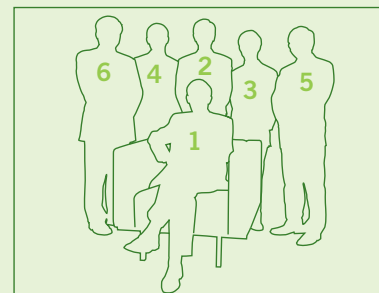




高層管理人員 SENIOR MANAGEMENT

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. 鄧錦新先生 (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. Tang Kam Sun** (*Assistant General Manager & Chief Financial Officer*)



Management's Discussion & Analysis

OVERVIEW

In Year 2005, Hong Kong economy experienced a steady growth and the operation environment had sustained continual improvement. Property price, consumer spending and employment prospects showed solid improvement; as a result, the market demand for loan financing increased and created an optimistic market environment for banking business. However, the banking industry still faced many challenges including the narrowing of interest rate spread, the uptrend of interest rate, the slow down of property investment, the high level of petroleum price and the spread of avian flu over regions etc. Considering the implementation of new Basel Capital Accord, our group will continue to devote more resources to strengthen our overall risk management and internal reporting systems in order to well prepare for meeting the new policies and challenges in the coming year.

FINANCIAL REVIEW

The Group has achieved a consolidated profit attributable to equity holders of HK\$981 million for the year ended 31 December 2005, representing an increase of 29% over the HK\$760 million achieved in 2004.

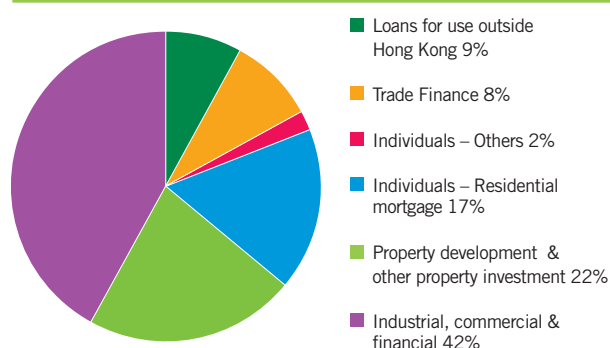
Net interest income for the period ended 31 December 2005 increased HK\$41 million or 3% to HK\$1,316 million. The improvement came from 12% loans growth was partially offset by the narrowing of interest margin from 1.46% to 1.19%, which was mainly caused by the adoption of HKAS 39, where the interest from funding swap was reclassified to other operating income. When excluding this effect, the interest margin was 1.32%.

Other operating income surged up 94% to HK\$717 million from HK\$370 million for the same period of 2004. The increase was mainly due to the reclassification of funding swap interest, the increase in fees and commission benefited from healthy loan growths, the full year effect of the acquisition of Belgian Bank, Hong Kong Branch as well as the increase in trading profits on investment in securities. The ratio of other operating income to the total operating income increased to 35%, compared with 23% for the same period of 2004.

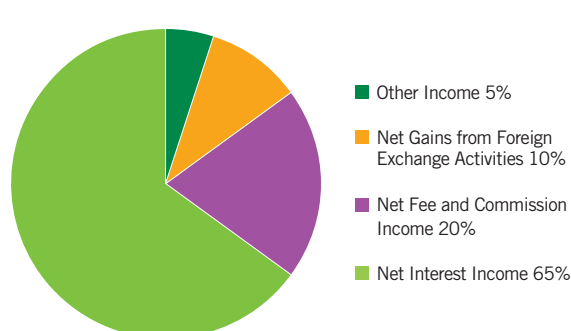
Operating expenses increased HK\$201 million or 29% to HK\$890 million from HK\$689 million (excluding goodwill amortization HK\$55 million). The cost to income ratio raised from 41.9% to 43.8%, mainly due to the full year effect of the acquisition of Belgian Bank, Hong Kong Branch and computer enhancement expense. Nevertheless, the ratio has been slightly improved by 1% when compared with 44.9% recorded in the period ended June 2005. In 2006, the Group is confident to improve the ratio by enhancing cross selling, achieving branch rationalization and releasing cost synergy.

The consolidated impairment losses on loans and advances was HK\$6 million for the year ended 31 December 2005. For the period ended 31 December 2005, the group realized HK\$66 million gain from the disposal of investment securities.

