

Industrial and Commercial Bank of China (Asia) Limited

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MANAGEMENT'S DISCUSSION AND ANALYSIS

The Directors of Industrial and Commercial Bank of China (Asia) Limited ("the Bank" or "ICBC (Asia)") are pleased to present the interim report and condensed accounts of the Bank and its subsidiaries ("the Group") for the six months ended 30 June 2004. The consolidated profit and loss account, consolidated cash flow statement and consolidated statement of changes in equity for the Group for the six months ended 30 June 2004, and the consolidated balance sheet as at 30 June 2004 of the Group, all of which are unaudited and condensed, along with notes to the condensed interim accounts, are set out on pages 17 to 31 of this report.

Interim Accounts

The Directors of ICBC (Asia) are pleased to announce that the unaudited consolidated after tax profit of the Group for the six months ended 30 June 2004 was HK\$358 million. This represented a 54% growth over the same period last year (First half of 2003: HK\$232 million). Basic earnings per share for the six months ended 30 June 2004 was HK\$0.42 (First half of 2003: HK\$0.33). Return on average ordinary equity increased to 11.1% (First half of 2003: 9.7%).

Interim Dividend

The Directors are pleased to declare an interim dividend of HK\$0.14 per ordinary share for the six months ended 30 June 2004 (First half of 2003: HK\$0.12). The interim dividend will be payable in cash on or about Friday, 17 September 2004 to shareholders whose names appear on the Register of Members of the Bank at the close of business on Friday, 3 September 2004.

Closure of Register of Members

The Register of Members of the Bank will be closed from Monday, 6 September 2004 to Friday, 10 September 2004, both days inclusive, during this period no transfer of shares will be registered. In order to qualify for the above interim dividend, all transfer documents, accompanied by the relevant share certificates, must be lodged for registration with the Bank's Share Registrars, Tengis Limited at G/F., Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong by no later than 4:00 p.m. on Friday, 3 September 2004.

Financial Review

The Bank completed the acquisition of Belgian Bank on 30 April 2004. The results and financial position for the six months ended 30 June 2004 are presented on a consolidated basis.

For the first six months of 2004, the Group has continued to achieve overwhelming results, notwithstanding the intense competition within the banking industry.

For the first half of 2004, the Group with the contribution from Belgian Bank achieved a consolidated profit before taxation of HK\$437 million, representing an increase of 55%, over that of HK\$281 million for the first half of 2003.

Consolidated net interest income for the first half of 2004 surged by 47% to HK\$558 million from HK\$379 million for the first half of 2003.



Other operating income was slightly up by 1% to HK\$139 million (First half of 2003: HK\$138 million), as a result of fees and commissions consistently generated from new loans and treasury related products.

Operating expenses increased by 51% to HK\$229 million, including those operating expenses of Belgian Bank, for the first half of 2004 (First half of 2003: HK\$152 million), main areas of the increase were from business promotion, premises and staff expenses. Nevertheless the cost to income ratio, excluding the amortisation of goodwill, had gone up by 4% to 33% compared with 29% of the same period in 2003.

Amortisation of goodwill increased by 26% to HK\$22 million for the first half of 2004 (First half of 2003: HK\$18 million), this had taken into account of the goodwill arisen from the acquisition of Belgian Bank.

With continuous improvement in the economy and decreasing unemployment of Hong Kong, coupled with the tremendous effort from the recovery unit, the Group recorded a write back of HK\$21 million on charge for bad and doubtful debts for the period, compared with HK\$77 million net charges for the first half of 2003.

Share of net loss of associated company recorded a net loss of HK\$34 million for the period (First half of 2003: HK\$6 million), from China Ping An Insurance (Hong Kong) Company Limited and The Tai Ping Insurance Company, Limited.

Balance Sheet

Combining the assets of Belgian Bank, the Group's total assets reached HK\$95,943 million as at 30 June 2004, a 27% rise compared with 31 December 2003 or 45% rise compared with 30 June 2003.

