

Report of the Board of Directors

Principal Business

The principal business of ICBC is the provision of banking and related financial services.

Profits and Dividends Distribution

With the approvals of the extraordinary shareholders' general meetings held on 31 July and 22 September 2006, respectively, ICBC distributed 2006 interim cash dividends of RMB18,593 million to shareholders appeared on the register of shareholders on 30 June 2006, and resolved to distribute special dividends of RMB10,146 million to shareholders appeared on the register of shareholders on 22 October 2006.

The Board of Directors of the Bank proposed a dividend of RMB0.016 per share (including tax) in cash for the financial year ended 31 December 2006 (totalled RMB5,344 million) which will be subject to approval at the forthcoming annual general meeting of shareholders.

Reserves

Changes in the Group's reserves during 2006 are set out in the Consolidated Statement of Changes in Equity of the Financial Statements.

Distributable Reserve

Details of the distributable reserve of the Bank are set out in note 31 to the Financial Statements.

Financial Summary

The summary of published results, assets and liabilities of the Group for the four years ended 31 December 2006 is set out under the section headed "Financial Highlights" of this Annual Report.

Donations

During the reporting period, ICBC made donations totalling RMB12.62 million.

Property and Equipment

Changes in properties and equipment of the Group for the year ended 31 December 2006 are set out in note 23 to the Financial Statements: Property and Equipment in this Annual Report.

Subsidiaries

As of 31 December 2006, particulars of ICBC's principal subsidiaries are set out in note 21 to the Financial Statements: Investments in Subsidiaries in this Annual Report.

Public Float

Changes in the issued share capital of ICBC in this financial year are set out in note 30 to the Financial Statements: Share Capital in this Annual Report.

ICBC launched its global initial public offering in 2006 with its shares listed on the Shanghai Stock Exchange and SEHK on 27 October 2006.

As at the bulk printing date of this Annual Report, the Board of Directors of ICBC believes that the Bank has maintained sufficient public float, based on the publicly available information.

Purchase, Sale or Redemption of Shares

During the reporting period, neither ICBC nor any of its subsidiaries purchased, sold or redeemed any listed shares of ICBC.

Pre-emptive Rights

ICBC's Articles of Association does not have any mandatory provision regarding pre-emptive rights. Pursuant to the Bank's Articles of Association, ICBC can increase its registered capital by issuing shares through public or non-public offering, issuing bonus shares to the existing shareholders, converting capital reserve to share capital or using other methods as stipulated by laws and administrative regulations or approved by relevant departments.

Major Customers

Up to the end of 2006, ICBC's aggregate interest income and other operating income with its top five customers did not exceed 30% of ICBC's interest income and other operating income in 2006.

Use of Proceeds from the IPO

On 27 October 2006, ICBC's shares were listed on Shanghai Stock Exchange and SEHK, issuing 14.95 billion A shares at RMB3.12 per share for a total of about RMB46.64 billion and 40.7 billion H shares (including 8.14 billion state-owned shares sold on behalf of MOF and Huijin) at HKD3.07 per share for a total of about RMB126.58 billion (including the net proceeds of RMB24.67 billion collected on behalf of MOF and Huijin from sale of state-owned shares). The raised funds will be used for the purposes disclosed in the prospectus of ICBC, namely, strengthening the capital base of ICBC so as to support the ongoing growth of the Bank's business.

Goldman Sachs, Allianz, American Express and the SSF, have subscribed for new shares in 2006. Details are set out in "Details of Changes in Share Capital and Shareholding of Substantial Shareholders-Details of Share Issuance and Initial Public Offering" in the Annual Report.

Material Investment of Funds not Raised from the IPO

During the reporting period, the Bank did not have any material investment of funds not raised from the IPO.

Details of Issuance of Shares

Details of the issuance of shares by ICBC during the reporting period are set out in “Overview of IPO” and “Details of Changes in Share Capital and Particulars about Shareholding of Substantial Shareholders-Details of Share Issuance and Initial Public Offering” in the Annual Report.

Directors’ and Supervisors’ Rights to Acquire Shares or Debentures

As at 31 December 2006, none of the Bank’s directors, supervisors or their respective spouses or minor children had any right to acquire benefits by means of the acquisition of shares in or debentures of the Bank or its subsidiaries; nor was the Bank or any of its subsidiaries a party to any arrangement to enable the directors or supervisors to acquire such rights in the Bank or any other body corporate.

Interests in Shares, Underlying Shares, and Debentures Held by Substantial Shareholders and Other Persons

Director’s Interests

As of 31 December 2006, none of the directors or supervisors of ICBC had any interests or short positions in the shares, underlying shares or debentures of ICBC or any of its associated corporations (as defined in Part XV of the Securities and Futures Ordinance) which have to be notified to ICBC and SEHK under Divisions 7 and 8 of Part XV of the Securities and Futures Ordinance (including interests or short positions therein that they shall be deemed to have pursuant to such provisions of the Securities and Futures Ordinance), or any interests or short positions which have to be recorded in the register under Section 352 of the Securities and Futures Ordinance, or any interests or short positions which have to be notified to ICBC and SEHK pursuant to Mode Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Hong Kong Listing Rules.