Loans Composition 2005



Income Composition 2005



Management's Discussion & Analysis

BALANCE SHEET

The consolidated total assets of the Group reached HK\$115,399 million as at 31 December 2005, representing an increase of HK\$16,055 million or 16%, compared with HK\$99,344 million as at 31 December 2004. Consolidated total loans and advances increased by HK\$7,666 million or 12% to HK\$70,406 million as at 31 December 2005. New loans of HK\$1,059 million were attributed to the acquisition of Chinese Mercantile Bank, while the rest were mainly derived from Corporate and Hire Purchase & Leasing loans. Total customer deposits amounted to HK\$60,990 million, this represented an increase of 9%, as compared with HK\$56,058 million as at 31 December 2004.



The successful merger of ICBC (Asia) and Belgian Bank, Hong Kong Branch creates a robust financial services platform that enables to pursue

Total certificates of deposit issued amounted to HK\$9,351 million, representing an increase of 27%, compared with HK\$7,345 million as at 31 December 2004. These deposits can provide the bank with long-term and low cost funding.

CAPITAL AND LIQUIDITY MANAGEMENT

At the end of 2005, the adjusted consolidated capital adequacy ratio for the Group was 15.7% (2004: 17.4%). The Group maintained an adequate level of capital in 2005 and the average liquidity ratio amounted to 36.5% (2004: an average of 37.8%).

ASSET QUALITY

Consolidated impaired loans/non-performing loans decreased by HK\$104 million to HK\$661 million as at 31 December 2005, compared with HK\$765 million as at 31 December 2004. The consolidated impaired loan/non-performing loan ratio was reduced from 1.3% to 0.9%.

As at 31 December 2005, the cumulative loan impairment allowances (previously referred to as the “provisions for bad and doubtful debts”) aggregated to HK\$477 million (2004: HK\$836 million), which included HK\$267 million (2004: HK\$333 million) of individual impairment allowance and HK\$210 million (2004: HK\$503 million) of collective impairment. The drop of the impairment allowance was mainly due to the improvement of assets quality and the adoption of HKAS 39.

Overdue loans decreased from HK\$479 million as at 31 December 2004 to HK\$340 million as at 31 December 2005.

CREDIT RATINGS FROM MOODY'S

ICBC (Asia) received A2/Prime-1 long term/short term deposit ratings and D+ Bank Financial Strength Rating (BFSR) by Moody's Investors Service. The outlooks for the deposit ratings are stable and the outlook for the BFSR rating is stable, reflecting ICBC (Asia)'s moderate financial fundamentals and evolving franchise in Hong Kong's intensely competitive market.

RETAIL BANKING BUSINESS

2005 was a milestone of our retail banking development, we have successfully integrated with Belgian Bank, Hong Kong Branch on 10 October, which contributed to our massive growth of retail banking business bases and a double growth of our branch network to 42 branches. Moreover, the smooth integration and swift cooperation among our branches after the merger help to uplift our service capability, solidify our business bases and pave a strong platform for our future branch rationalization and retail business development.

Management's Discussion & Analysis

To manage our expanded branch network, we implemented Branch Zone Management after merger by splitting our branch network into 6 zones: Hong Kong Central, Hong Kong East, Kowloon Central, Kowloon South-east, New Territories West and New Territories East. We appointed the branch managers of the core branch in each zone to be the zone managers to assist and coordinate the business development of the branches within their zones.

In respect of branch rationalisation, following the relocation of the Yaumatei Branch in September 2004, we have relocated and expanded the Tsimshatsui East Branch, Shamshuipo Branch and Sheung Wan Branch in 2005 to provide a more comfortable branch environment. By offering a wide range of banking facilities such as safe deposit box and securities services centre, it significantly improves the business development capability of the branch network. The business performance of the Tsimshatsui East Branch and the Shamshuipo Branch is better than expected.



ICBC (Asia) Tsimshatsui East Branch provides more comfortable environment to our customers.

Mortgage business in Hong Kong was volatile in 2005. While the HK property market was bullish in the first half year, the property prices and number of property transactions were decreased as a result of increasing interest rate by 2.50% in total. The HK property market was quiet in the end of 2005. It is expected that property price will remain steady in 2006. Like previous years, our bank will not lead the market in the price competition but will revise our pricing strategy from time to time with reference to competitors' offers so as to maintain our market share in the mortgage business. Similar to most small to medium sized banks, our capital cost is relatively high and lacks the price competency of those big leading banks. To maintain our competitive power in mortgage business, we will further improve our mortgage loan products and raise our customer service so as to suit customer needs.

