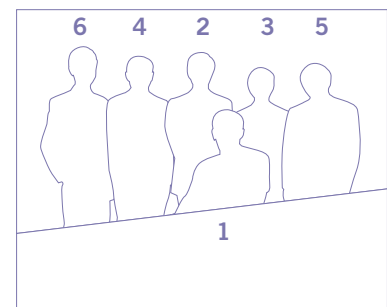




高級管理人員 SENIOR MANAGEMENT

1. 朱琦先生 (董事總經理暨行政總裁)
2. 黃遠輝先生 (董事暨副總經理)
3. 張懿先生 (董事暨副總經理)
4. 孔祥國先生 (副總經理)
5. 馮兆明先生 (副總經理暨風險總監)
6. 梁銘謙先生 (助理總經理暨財務總監)

1. **Mr. Zhu Qi** (*Managing Director & Chief Executive Officer*)
2. **Mr. Wong Yuen Fai**
(*Director & Deputy General Manager*)
3. **Mr. Zhang Yi**
(*Director & Deputy General Manager*)
4. **Mr. Kong Xiang Guo** (*Deputy General Manager*)
5. **Mr. Fung Siu Ming** (*Deputy General Manager & Chief Risk Officer*)
6. **Mr. Leung Ming Hym, Peter** (*Assistant General Manager & Chief Financial Officer*)



Management's Discussion & Analysis

OVERVIEW

During the past year, there has been an overall improvement in the economy in Hong Kong, which was evidenced by a 6.8% economic growth in 2006. Increasing consumer spending led to an optimistic business environment, and resulted in a rising demand for bank loans particularly from small and medium sized enterprises. It has also been an exceptionally good year for the stock market as a whole, with a robust demand from investors for shares offered by IPOs. The market sentiment reached the hike in October 2006 at the time of the listing of our parent bank, ICBC. Through the enhancement in the awareness of the general public of the ICBC brand name, our bank has been successful in taking advantage of unprecedented business opportunities.

FINANCIAL REVIEW

The Group has achieved a consolidated profit attributable to equity holders of HK\$1,246 million for the year ended 31 December 2006, representing an increase of 27% as compared to HK\$981 million in 2005.

Net interest income for the year ended December 2006 increased HK\$537 million or 41% to HK\$1,853 million. The improvement was attributable to a strong growth of money market placements during 2006, coupled with the widening of overall net interest margin from 1.19% to 1.45%.

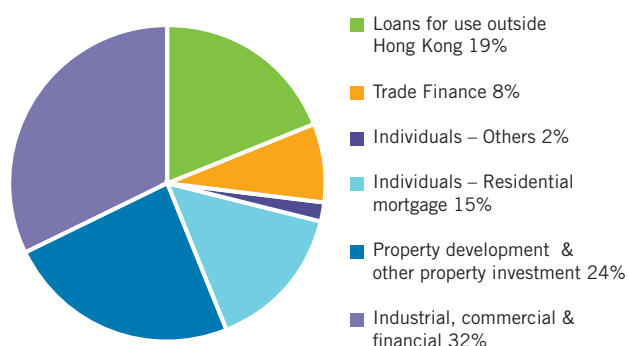
Total net fee and commission income and other operating income increased slightly by 4% to HK\$745 million from HK\$717 million for 2005. The increase was mainly due to the gain on mark-to-market of derivatives, together with an increase in fees and commission income, mainly from acting as a receiving bank for the robust IPO business throughout the year. Overall, the ratio of total net fee and commission and other operating income to the total operating income decreased to 29%, compared with 35% for 2005.

Operating expenses increased HK\$55 million or 6% to HK\$945 million from HK\$890 million for 2005. The cost to income ratio dropped from 43.8% to 36.4%, mainly due to the huge increase in net interest income, together with effective cost control over the year, as well as cost synergy effect coming in place after the merger with Belgium Bank, Hong Kong Branch in October 2005.

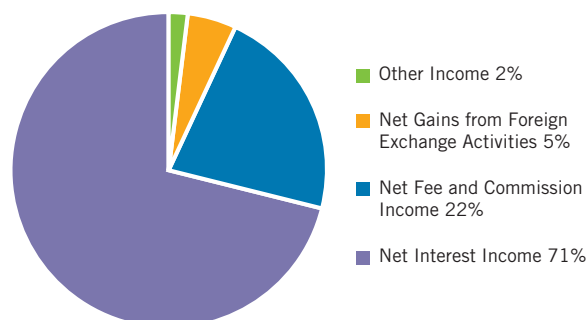
The consolidated impairment losses for loans and advances and held-to-maturity securities were HK\$138 million for the year.