Together with Belgian Bank, the Group's loan portfolio had diversified from mainly syndicated loans into other areas such as installment loans, trade finance as well as credit card and the total loans reached HK\$59,498 million as at 30 June 2004 (HK\$41,811 million as at 31 December 2003), an increase of 42%.

Due to the low yield in inter-bank placements, the Group increased 49% in certificates of deposits held, amounted to HK\$11,282 million as at 30 June 2004 (HK\$7,555 million as at 31 December 2003), also 70% increase in held-to-maturity securities and reached HK\$7,949 million as at 30 June 2004 (HK\$4,676 million as at 31 December 2003).

After the acquisition of Belgian Bank, goodwill amounted to HK\$895 million, an increase of 44%, as at 30 June 2004, compared with HK\$621 million as at 31 December 2003.

Coupled with Belgian Bank, total customer deposits plus certificate of deposits issued reached HK\$59,708 million as at 30 June 2004, 73% of the total liabilities, represented an increase of 41% compared with HK\$42,307 million as at 31 December 2003.

Capital Adequacy and Liquidity

Combined with Belgian Bank, the Group's capital adequacy ratio increased to 18% as at 30 June 2004 from 16.7% as at 31 December 2003. The liquidity position remained strong throughout the first half of 2004 with an average liquidity ratio of 40.4% (Average for the first half of 2003: 41.9%)

Provisions for Bad and Doubtful Debts

The Group's non-performing loan ratio was 1.7% as at 31 December 2003 and (when combined with Belgian Bank) dropped to 1.6% as at 30 June 2004. The non-performing loan ratio for Belgian Bank as at 30 June 2004 was 2.5%. This improvement in the Group's figures resulted from our tireless efforts on loan recoveries.

Combined with Belgian Bank, the cumulative provisions for bad and doubtful debts of the Group were HK\$855 million, comprising specific provisions of HK\$385 million and general provisions of HK\$470 million, which represented a 31% increase over those of 31 December 2003.

Compared with 31 December 2003, overdue loans increased by HK\$41 million to HK\$553 million as at 30 June 2004. The debt coverage ratio (i.e. specific provisions + collateral) for overdue loans was 90.6% as of 30 June 2004 (31 December 2003: 94%).

Credit Rating

The Bank was assigned first time credit ratings by Moody's Investors Services and received A2/Prime-1 long term/short term deposit ratings and D Bank Financial Strength Rating (BFSR). The outlook for the deposit ratings is stable while the outlook for the D BFSR rating is positive.

Acquisition of Belgian Bank (Formerly Fortis Bank Asia HK)

On 31 December 2003, ICBC (Asia) entered into a sale and purchase agreement (the "SPA") with Generale Belgian Holding B.V. ("GBH") and Fortis Bank for the acquisition of the retail and commercial banking business of Fortis Bank Asia HK ("FBAHK") (excluding certain assets which were not transferred to the Bank) by way of an acquisition of the entire issued share capital of FBAHK from GBH (the "Acquisition"). The Acquisition was completed on 30 April 2004 (the "Completion Date"), and FBAHK became a wholly-owned subsidiary of ICBC (Asia) and renamed Belgian Bank with effect from 1 May 2004. Under the SPA, the agreed value of the Acquisition was 1.05 times the consolidated net asset value of Belgian Bank and its subsidiaries as of the Completion Date, to be satisfied by a cash payment and the allotment and issuance of 94,317,000 ordinary shares of the Bank, representing approximately 9% of the enlarged issued share capital of the Bank, to GBH. Based on the net asset value of Belgian Bank and its subsidiaries and the Group as of the Completion Date (each as determined in accordance with the provisions of the SPA), the aggregate purchase price payable by the Bank to GBH was HK\$2,530.9 million, satisfied by a cash payment of HK\$1,778.4 million and the 9% consideration shares in the capital of the Bank issued to GBH, with an agreed value of HK\$752.5 million.