We have opened up our mortgage business in Beijing after our hard work in 2005. Our loan portfolio in Mainland had reached HK\$500 million at the end of year 2005, representing an 84% increase as compared with that of 2004. In 2006, we expect the business in Shanghai will be more or less the same as 2005, whilst the business in Beijing is expected to grow steadily. Other than current developed locations in mainland, we are going to expand our mortgage business in 2006 to some other major cities, like Nanjing, Chengdu, Hangzhou, Suzhou and Kunshan.

Due to historical constraints, we were relatively less active in providing personal unsecured loan products. Since the gradual recovery of the HK economy in recent years and the establishment of personal positive credit data sharing, our peers are active in further developing personal credit business. As our integration project was a main focus, we did not expand this business area in 2005. In 2006, we shall develop more personal unsecured loan products to the market, such as unsecured overdraft and personal revolving loans etc., to increase, year by year, interest income generated from high yield loan products and to achieve a more reasonable and balanced retail lending portfolio.

Hire Purchase and Leasing Business has achieved a remarkable growth of 28.7% compared with 2004, it accounted for over 9% of the bank's total loan portfolio. In 2005, our Taxi/Public Light Bus loan grew significantly. Our market share is around 15% which is top 5 in the market. Past due ratio was well stood at below 0.15% during the year. It was well below the statistical figure of about 0.28% according to the HKMA. However, due to higher funding cost, profitability has largely trimmed down. It is anticipated the profitability will improve with surging prime rate. In 2006, we not only aim at achieving a growth in our hire purchase and leasing business with a balance of risk and profit, but also aim at developing new products and cross-selling opportunities to maximize the profit contribution.

Management's Discussion & Analysis



ICBC (Asia) applied Hong Kong Post e-Cert as his internet banking two-factor authentication tool.

trusts business in the second quarter and reduced the minimum deposit amount for High Yield Currency-Linked Deposit in June. Both of them aimed to make the investment products more attractive and competitive in the retail market and to extend the products to more potential customers. We cooperated with the Treasury Markets Forum of Hong Kong to offer the RMB Non-Deliverable Forward Contract for retail customers in November. Customer can have more options for RMB investment. Further to the People's Bank of China has agreed to expand the RMB business, we have launched deposit accounts for "designated merchants" as well as increased the transaction limit for exchange of RMB cash and remittance of RMB to the mainland for personal customers in December.

New insurance products including Savings Plan 8 Plus, Rainbow Age Whole Life Plan and Peaceful Age Whole Life Plan were launched to provide customers with life protection as well as savings plan. Meanwhile, the Accidental Emergency Medical & Hospitalization Insurance was launched to provide customers with medical treatment protection via network of authorized hospitals in the mainland.

In 2005, we have proactively expanded our e-channel services so as to offer more convenient services to our customers. Apart from the launch of Internet Securities Service, enhanced Personal Internet Banking and Commercial Internet Banking, we have also revamped our website to project a new image for our bank and facilitate our customer to search our information via internet. For the security of internet banking services, we applied Hong Kong Post e-Cert as our internet banking two-factor authentication tool.

During 2005, we also acted as the receiving bank of the following Chinese enterprises, "Air China", "China Shenhua Energy", "Bank of Communications", "China Construction Bank" and "Xiamen International Port" in their initial public offering (IPO) activities.

TREASURY AND MARKETS

Despite intense competition among financial institutions and the volatile market environment, Treasury and Markets ("T&M") was able to keep its profitability up in 2005.

T&M put strong emphasis on marketing and sales of financial products in 2005. We successfully strengthened relationships with Government-linked institutions, large listed companies and SMEs in funding and structured product business, especially after the merger with Belgian Bank, Hong Kong Branch. As a result, revenues from marketing sales and intermediary service increased remarkably.

T&M has set up RMB Non-Deliverable Forward Contract ("NDF") and currency options trading functions in 2005. This enabled the Bank to become one of the first banks in Hong Kong to introduce the "Retail RMB NDF" service in November. Dealers were able to quote highly competitive prices for customer transactions. Moreover, this is a new stream of revenue from customer flow trading.