The Group realised a HK\$83 million gain from disposal of investment securities, an increase of 27% as compared to HK\$65 million for 2005.

Loans Composition 2006



Income Composition 2006



Management's Discussion & Analysis

Share of profit from an associated company reached HK\$6 million, which came from China Ping An Insurance (Hong Kong) Company Limited, representing an increase of 2,107% as compared to HK\$0.3 million for 2005.

BALANCE SHEET

The consolidated total assets of the Group reached HK\$146,392 million as at 31 December 2006, representing an increase of HK\$30,610 million or 26% as compared to HK\$115,782 million as at 31 December 2005.

Consolidated total loans and advances increased by HK\$5,340 million or 8% to HK\$75,746 million as at 31 December 2006, as compared to HK\$70,406 million as at 31 December 2005.

Total customer deposits amounted to HK\$98,023 million, representing an increase of 61% as compared to HK\$60,990 million as at 31 December 2005.

Total certificates of deposits issued amounted to HK\$10,322 million, representing an increase of 10% as compared to HK\$9,351 million as at 31 December 2005. These deposits can provide the Bank with long-term and low cost funding.

CAPITAL AND LIQUIDITY MANAGEMENT

At the end of 2006, the adjusted consolidated capital adequacy ratio for the Group was 16.0% (2005: 15.7%). The Group maintained an adequate level of capital in 2006 and the average liquidity ratio amounted to 44.1% (2005: an average of 36.5%).

ASSET QUALITY

Consolidated impaired loans increased by HK\$237 million to HK\$898 million as at 31 December 2006, as compared to HK\$661 million as at 31 December 2005. As a result, the consolidated impaired loan ratio was up from 0.9% to 1.2%.

As at 31 December 2006, the cumulative loan impairment allowances aggregated to HK\$432 million (2005: HK\$477 million). This included HK\$201 million (2005: HK\$267 million) of individual impairment allowances and HK\$231 million (2005: HK\$210 million) of collective impairment allowances. The decrease of the impairment allowance was mainly due to the improvement of assets quality and the adoption of HKAS 39.

Overdue loans decreased from HK\$340 million as at 31 December 2005 to HK\$203 million as at 31 December 2006, which represents 0.2% of advances to customers.

RETAIL BANKING BUSINESS

2006 was a fruitful year for our Retail Banking business. We leveraged on our expanded branch network to actively acquire



ICBC (Asia) introduced a package of RMB and Mainland-related services.

Management's Discussion & Analysis

new customers. Our retail customer deposit base grew significantly while the interest margin of loans improved. Profit contribution from our Retail Banking business grew significantly to HK\$283.8 million in 2006 as compared to HK\$165.7 million in 2005.

The residential mortgage business among banks in Hong Kong remained highly competitive. A major bank launched a massive rate-cut residential mortgage promotional campaign in February 2006, which triggered reaction of rate re-pricing from most other banks in order to protect their respective market share. The volume of our newly acquired retail mortgage business in 2006 maintained more or less the same level as that in 2005. However, due to an increase in refinancing, our residential mortgage loan balance outstanding suffered a slight decrease.



ICBC (Asia) Central Branch opening ceremony.

Our loan portfolio of hire purchase and leasing business recorded a moderate growth with good net interest income generated attributable to our pro-active approach to successfully capture market opportunities. Our market share on taxi and public light bus financing expanded further to rank us among the top 4 in the market.

Our bank continued to ride on our edge to develop and promote Mainland China related banking products and services. In addition to deposit account service for “designated merchants” launched in 2005, RMB current account service was launched to better serve the active cross-border customers.

The Hong Kong stock market was particularly active during 2006, which led to a remarkable increase in our brokerage income. We also endeavored to enhance our wealth management services and to expand the range of investment products offered to customers. New products distributed in 2006 include 4 batches of certificate of deposit issued by our bank, 13 structured products that linked to stock prices or credit performance, 1 capital guaranteed fund and 1 retail bond. The sale of structured investment products and mutual funds amounted to over HK\$1 billion, with exceptionally good result attained in the sale of equity-linked products. In addition, we continued to grow and develop our insurance business by cross-selling to existing and new customers. Several new life insurance products were introduced to provide customers with a better selection of life protection and savings plans.