Business Review

Started from mid 2003, the Central Government supports HKSAR with various policies, included "Pan-PRD Regional Cooperation Agreement" launched since 2nd quarter of 2004 besides the "CEPA", "Individual Traveler" and "RMB business arrangement". All these policies have stimulated the economic recovery of Hong Kong and obviously boomed the climate of retail business sector. The business-operating environment of the first half of 2004 was relatively stable under the continuous capital inflow and abundance condition.

In the area of residential mortgage, our revenue was significantly improved. The low interest rate environment and continuous price increase of property market have led to improvement of negative-equity cases and the appetite of HK people to purchase residential property. However, as the accumulative price increase was significant, purchase transaction started to slow down. Banks are shifting to mortgage re-financing business. Hence the mortgage interest spread is tightening even further. The Bank shall strive to keep our portfolio stable by proactively monitoring the market situation and adjusting our business strategies accordingly.



In the area of taxi and public light bus hire purchase and leasing business, the interest spread is tightening as price competition continuous. As of 30 June 2004, our loan portfolio of hire purchase and leasing business recorded a growth of over 40% and significant increase in net interest income. Delinquency rate was well maintained at below 0.15%. Our market share on taxi and public light bus further increased to approximately 10.5% to maintain at top 6 ranking in the market. We expect competition will be furious in the coming year.

In the area of investment service business, our Wealth Management Centre adopted advance integrated Securities System and Contact Centre Solution at the beginning of the year to boost securities trading services. Stock turnover rose by 250% in the first half of 2004 compared with the first half of 2003 and over HK\$1,500 million of IPO subscription loans for "Semiconductor Manufacturing International Corp", "China Shipping Container" and "Ping An Insurance". Moreover, our bank actively participated in distribution of various investment products, which included Hong Kong Linked 2004 Retail Bond, Hong Kong Mortgage Corporation Retail Bond and unit trusts to meet our customers' investment needs. During the period, sales of unit trusts were outstanding that it almost met the total for the whole year of 2003.

Following the green light shed by People Bank of China late last year, we were one of the first banks that provided personal Renminbi banking service which included savings account, fixed deposit, exchange and remittance services in Hong Kong.

In addition, we were the first among banks in Hong Kong introduce the "Personal Predetermined Rate Remittance" service. It provides customers with additional choice on remittance service to Mainland China and further ensures our Bank's competitiveness in serving the active cross-border customer segment.

Corporate and Investment Banking continues to upgrade its product and service capacities and expand its client base both locally and internationally. As a result, we obtained our first aircraft finance (non-bank guaranteed) syndicated loan mandate (awarded by Hong Kong Dragon Airlines Limited), our first Australian syndicated loan mandate (awarded by Qantas Airways Limited) and Hong Kong's first REIT (Real Estate Investment Trust) related syndicated loan.

The first half result of Commercial Banking has moderately exceeded our original expectation. Renewed loan demand from SME as well as positive property market sentiment has led to significant loan growth of more than 20% compared with last year end. The announcement of acquisition on Fortis' commercial banking business has demonstrated ICBC (Asia)'s strong and long-term commitment on SME financing in the local market. Despite the recent tightening of lending policy in PRC, the impact on local SME doing business in China will be minimal. The global interest rate started to rebound from the bottom but the pace is not expected to be fast. Overall speaking, we are cautiously optimistic to post another year of meaningful growth for the Group.

Within our Treasury operation, we had achieved good results in the first half of 2004 although the interest rates rebound from the low level and made the funding cost increase. Our investments were largely unchanged and managed conservatively during the period. A large proportion was maintained in floating-rate securities, which reduced the interest rate risk.

We continue to offer a wide range of yield enhancing and principal protected products to individual investors as well as institutions. We also increased our income by cooperating with other business units for cross selling.

Our Treasury operation offered a total of HK\$3,145 million of Certificates of Deposit during the first six months of 2004, in order to secure a long term and stable funding source.

Our management and risk monitoring systems were further strengthened. A new project has started to enhance our settlement processing systems. A number of treasury policies and procedures were revised or newly established to improve our operation and risk management.

With the merger of Belgian Bank, Treasury operation of both banks had been cooperating to increase our product spectrum and exploit cross-selling opportunities.