Management's Discussion & Analysis

The asset and liability management ("ALM") of the Bank is one of the important roles of our treasury operation. The ALM team continued to deliver outstanding performance. With accurate prediction of market movements and high standard of ALM techniques, remarkable revenue was produced. The team also put strong effort to maintain adequate liquidity and provide business units with sufficient funding for their business.

The Bank issued a total of HK\$25 billion certificates of deposit, denominated in various currencies. These deposits provided the Bank with long-term and low-cost funding. Out of the total, HK\$220 million comprised of 5 issues of structured certificates of deposit, which provided customers with more investment choices and enhanced their hedging and liability management capabilities.

The investment environment was unsettled in 2005. The rise in Federal Fund Rate, from 2.25% to 4.25%, translated into a higher funding cost of the Bank. The flattening of the yield curve also lowered the return of investment. Nevertheless, T&M achieved satisfactory results from investment using an active management strategy, which was in line with the market movement. The new accounting standards HKAS 32 and HKAS 39 have been adopted in 2005. All derivative financial instrument are marked to market. The change in fair value of the derivative financial instruments is recorded in the profit and loss account immediately.

For bond origination, the Bank acted as a Co-Lead Manager in the 7-year US\$300 million Eurobond issuance for China Overseas Development in July and as the Lead Manager in the HK\$100 million floating rate certificates of deposit issued by Asia Commercial Bank in August.

The Group made every effort to keep its risk management and control capability in pace with business development. The first stage of the straight-through processing project, which aimed to enhance control and reduce manual errors, has been completed. Policies and guidelines were also revised for better risk and operational control.

The investment and business environment in 2006 would be challenging. The rising commodity prices and the less certain US monetary stance could tilt the investment landscape with little forewarning. Working under the guidance of the Board and its approved framework, the team of professionals in T&M will continue to exercise vigilance in this difficult environment and to manage the various business lines prudently.

COMMERCIAL BANKING

2005 is another fruitful year for Commercial Banking. Benefiting from continued global economic recovery and blooming local market, customer advances and deposits registered strong growth at 30% and 23% respectively. Our professional relationship management team, stable lending policy and strong presence in China of the Bank's ultimate holding company – Industrial and Commercial Bank of China – are also the major back-ups for the success.

The Group continued to be customer and solution-driven to serve our target customers, of which Small and Medium Enterprises (SME) are our focuses. New services such as "Commercial Internet Banking" empowered us with more capabilities to meet customer daily banking needs "Factoring" also facilitated international trade on open account basis, which have contributed significantly to our business growth, particularly in Trade Finance which has surged by more than 33%. Thanks to good cross-border co-operations, commercial loans to Mainland China and Macau enjoyed encouraging increase as a result.



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

Management's Discussion & Analysis

In spite of softening effect in the market brought about by hiking interest rates and high oil price, we still hold unabated optimism for the year of 2006. After the merger with Belgian Bank, Hong Kong Branch in October 2005, we start to benefit from the synergy effect. We will continue to go for higher return by putting forth skilled products like Trade Finance, Factoring and Equipment Finance as our focused sales. Apart from enhancing profitability, customer satisfaction remains to be our prime commitment.

CORPORATE BANKING

Corporate and Investment Banking had an outstanding year despite strong competition and depressing yield on loans. It contributed HK\$284 million before tax profit to equity holders, an increase of 69% as compared to that of 2004.



ICBC (Asia) won The Asset's Triple A Best Syndicated loan 2005

The encouraging performance reflected the Bank's increasing focus towards valued added transactions and expanded geographic coverage. The success of these strategic moves also gained the Bank various recognition and awards.

We made significant progress in Mergers and Acquisitions Finance, Aviation Finance, Infrastructure Finance and China Properties Finance. We won International Financing Review's 2005 Award for Asia – Pacific Loan by arranging US\$600 million financing for the largest cross boarder commercial acquisition for a PRC company, Lenovo Group Limited. Besides, we have arranged US\$39.2 million syndicated aircraft finance for Dragonair and HK\$680 million finance for Shenzhen Expressway. We also won the Bank's first financial advisory mandate relating to China property acquisition. ICBC (Asia) is proud to get involved in these significant and successful deals of the year.