During 2006, we acted as the receiving bank for the IPO of 15 PRC enterprises, including those of Industrial and Commercial Bank of China, Bank of China, The Ming An (Holdings), China Communications Services, Shanghai Jin Jiang Int'l Hotel and Zhaojin Mining Industry. Such success solidified our role as a major player in local IPO receiving bank business.

In the information technology area, a new system called risk profiling-products matching system (RPPM) was developed for front office use. This system helps improve our sales delivery process with enhanced risk management and service quality to customers.

Since our successful integration of Belgian Bank, Hong Kong Branch in October 2005, we completed the merger of 4 branches in overlapping areas with minimal attrition of customers and business. Moreover, we expanded and relocated our

Management's Discussion & Analysis



ICBC (Asia) hire purchase and leasing business maintains stable growth.

Causeway Bay Branch, North Point Branch and Central Branch in March, June and August 2006 respectively to provide a more comfortable branch environment with diversified banking facilities such as Securities Investment Centre to our customers, which eventually improved the business development capability of the branches. We also upgraded the Central Branch as our flagship branch by developing a new style and sizable Wealth Management Centre. Furthermore, in August 2006, we opened a brand new Kwai Fong Branch in the busy commercial mall of Kwai Chung Plaza. By the end of 2006, about one fifth of our branches adopted new branch design theme which strengthens our unified bank image and was well accepted by our customers.

To strengthen our branch management, we not only held regular meeting at different levels and branch visits to communicate the market dynamics and update our business development, but we also developed a Sale Target Management System to monitor the key performance of our relationship managers and branches. This system has effectively enhanced the marketing performance and efficiency of our retail business.

In 2007, we shall continue to actively acquire new target customers and deposits, and our focus will be to further develop the high net worth customer base by offering a well packaged wealth management business. Through cross selling, we shall be developing and solidifying our various retail banking businesses.

For our mortgage business in Hong Kong, we expect that after the upgrade and improvement of our computer systems, we shall be able to provide more versatile products and services like "Wise Mortgage" to our valued customers so as to maintain our market share. It is expected that the Hong Kong property market will become very active in 2007, and that mortgage business will increase 20% to 30% as a whole. As market interest rate will remain at a low level, we expect that competition for mortgage business will remain keen. Nevertheless, we shall strive in 2007 to grow our mortgage business significantly as compared to 2006.

Our mortgage business in Mainland China is expected to grow steadily in 2007 despite of the macroeconomic tuning policy since we shall continue our strategy to develop the high-end target customers markets. Other than the well-developed market in Beijing, Shanghai, Guangdong (such as Zhongshan, Dongguan, Changping, etc.), we had successfully cooperated with our parent bank to extend our market to Hainan and Jiangsu Provinces. Cities like Hangzhou, Xian and Suzhou are new markets targeted where negotiation is in progress. Besides, we shall put particular emphasis on RMB business through Chinese Mercantile Bank, our wholly-owned subsidiary in the Mainland China.

We shall enhance our electronic channel services including improving the existing personal internet banking services and offering new internet securities services functionalities, automated phone securities services, and commercial internet banking.

To enhance the competitive edge on wealth management products and services, we shall continue to develop different types of investment products and line up with different financial institutions to offer diversified investment products for customers. Our bank will also design different promotion offers to further sustain the growth of wealth management business.

Management's Discussion & Analysis

To summarise our plan for 2007, we aim to upgrade our IT system platform, to improve the new Customer Relationship Management System and Sales Target Management System to raise our marketing capability and quality, and to provide more comprehensive, convenience and quality banking services to our different segments of customers. Moreover our branch network rationalisation program will continue so as to create a comprehensive and well-covered network.

TREASURY AND MARKETS

Profit contribution from our Treasury & Markets ("T&M") business amounted to HK\$304 million in 2006 as compared to HK\$397.6 million in 2005, the decrease of which was mainly attributable to the effect of rising U.S. short-term interest rate over the decreasing long-term interest rate which had adversely affected the performance of our debt securities portfolio. Notwithstanding the difficult market conditions, we managed to capture valuable business opportunities at the time of the listing of ICBC in Hong Kong in October 2006. For instance, our bank was appointed to act as the sole Foreign Currency Account Opening Bank for ICBC's IPO. At the same time, we had developed various equity-linked products in order to capitalise on strong investor sentiment and robust investors' demand for ICBC shares.