Substantial shareholders and persons having interests or short positions that are disclosable pursuant to Divisions 2 and 3 of Part XV of the Securities and Futures Ordinance

As of 31 December 2006, ICBC had been informed by the following persons that they had interests or short positions in the shares or underlying shares of ICBC as recorded in the register required to be kept pursuant to Section 336 of the Securities and Futures Ordinance:

HOLDERS OF A-SHARES

Name of Substantial Shareholders	Capacity	Number of A Shares Held	Nature of Interest	Approximate Percentage of Issued A Shares (%)	Approximate Percentage of Total Issued Shares (%)
MOF	Beneficial owner	118,006,174,032	Long position	47.02	35.33
Huijin	Beneficial owner	118,006,174,032	Long position	47.02	35.33

HOLDERS OF H-SHARES

Name of Substantial Shareholders	Capacity	Number of H Shares Held	Nature of Interest	Approximate Percentage of Issued H Shares (%)	Approximate Percentage of Total Issued Shares (%)
SSF ⁽¹⁾	Beneficial owner	17,503,114,559	Long position	21.07	5.24
Goldman Sachs ⁽²⁾	Beneficial owner	16,476,014,155	Long position		
	Interest of controlled corporations	369,101,477	Long position		
	Total	16,845,115,632		20.28	5.04
Allianz	Interest of controlled corporations	7,336,585,122	Long position	8.83	2.20
	Interest of controlled corporations	696,401,107	Short position	0.84	0.21

Notes: (1) According to the register of shareholders as of 31 December 2006; SSF held 14,102,149,559 shares in ICBC.

(2) According to the register of shareholders as of 31 December 2006; Goldman Sachs held 16,476,014,155 shares in ICBC.

Connected Transactions

Continuing Connected Transactions Defined under the Hong Kong Listing Rules

• Continuing Connected Transactions with the BEA Group

The Bank of East Asia, Limited (“BEA” and, together with its associates, the “BEA Group”) holds a 25% equity interest in ICBC’s non-wholly owned subsidiary, ICEA Finance Holdings Limited. According to the Hong Kong Listing Rules, BEA is a substantial shareholder of a subsidiary of ICBC. Therefore, BEA and its associates are connected persons of ICBC.

During the reporting period, ICBC engaged in fixed-income securities transactions, foreign exchange transactions, derivatives transactions, money market instruments transactions and forfeiting transactions with the BEA Group on normal commercial terms. Such transactions constitute connected transactions of ICBC.

In order to document the foregoing continuing connected transactions, ICBC and BEA Group entered into an inter-bank transactions master agreement (the “Inter-bank Transactions Master Agreement”) on 26 September 2006, which came into effect when ICBC was listed. Pursuant to the agreement, ICBC and BEA Group agreed that the above-mentioned transactions shall be conducted in accordance with applicable normal inter-bank market practices and on normal commercial terms. Such transactions are conducted in the usual course of ICBC’s business. The Inter-bank Transactions Master Agreement is valid for a period of three years starting from the date of signing and, with the consent of both parties, may be extended for another three years upon expiration.

At the time of initial public offering, ICBC applied to SEHK for a waiver under 14A.42 (3) of the Hong Kong Listing Rules:

1. from strict compliance with the announcement (but not reporting) and independent shareholders’ approval requirements (if applicable) under the Hong Kong Listing Rules for non-exempt connected transactions, and SEHK has granted such waiver; and
2. from strict compliance with the requirement to set an annual limit for non-exempt connected transactions, and SEHK has granted such waiver.

During the reporting period, neither the total amount of payments made by ICBC to the BEA Group nor that of payments made by the BEA Group to ICBC under the Inter-bank Transactions Master Agreement exceeded any of the percentage ratios (other than the profit ratio which is not applicable) under Rule 14.07 of the Hong Kong Listing Rules by 0.1%. Pursuant to Rule 14A.33 (3) of the Hong Kong Listing Rules, the foregoing connected transactions are exempted from the reporting, announcement and independent shareholders’ approval requirements under the Hong Kong Listing Rules.

• Non-exempt Continuing Connected Transactions with Credit Suisse Group

Credit Suisse (“Credit Suisse” and together with its associates, the “Credit Suisse Group”) holds a 25% equity interest in our non-wholly owned subsidiary, ICBC Credit Suisse Asset Management Co., Ltd. (“ICBC Credit Suisse”). In accordance with the Hong Kong Listing Rules, Credit Suisse is a substantial shareholder of a subsidiary of ICBC. Therefore, Credit Suisse and its associates are connected persons of ICBC.

During the reporting period, ICBC engaged in fixed-income securities transactions, foreign exchange transactions, money market instruments transactions, equity shares and equity-linked securities transactions, listed and over-the-counter derivatives transactions, custodian services, and investment banking services with Credit Suisse Group on normal commercial terms. Such transactions constitute connected transactions of ICBC.

