and risk management system - Kondor+ has been fully implemented during the year and a Value-at-risk (VaR) risk measurement methodology has been adopted to measure the risk of our debt securities portfolio. Policies and guidelines were established for better risk and operational control.

2005 will be another year of challenge for Treasury and Markets. Interest rates are poised to rise further after US hiked rates five times by 1.25% in 2004 and rising interest rates will render the investment environment more difficult. Nevertheless, the team of professionals in Treasury and Markets will continue to position the Group in a strategic manner to maximize return on a risk-adjusted basis.

Commercial Banking

Overall performance from Commercial Banking has exceeded market average and recorded growth of approximately 300% for 2004 benefited from the increase in loan demand among local small and medium enterprises ("SME") and favorable global economy. Recognition of our stable lending policy among SME sector and strong network of the Bank's ultimate holding company – The Industrial and Commercial Bank of China ("ICBC") in China are two main factors contributed to our remarkable result. After our acquisition of Belgian Bank, the expanded customer base and additional product range should give us solid foundation for business growth in 2005.

Corporate Banking

The year 2004 had been a challenging year for Hong Kong corporate bankers, with Hong Kong wholesale loan market saw only modest volume recovery yet pricing fell further, in some cases, to unattractive levels. Our expansion to overseas markets, which offers higher yield on risk basis, has been fruitful. For example, during the year, we won the Group's first mandate in Australia, providing US\$360 million syndicated aircraft finance for Qantas Airways. We also won the Group's first syndication mandate in Korea, providing US\$86 million syndicated ship finance for SK Shipping. Furthermore, we successfully co-arranged a US\$150 million syndicated loan for Chunghwa Picture Tubes, a Taiwan based corporation.



The office in headquarters has been given an open office design to enhance communication between staff members and facilitate the sharing of space and facilities.

The Group strives to be among the major arrangers of financier for aircraft, ships, mergers and acquisitions as well as infrastructure projects, which posed a high demand on our professional skill and execution capability.

Management's Discussion & Analysis

During the year, the Group arranged finance for Dragonair to acquire two new A-320-200 aircrafts and Qantas Airways to acquire four new A-330S aircrafts. The Group also financed the leveraged buyout of the world's largest model train manufacturer, the world's largest provider of electricity meters and Australia's largest private hospital chain. Furthermore, acting as Joint Mandated Arranger, the Group financed the construction of the LNG pipeline from the Malaysia-Thailand Joint Development Zone to Thailand and Malaysia.

The Group's achievements so far are encouraging. Meanwhile, the Group has continued to strengthen our relationship with top tier corporations in Hong Kong by providing unreserved support as well as delivering practical investment and risk management advices. The Group's tailor-made structured investment products to enhance investment return for our clients have resulted in a stable corporate deposit base for the Group at a reasonable cost. Our expertise in interest and currency risk management has also resulted in a win-win scenario for the Group and our customers.

The Group's enhanced retail platform over the last few years also allows us to serve our corporate clients better. Looking ahead, a strong foundation is in place to take advantage of opportunities that may arise in 2005 and thereafter.

Financial Institutions

Backed by ICBC's nationwide branch network in Mainland China, Financial Institutions Department had a record year in terms of Cash Management business and Trade Finance business growth. The Risk Participation business recorded an accumulated turnover amount of US\$505 million in the year, which represented 426% increase over year 2003 and all transactions were paid in due course. Cash Management business also had significant development in which we provided tailor-made PRC Remittance Service for other financial institutions that fulfilled their customer needs. Trade Finance and cash management specialists of Financial Institutions Department know the market very well and can guarantee the Bank's competitive edge and service standard in these two businesses. Hence, Financial Institutions Department will continue to explore the opportunities to expand these two businesses in 2005.

Credit Card Business

In 2004, resulting from the successful marketing strategies, ICBC Hong Kong Credit Card Centre attained a very remarkable achievement by having 200% growth in new card issuance and 300% growth in sales volume, including both Hong Kong Dollar and Renminbi sales. The credit card products were widened with the introduction of Hong Kong's first "Dual Currency VISA Card" (HKD and RMB) targeting frequent travelers between Hong Kong and China for business or leisure, "ICBC Xplore VISA" targeting youth segment and co-brand "Yan Oi Tong VISA Card" for charity purpose.