To capture the demand arising from the increasing popularity of investment products with steady income, we successfully launched an array of related treasury products, which were well received by our clients. Although T&M was a small department, we succeeded in providing customized services for domestic and Mainland clients by using the mechanism of cross-selling through other departments. By leveraging the Bank's retail and corporate distribution channels, the number of treasury customers increased dramatically in 2006.

In collaboration with our parent bank, we rolled out a variety of sophisticated treasury products geared to Mainland customers' needs, thus deepening our market penetration and enriching clients' investment portfolio. The pluralism of products and the cross-selling pattern are in favor of the different product requirements of our clients, as well as the future development of the bank.

In the area of capital markets, we have actively participated in a number of primary deals. Besides, given the cooperation with The Hong Kong Mortgage Corporation Limited ("HKMC") for issuing regular retail bonds, we successfully and solely managed HKMC's 2-year Composite Interest Rate Notes issue in the first quarter of 2006. The issue was the first ever Composite Rate Note in Hong Kong where the coupon was computed on the basis of the weighted average of all Hong Kong dollar interest-bearing liabilities of retail banks. This enabled us to promote product diversification in the Hong Kong debt market. We also joined the HKMC to launch the first-ever partially un-guaranteed mortgaged-backed securities issue as Co-Lead Manager in the fourth quarter of 2006. The deal was successfully issued and attracted an overwhelming demand.

We have been appointed by the Treasury Markets Association as one of the contributing banks to provide the price quotes for Reuters Limited to calculate the USD interest rate fixings in Hong Kong interbank market and RMB Swap Offer Rate ("CNY SOR") fixings on a daily basis.

In anticipation of the further opening of RMB banking business, such as the issuance of RMB-denominated bonds in Hong Kong, we shall equip and prepare ourselves for new business opportunities and challenges.



ICBC (Asia) arranged a debut Composite Interest Rate Notes Issue for HKMC.

Management's Discussion & Analysis

We shall also continue to develop and expand the range of treasury-related products and services that are tailored for customers' needs. Last but not least, we shall continue to collaborate closely with our parent bank and Chinese Mercantile Bank to grow our Mainland China and cross-border businesses, deliver superior services to customers and to create value to our bank as a whole.

COMMERCIAL BANKING

In 2006, our Commercial Banking business recorded a profit contribution of HK\$587 million as compared to HK\$387 million in 2005. Benefiting from unabated global and local economic boom, loan advances and deposits saw strong growth by 28% and 42% respectively as a result of increasing commercial activities of our Commercial Banking clients.

Our business approach remained to be totally customer-oriented and solution-driven to serve our target groups, of which Small and Medium Enterprises (SME) are our prime focus. To make our services more versatile, we offer specialised expertise through our European Banking, Indian Banking and Diamond Trade Finance units. Due to the strong presence of our parent bank in Mainland China and our established connection in Europe, cross-border co-operations contributed significantly to our business growth. We also leveraged on Macau's flourishing economy to capture business opportunities by successfully participating in project finance business there.

One of our key elements of success is our ability to provide an "one stop" service to our clients. We offer a wide variety of products and services, e.g. trade finance, factoring, derivatives, equipment and machinery finance, commercial loans, IPO finance, internet banking and other tailor-made services to take care of different needs of customers in different sectors.

Our merger with Belgian Bank, Hong Kong Branch in October 2005 continued to pay off with synergy effect coming in place not only in operation but also in use of manpower.

In light of our successful marketing strategies and well-identified portfolio focus, we are confident that 2007 will be another challenging but rewarding year for our Commercial Banking business through the unreserved endeavour of our professional relationship managers.