In order to document the foregoing continuing connected transactions, ICBC and Credit Suisse entered into a master services agreement (the “Credit Suisse Master Services Agreement”) on 26 September 2006, which came into effect when ICBC was listed. Pursuant to the agreement, ICBC and Credit Suisse Group agreed to conduct the above-mentioned transactions according to applicable normal market practices and on normal commercial terms. Such transactions are conducted in the usual course of ICBC’s business. The Credit Suisse Master Services Agreement is valid for a period of three years starting from the date of signing and, with the consent of both parties, may be extended for another three years upon expiration.

At the time of initial public offering, ICBC applied to SEHK for a waiver under Rule 14A.42 (3) of Hong Kong Listing Rules:

1. from strict compliance with the announcement (but not reporting) and independent shareholders’ approval requirements (if applicable) under the Hong Kong Listing Rules for non-exempt connected transactions, and SEHK has granted such waiver; and
2. from strict compliance with the requirement to set an annual limit for non-exempt connected transactions, and SEHK has granted such waiver.

Transactions between ICBC and Credit Suisse Group pursuant to the Credit Suisse Master Service Agreement amounted to RMB20,051 million within the reporting period.

REVIEW AND CONFIRMATION ON CONTINUING CONNECTED TRANSACTIONS BY INDEPENDENT NON-EXECUTIVE DIRECTORS OF ICBC

Independent non-executive directors of ICBC reviewed the continuing connected transactions which ICBC conducted with the BEA Group and the Credit Suisse Group within the reporting period, and confirmed that:

1. such transactions were the ordinary business of ICBC;
2. such transactions were conducted on normal commercial terms; and
3. such transactions were carried out in accordance with the terms of relevant agreements, and such terms were fair and reasonable and in the interest of ICBC's shareholders as a whole.

CONFIRMATION BY AUDITORS ON CONTINUING CONNECTED TRANSACTIONS

ICBC's auditors reviewed the foregoing continuing connected transactions and confirmed that:

1. such transactions were approved by the Board of Directors of ICBC;
2. such transactions were conducted in accordance with the pricing policies of ICBC; and
3. such transactions were entered into in accordance with the relevant agreements governing these transactions.

Connected Transactions as Defined by Domestic Laws and Regulations

• Connected Transactions with MOF and Huijin

In the opinion of ICBC, such transactions were carried out in the usual course of ICBC's business and on normal commercial terms and will not affect the independence of ICBC.

• Connected transactions with Goldman Sachs and SSF

As of the end of 2006, Goldman Sachs and SSF held about 5.04% and 5.24% of the Bank's shares, respectively. Pursuant to the provisions of the Listing Rules of Shanghai Stock Exchange, both of them are connected persons of ICBC. In the opinion of ICBC, all of such transactions were carried out in the usual course of ICBC's business and on normal commercial terms and will not affect the independence of ICBC.

• Transactions with Other Connected Persons under the Laws and Regulations of China

During the reporting period, no material connected transaction has been entered into between ICBC and other connected persons that is disclosable.

Remuneration Policy for Directors, Supervisors and Senior Management Members

ICBC has adhered to the market-oriented principle and emphasised the policy of aligning performance with position value in documenting the compensation structure, basic salary and annual incentive bonus, and compensation payment of directors, supervisors and senior management members. In addition, ICBC has developed the performance restriction mechanism and performance evaluation plan, and applied balanced score card for performance evaluation from the aspects of financial indicators, operational indicators, risk management indicators, internal management and employee development. Allowance is paid to independent non-executive directors, external supervisors and representatives of the staff. In accordance with relevant laws of China, ICBC has contributed to statutory retirement programs sponsored by Chinese governmental organisations at different levels for such people as directors, supervisors and senior management members.

According to the resolutions passed at the Fourth Extraordinary Shareholders' General Meeting held in July 2006, the Bank planned to grant share appreciation rights to the eligible directors, supervisors, members of the senior management and other core employees as determined by the Board of Directors. The share appreciation rights shall be granted and exercised in accordance with the price of the Bank's H-share. As at 31 December 2006, the Bank has not granted any share appreciation rights to any director, supervisor, member of the senior management and core business personnel as determined by the Board of directors.

Tax Concession

For details on tax concession of the Bank, please refer to "Management Discussion and Analysis-Financial Review and Prospect".

Auditors

The 2006 Financial Statements of ICBC which were prepared in accordance with the International Financial Reporting Standards were audited by Ernst & Young, and the Financial Statements prepared in accordance with the Generally Accepted Accounting Principles of the People's Republic of China were audited by Ernst & Young Hua Ming.

Members of Board of Directors

The directors of ICBC during the financial year were as follows:

Executive Directors: Jiang Jianqing, Yang Kaisheng, Zhang Furong, Niu Ximing

Non-executive Directors: Fu Zhongjun, Kang Xuejun, Song Zhigang, Wang Wenyan, Zhao Haiying, Zhong Jian'an, Christopher A. Cole

Independent Non-executive Directors: Leung Kam Chung, Antony, John L. Thornton, Qian Yingyi

Relationships among Members of Board of Directors

There was no material financial, business, family and other relationship among members of the Board of Directors.

By order of the Board of Directors

Jiang Jianqing
Chairman