In view of the impending rise in interest rate, we would endeavor to widen our customer base in order to increase our fee income and decrease the influence of rise in interest rate.

Financial Institutions Department is continuously strengthened its position on acting as a bridge linking the financial activities between Mainland China and Taiwan. In the first half of 2004, through the competent customer services and competitive pricing, the bank had extended the cooperation with domestic financial institutions by opening vostro accounts in order to conduct the PRC remittance service. In return, the revenue of PRC remittance was increased by 38.9% compared with the same period last year. For the business of trade finance, with the improvement of internal control and operation procedures, we had further widened our business network and enlarged the market share. As a result, the accumulated loan commitments of trade finance reached over US\$200 million in the first half of 2004, representing an increase of 100% over the preceding year.

Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures

As at 30 June 2004, the interests of the Directors and Chief Executive in the shares, underlying shares and debentures of the Bank and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) ("Associated Corporations") as recorded in the Register of Directors' and Chief Executives' Interests and Short Positions required to be kept under section 352 of the SFO or as otherwise notified to the Bank and The Stock Exchange of Hong Kong Limited pursuant to the Model Code for Securities Transactions by Directors of Listed Companies were as follows:-

Ordinary Shares of HK\$2 each in the Bank

Name of Director	Number of shares held	
	Personal Interests	Total
Mr. Zhu Qi	50,000	50,000

All the interests stated above represent long positions. As at 30 June 2004, no short positions were recorded in the Register of Directors' and Chief Executives' Interests and Short Positions required to be kept under section 352 of the SFO.

Save as disclosed above, as at 30 June 2004, none of the Directors or Chief Executive of the Bank nor their spouses or children under 18 years of age were granted, or had exercised, any rights to subscribe for any equity or debt securities of the Bank or any of its Associated Corporations.



Substantial Shareholders' Interests

As at 30 June 2004, so far as the Directors were aware, the following persons (other than a Director or Chief Executive of the Bank) were interested in 5% or more of the issued share capital of the Bank as recorded in the Register of Interests and Short Positions in Shares and Underlying Shares required to be kept under section 336 of Part XV of the SFO.

Name of Shareholder	Number of shares held
The Industrial and Commercial Bank of China	602,888,957 Ordinary Shares
Fortis N.V.*	94,317,000 Ordinary Shares
Fortis SA/NV*	94,317,000 Ordinary Shares
Fortis Brussels SA/NV*	94,317,000 Ordinary Shares
Fortis Bank SA/NV*	94,317,000 Ordinary Shares

* Each of Fortis N.V. and Fortis SA/NV is entitled to exercise, or control the exercise of, one-third or more of the voting power at general meetings of Fortis Brussels SA/NV. Fortis Brussels SA/NV is entitled to exercise, or control the exercise of, one-third or more of the voting power at general meetings of Fortis Bank SA/NV. Fortis Bank SA/NV is entitled to exercise, or control the exercise of, one-third or more of the voting power at general meetings of Generale Belgian Holding B.V. ("GBH"). GBH is a wholly-owned subsidiary of Fortis Bank SA/NV and is the legal owner of 94,317,000 Ordinary Shares of the Bank.

All the interests stated above represent long positions. As at 30 June 2004, no short positions were recorded in the Register of Interests and Short Positions in Shares and Underlying Shares required to be kept under section 336 of the SFO.

Save as disclosed above, apart from the aforesaid, as at 30 June 2004, the Bank had not been notified of any interest accounting to 5% or more of the issued share capital of the Bank which is required to be disclosed pursuant to the SFO.

Risk Management

The Bank's Risk Management Committee ("RMC") was established on 5 September 2002 to review and report to the Board of Directors on the adequacy and efficiency of risk management procedures, policies and systems of the Bank. RMC focuses on credit risk, interest rate risk, market risk, liquidity risk, operational risk, reputation risk and strategic risk. The RMC comprises the Chief Executive Officer, the Deputy General Manager in charge of Risk Management (who is the Chairman of the RMC), an independent non-executive director of the Bank, the Deputy General Manager in charge of Treasury & Markets, the Chief Financial Officer, the Head of Treasury & Markets, the Head of Risk Management Department, the Head of Middle Office Department and the Head of Systems & IT of the Bank. The RMC reports to the Board of Directors of the Bank on a quarterly basis.