ICBC launched outdoor advertising in Hong Kong

CORPORATE AND INVESTMENT BANKING

Profit contribution from our Corporate and Investment Banking business amounted to HK\$334.4 million in 2006 as compared to HK\$283.8 million in 2005. The remarkable increase was attributable partly to the profit derived from the disposal of part of our portfolio of equity securities. In addition, the deposit base of our Corporate Banking clients grew significantly, which contributed to a reduction in our funding cost. In 2006, we continued to be among the leading arrangers of syndicated loan in Hong Kong. During the year, we arranged general purpose syndicated loans for Cheung Kong, China Overseas Land & Investment, CITIC Pacific, Guangzhou Investment,

Hang Lung Properties, Henderson Land, Hongkong Land, Hopewell, Hutchison Whampoa, Investcorp, Kerry Properties, Lenovo, PCCW, PCCW-HongKong Telephone, Shanghai Industrial Investment, Shenzhen Investment, Shougang Concord Grand, Shun Tak, Sino Land and Sun Hung Kai Properties. In addition, we continued to enhance our position in value-added transactions, and accomplished cheering results. Highlights of selected value-added transactions arranged by us during the year are as follows:

Management's Discussion & Analysis

Merger and Acquisition Finance:

US\$250 million syndicated loan for GS Capital Partners, a Goldman Sachs managed fund, to acquire a minority stake in Hana Bank, South Korea.

US\$53 million syndicated loan for a US multinational to acquire a glass fiber factory in Mainland China.

Project Finance:

US\$2,000 million syndicated loan for India's Reliance Group to build an oil refinery in India.

HK\$600 million syndicated loan for an international consortium to build a hotel nearby to the Hong Kong International Airport.

Infrastructure Finance:

US\$50 million bilateral loan to a Hong Kong incorporated company to acquire a toll road in Zhejiang Province, Mainland China.

Property Development Finance:

HK\$4,400 million syndicated loan for Sino Land to develop a residential property at Wu Kai Sha.

HK\$1,730 million syndicated loan for an international property fund to develop a luxury residential property in Macau.

Real Estate Investment Trust Finance:

HK\$7,200 million syndicated loan for Champion REIT to acquire the Citibank Plaza, Central.

US\$135 million bridge loan for a Special Purpose Vehicle to acquire a Grade A office property in Beijing, to prepare for its planned REIT listing.

We have also always made deliberate effort in leveraging our corporate customer base to promote the Bank's other businesses. In 2006 we pushed our momentum further to pitch for main IPO receiving bank position and were honored to be appointed by China Communications Services and The Ming An (Holdings), for which the IPOs were of overwhelming success.

For 2007, China property finance, REIT related finance, aviation and ship finance, merger and acquisition finance, project finance, natural resources finance and infrastructure finance will be our leading products. Building expertise, expanding market coverage, maximizing resources, and promoting cross-selling to benefit other units of our bank will lead our Corporate Banking business through to excellence.

FINANCIAL INSTITUTIONS

Our Financial Institutions business had achieved tremendous success in 2006, with a 34% growth in revenue. Transactional banking business continued to be the main and stable source of recurrent income. Despite the intense competition in the overall Financial Institutions industry, we were successful not only to protect our market share but also to maintain the business momentum.

Throughout the year, we had made tremendous effort of building a new business platform. A new Non-Bank Financial Institutions Section was formed to diversify the client base as well as to expand the product deliveries. Since the implementation in the middle of 2006, the result was very encouraging. In particular, many non-bank financial institutions established account relationships with us and various new products, such as IPO related financing, custodial services, credit and treasury related services were introduced and implemented with these clients.

In 2007, we shall continue our effort to improve the recurrent income level by incorporating more value-added features to transactional banking business, and shall maximize the utilization of newly introduced products/services by expanding the market coverage.

CREDIT CARD BUSINESS

Benefited from the merger with the credit card business of ICBC, Hong Kong Branch during the year, our overall credit card business had remarkable achievements in 2006 with a 40% and 115% growth in outstanding balance and turnover. While active credit card customers grew by 15%, average balance per borrowing card and average turnover per active card grew by 14% and 73% respectively.

Our strategic focus is to build the credit card business as an integral part of our Retail Banking business and to tap into resources, supports and business opportunities of common customer base from all other business lines. This helped to reduce the card acquisition cost by 89% and 20% for existing and new merchants respectively in 2006. The Credit Card Centre also shared solo-card database with other business lines for cross selling of our bank products.

The cross-border collaboration allows us to ride on the extensive network / facilitation of our parent bank to gain a competitive edge in Mainland China, where holders of our Dual Currency Card are able to enjoy mutual merchant offers and ATM supports. Alternatively, locally acquiring merchants are lined up to offer discount programs to huge number of ICBC card customers visiting Hong Kong.