ICBC Hong Kong Credit Card Centre joined force with charity organisation – Yan Oi Tong to launch "Yan Oi Tong VISA Card" in November 2004.

Management's Discussion & Analysis

Core Banking System

In November 2004, the successful completion and implementation of the upgrade of ICBC (Asia)'s core banking system is matching for its rapidly expanding business. The investment in the entire upgrade programme is nearly HK\$130 million. The upgrade enables ICBC (Asia) to enhance its competitiveness and move further towards its goal of becoming one of the five major banks in Hong Kong within the next few years.



ICBC (Asia) staff organised celebration party to mark the successful implementation of new core banking system.

The core banking system upgrade enables ICBC (Asia) to offer more personalised products and services through centralized analysis of customer database. With the collective control on credit risk and real-time risk management, the Bank can further strengthen credit risk management and internal control. The new system also supports the sales business and increases cross-selling opportunities that facilitates one-stop banking services. In addition, the Bank can respond to market changes more quickly and accurately and develop more multifaceted financial products with the powerful real-time computing mechanism.

Headquarters established

The Group officially named its new headquarters on 3 Garden Road as "ICBC Tower" on 20 January 2005 and invited Dr Jiang Jianqing, Chairman of the Group, to officiate the naming ceremony. The establishment of new headquarters signifies the commitment of ICBC to the development of its business in Hong Kong and also marks a new era of the Group and its ongoing role as the flagship of ICBC's overseas business.



Chairman Jiang Jianqing officiated the naming ceremony of ICBC Tower.

Occupying six floors of the ICBC Tower, the Group's new 100,000-sq.ft. headquarters, the Group has invested over HK\$20 million in the fitting out of and removal to the new premises which is designed in an open office set-up to enhance communication and resources sharing between staff members. The open-plan design also reflects the Group's congruous and new proactive management concepts.

Management's Discussion & Analysis

Human Resources

Following the integration with Belgian Bank, the number of staff increased to a total of 1,345 as at 31 December 2004, in which ICBC (Asia) accounted for 651 and Belgian Bank for 694. The management believes that superior staff are our greatest asset. As a result, the Group aims at attracting talents and retaining outstanding employees. We also implemented an effective incentive system that is in line with the Bank's profitability, the department's performance and the performance of individuals, so as to encourage our staff to dedicate to the Bank's objectives.



The first Annual Dinner jointly organised by ICBC (Asia) and Belgian Bank.

The Group highly values the training and development of our staff. Through a variety of training programmes, the Group actively enhanced the professional knowledge and marketing skills of our staff, promoted marketing initiatives, ensured that all of our employees observe regulatory requirements and effectively achieved the staff's potential. During the year, the Group introduced a knowledge sharing programme, namely "KS Friday", to encourage our staff to share a wide variety of knowledge and interest.



The 61 participants of "The World Famous Cities of China - Now and Then" met Chairman Jiang Jianqing at ICBC Headquarters.

In addition, to ensure the smooth integration with Belgian Bank, the Group, through a highly transparent communication mechanism, was committed to boost the morale of the staff, harmonize the value and philosophy of the staff and establish a new corporate culture.

To foster a sense of belonging and team spirit among staff members, the Group has the Recreation Committee to organize and promote various activities for the staff, including staff picnics, basketball matches, Taichi classes and film shows. In January 2005, our staff members enjoyed a delightful night on the Group's Annual Dinner with various amusements and lucky draw.

During the year, the Group organized "The World Famous Cities of China - Now and Then" eight-day tour and sponsored Hong Kong students and customers to visit Mainland China. The participants had invaluable insights into Beijing and Xian and they also met Chairman Jiang Jianqing at ICBC Headquarters. The tour confirmed the Group's commitment to the ongoing education and development of students in the community, the leaders of tomorrow.



➤ 雄厚 **實力**
Enhancing
Strength





中國工商銀行(亞洲)憑藉母公司中國工商銀行－中國最大商業銀行(以資產總額計)的龐大分行網絡、領導地位及豐富經驗，將繼續開拓廣泛的銀行及財務服務。

With the nationwide branch network, leadership and expertise provided by ICBC – the largest commercial bank (in terms of total assets) in the Mainland China, ICBC (Asia) will continue to offer a wide range of banking and financial services.