We successfully expanded our geographic coverage to high quality customers in the Asia Pacific and Middle East regions. We won the Bank's first syndicated loan mandate in India, by arranging a US\$125 million syndicated term loan facility for ICICI Bank, the second largest commercial bank in India. We also won the Bank's first Mandated Lead Arranger role in Dubai and the Middle East by arranging US\$1.6 billion global syndicated loan facility for the acquisition of the global ports of CSX World Terminal by Dubai Port Authority.

Our strong position in the Hong Kong Corporate market remains intact. For example, during the year we were entrusted by CITIC Pacific, Great Eagle, Hang Lung, Hopewell, Hutchison Telecom, Kerry Holdings, Kingboard, Sun Hung Kai Properties, Sino Land, Tysan, U-Right, Wing Tai Asia and Guangzhou Investment to arrange syndicated facilities. We are proud to have developed a strong and mutually beneficial partnership with these important members of Hong Kong's business community.

During the year, we have solicited the Initial Public Offering (IPO) Receiving Bank businesses from our client China Shenhua Energy Limited and Ju Teng International Holdings Limited's listing. Our client China Netcom and Air China has now become one of the Bank's drivers for individual and brokerage customers.

Corporate and Investment Banking is pleased to have a successful year in 2005. Going forward, we will continue to build our expertise and expand our market coverage, with an aim to maximize the Bank's resources, and eventually to further enhance our return to shareholders.

Management's Discussion & Analysis

FINANCIAL INSTITUTIONS

Backed by ICBC's nationwide branch network in Mainland China, Financial Institutions Department had another successful year in 2005. In Trade Finance, though the portfolio remained stable due to changes in overall market environment, there was an increase of revenue by 22% in this financial year, and all transactions matured were settled in due course. In Cash Management, we continued to develop and provide tailor-made remittance products to meet financial institutions' as well as their customers' needs. We had also successfully extended our IPO Receiving Bank Service to this sector. Financial Institutions Department will focus on these three types of business in 2006 and, with QDII soon to be in place, we are prepared to provide custodian services to financial institutions of mainland China.

CREDIT CARD BUSINESS

In 2005, to prepare for the merger of the credit card business with ICBC, HK Branch, Belgian Bank, Hong Kong Branch credit cards were all rebranded under "ICBC Credit Cards" and full membership for VISA, MasterCard and China Union Pay ("CUP") were approved. The Bank aims to grow the credit card business in line with the strategy of expanded products and services as an important player in the Hong Kong market.

With the continuous improvement of the local economy, in the midst of the Bank's integration, our card base recorded a growth of 14% in 2005 through continuous effort of the team. The co-branded Caritas-HK Master Card recorded a growth rate of 33%. The total annual spending also increased by 3% as compared to 2004. The credit quality of the overall card portfolio continued to improve. The charge-off ratio and delinquency ratio improved by 2.63% and 1.46% respectively.

A series of marketing initiatives were launched to promote the card usage and acquisition. A new affinity card with The Hong Kong Association of Accounting Technicians Limited (HKAAT), served also as HKAAT membership card, was launched supporting the acquisition of young professionals. We have also offered various loyalty programs with attractive year-round merchant offers, seasonal merchant discounts and lucky draws. In 2006, our Group aims to ride on the larger scale card base after merger to focus on the deepening of customer relationship. We will launch product cross-selling and card usage programs and promotions with focus on the unique Dual Currency Credit Card plus Xplore VISA and various affinity cards. With further system upgrades, we plan to introduce new card products, product features and tier pricing to keep up our competitiveness. We also plan to launch spending stimulation programs on each spending season with regular merchant offers. We will fully utilize our extended branch network and all business lines including Corporate and Commercial Banking, to acquire new cardholders from individuals, companies and large corporates.

CHINESE MERCANTILE BANK

The acquisition of Chinese Mercantile Bank ("CMB") was completed on 12 August 2005. CMB had rebuilt its management structure by setting up various departments, such as Marketing Department, Credit Risk Management Department, Treasury & Finance Management Department, Operation Department, Information and Technology Department and Compliance Department. They had also renewed some of their operating procedures, including authorisation management, credit risk management, settlement management, as well as the Articles of Association.