Innovative marketing programs were launched in 2006 to boost card acquisition and utilization. Lucky draws, jackpots, buffet tickets, traveling packages, leisure activities and generous bonus points benefits were offered and were all well received by customers. We had further streamlined the autopay arrangement for RMB payment and our Dual Currency Card had incorporated the Octopus Automatic Add Value Service.

In 2007, we shall strive to further improve our efficiency and service quality, which will ultimately contribute to revenue generation. Also, to further diversify our product range, we shall begin the issue of chip cards and China Unionpay (CUP) cards.

CHINESE MERCANTILE BANK

Chinese Mercantile Bank (CMB) made great progress in 2006. As at 31 December 2006, CMB's total assets amounted to HK\$1,854 million, representing an increase of HK\$333 million or 22% over the end of 2005. Net profit for 2006 amounted to HK\$23 million, representing an increase of HK\$21 million or 1,025% from HK\$2 million in 2005. CMB had made best use of the synergy with our bank by integrating the resources in Hong Kong and Mainland China.

During 2006, CMB further improved its corporate governance. An independent director joined its board of directors and a new supervisor was nominated by our bank. In January 2007, CMB obtained its approval of the RMB Business License from China Banking Regulatory Commission, which allows CMB to better serve its existing and potential customers in future.

To take the advantage of prosperous future of the banking sector in the Mainland China, an additional capital of RMB390 million will be injected into CMB. Afterward, the total capital of CMB will be further strengthened and increased to RMB1,100 million.



ICBC (Asia) credit card centre offers discount programs to huge number of ICBC card customers visiting Hong Kong

Management's Discussion & Analysis

HUMAN RESOURCES

The number of staff of the Bank as at 31 December 2006 was 1,324. We completed the merger with the credit card business of ICBC, Hong Kong Branch in 2006, and the relevant workforce was smoothly integrated into our bank during the second quarter of the year.

We believe that a well-motivated and skilful workforce is our most treasured asset. To this end, we have enhanced our recruitment effort during 2006, by holding recruitment days as well as taking part in job fairs with the objective to attract talents. We had also introduced business-oriented training programs to enhance the skill and widen the knowledge of our staff in order to meet its operational needs. In addition, our key executives had participated in various management workshops to upgrade their managerial expertise.

At the same time, we recognise the need to promote good employer-employee relationship with a view to foster a sense of belonging among staff members. We offer support to our Staff Association to organise and promote various recreational and social gathering activities for the staff, including picnics, buffet gatherings, interest classes, sports events and our Annual Dinner.



ICBC (Asia) organized staff Annual Dinner

CORPORATE SOCIAL RESPONSIBILITY

The Hong Kong Council of Social Service awarded our bank with the Caring Company “5-Year Award Logo” in recognition of our achievements on various social services and commitment in the community in the past 5 years. The Caring Company Logo recognizes private companies with business operations in Hong Kong that demonstrated good corporate citizenship.



ICBC (Asia) held the third study tour

We were honored and appointed again as the Chairman of the Caritas Fund Raising Committee for the year 2006-07. Our bank and our staff volunteers were again committed to support Caritas-Hong Kong by soliciting donations from its business partners and customers through various fund raising activities including donation boxes at our branches, a TV charity show, sales of Caritas raffle tickets, and seven bazaars. In November 2006, we sponsored a charity dance performance “The Smiling, Proud Wanderer” at the Grand Theatre of The Hong Kong Culture Centre, which raised a record amount of over HK\$1.2 million. Moreover, we also donated part of the retail-spending revenue of the Caritas-Hong Kong MasterCard, the affinity card issued by us for Caritas-Hong Kong, as an alternate channel to raise donation fund.

In addition, the third Study Tour entitled “Ancient Capitals in Central Plains - Henan Study Tour” was successfully held in July 2006. 38 students nominated either by their schools or Caritas-Hong Kong had participated in the Tour, most of them were subsidised by our bank and our business partners. This Tour provided the students with a good opportunity to better understand the history and culture of China.

In 2007, we shall continue to provide support to community service to demonstrate our good corporate citizenship and help the less privileged to work towards the harmonious development of our society.



專業

Professional



中國工商銀行(亞洲)

ICBC (Asia)