Management's Discussion & Analysis

CMB had strengthened the relationship with the government authorities and reported the acquisition and restructuring to the People's Bank of China and China Banking Regulatory Commission. Application for operating RMB business has already been submitted to China Banking Regulatory Commission for approval.

CMB were awarded RMB5,000,000 by Shenzhen Local Government for our future business development. By the end of 2005, advances to customer increased from HK\$775 million to HK\$1,059 million while profit after tax was HK\$2 million.

For 2006, CMB plans to increase the loan portfolio, raise the non-interest income to total operating income ratio to 11.40% from 7.18%, and increase the deposits from corporate, individuals and financial institutions. In order to prepare for its RMB business, a committee had been established, consisting of the Chief Operation Officer, General Manager of Information and Technology Department and Compliance Manager. The committee will mainly be working on RMB business training, operation system and RMB business regulations.

HUMAN RESOURCES

On 10 October 2005, Belgian Bank, Hong Kong Branch was legally merged into the Bank. With this successful integration, the number of staff of the Bank was increased to 1,342 and the number of branches was increased to 42 and scattered all over the city.

The management believes that superior staff members are our greatest assets. 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 Group highly values the training and development of our staff. To grow and retain talents, we organize various training programmes to enhance the skills and widen the work domain to enrich the knowledge of our staff. The Group also gives qualification awards to staff to encourage continuous development in academic and professional attainment.

In addition, to ensure the smooth integration with Belgian Bank, Hong Kong Branch, 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 issues Staff Newsletter and has the Recreation Committee to organize and promote various activities for the staff, including staff picnics, festive buffet gatherings, interest classes, film shows, sports events like golf day, bowling, badminton, football and basketball matches. In February 2006, our staff members enjoyed a delightful night on the Group's Annual Dinner with various amusements and lucky draw.



ICBC (Asia) staff annual dinner organized with various amusements and lucky draw

Management's Discussion & Analysis

CORPORATE SOCIAL RESPONSIBILITY

As one of the first members, the Bank received the Caring Company Logo from The Hong Kong Council of Social Service for five consecutive years in the recognition of achievements on various social services. The Bank continues to take pride in the assumption of chairmanship of the Caritas Fund Raising Committee. The Caring Company Logo recognized our effort to build a caring community spirit through cultivating corporate citizenship and strategic partnership between the business and social service sectors.

This year, the Bank and staff volunteers were again committed to support Caritas-HK by soliciting donations from its customers in various fund raising activities including cash donation, donation box at branches, TV charity show, sales of Caritas raffle tickets and the seven bazaars. Our Bank was honored to be appointed again as the chairman of Caritas Fund Raising Campaign for the year 2005/06 – a well demonstrated of partnership in social service.

In May 2005, we organized a charity dance performance, entitled “Classical Retrospective” at the Grand Theatre of Hong Kong Cultural Centre. We received heart-felt support from our business partners and customers and raised around HK\$700,000 for Caritas-HK and Hong Kong Dance Company.

In July, we held our second China study tour, entitled “The Development of Finance and Culture – Shanghai and Shanxi”, which was concluded successfully. The tour was fully supported by ICBC, Shanghai Branch and Shanxi Branch. 60 participants, including 45 secondary students from over 20 schools, teachers, social workers and bank staff joined the tour. Our Bank and business partners sponsored 37 students who are recommended by their schools and respective social workers. The tour provided an invaluable opportunity to gain insight into China's financial development.



ICBC (Asia) organized a charity dance performance, entitled “Classical Retrospective”.



ICBC (Asia) actively participated in the Caritas bazaar

In October, staff of all levels actively involved in the sales of raffle tickets and bazaars of Caritas-HK and solicitation of donations and gifts from business partners and customers. Over HK\$600,000 was raised for Caritas-HK in these events.

In 2006, our Bank will continue to provide support in community service to demonstrate the commitment to and support for the local community, to help the less privileged and work towards the harmonious development of our society.



中國工商銀行(亞洲) 為中港兩地客戶開創嶄新的銀行服務，以專業知識及洞悉市場變化，為企業客戶尋求更廣闊發展領域，冀望成為香港一家基礎穩固，專業卓越的主要銀行。

ICBC (Asia) offers novel banking services for customers both in Mainland China and Hong Kong. Equipped with expertise and great vision, we assist corporate clients to seek for further progression. Our goal is to become one of the leading banks with solid foundation and professionalism.