The Group has established policies, standards and procedures for the identification, measurement, control and monitoring of credit, liquidity, foreign exchange, interest rate and market risks. The Group has designated functional departments to control and monitor these risks. The policies and procedures are reviewed on a regular basis by senior management and the relevant functional committees. The Group's Internal Audit Department also performs regular checks to ensure compliance with policies and procedures.



(a) **Credit risk management**

Credit risk is the risk that a borrower or counterparty of the Group will be unable or unwilling to honour a repayment obligation.

The Group recognises that sound credit risk management is essential to business growth and maximisation of the return on the Group's resources employed. The management of each of the Bank and Belgian Bank has laid down credit policies in the form of credit manuals (the "Credit Manuals") and other policy papers, which formulate the credit risk management process, to identify, measure, monitor and control risks inherent in the operation of various lending business. This process is aimed at ensuring prudence in lending and enabling potential problems to be detected and tackled as early as practicable, thereby minimising business loss.

High-level credit policies of the Bank are set, reviewed and constantly updated by the Credit Committee, the General Management Committee and the Board of Directors and in relation to Belgian Bank are set, reviewed and updated by the Credit Committee and the Risk Management Committee (which presently comprises the Managing Director and Chief Executive Officer of the Bank, the Chairman of the RMC of the Bank, the Chief Executive Officer and two Members of the Credit Committee of Belgian Bank) to take balanced accounts of the dynamic market situation, regulatory development, the Group's usual prudent lending practices and the latest business strategies. They also review the efficiency of credit approval processes and delegate credit approval authorities.

The Credit Manuals also contain the credit approval matrix for sanctioning lending propositions. To uphold a high degree of professionalism in the exercise of credit approval authorities, credit approvers are appointed by the Credit Committee of the Bank and, in the case of Belgian Bank, by its Risk Management Committee with level of authority commensurate with the individual credit officer's area of responsibilities, exposure and experience level. To maintain objectivity and balance, the Group adopts a "dual approval" system whereby credit proposition generally requires joint-approval by at least two credit approvers or otherwise requires approval by the Credit Committee of the Bank or the Risk Management Committee of Belgian Bank, as the case may be.

The Credit Risk Management Department is the centralised department in the Bank mandated to carry out credit policies. Within Belgian Bank this is carried out by the Credit Division. Each performs independent credit assessment, post-approval credit administration and other credit control functions to ensure that the credit process complies with credit policies and guidelines laid down by the management and monitors the quality and behaviour of their respective loan portfolios. To maintain its independence, the Credit Risk Management Department of the Bank has a direct reporting line to the Risk Management Department, which in turn reports to a Deputy General Manager independent of business. The Credit Division of Belgian Bank reports to its Risk Management Committee.

The Group employs a loan classification system which, whilst complying with the Hong Kong Monetary Authority's ("HKMA") guidelines, expands beyond HKMA's standard 5-grades system and incorporates a multi-tier classification system by weighting borrowers' financial, management, ownership, industrial and other characteristics. With internal data accumulated through years of experience, it is expected that the Group could make further use of statistics in the internal credit risk grading system, amongst other things, to profile and track down credit risk migration and to measure loan default probabilities.



(b) Liquidity risk management

Liquidity risk is the risk that the Group cannot meet its financial obligations as and when they fall due. Liquidity risk management is therefore to ensure that there are adequate cash flows to meet all financial obligations in both normal and contingency circumstances in a cost-effective manner whilst, at the same time, complying with all regulatory requirements. To manage liquidity risk, the Bank and Belgian Bank have each established asset and liquidity management policies which are reviewed by Asset and Liability Management Committee (“ALCO”) and, in the case of the Bank, approved by the Board of Directors. Liquidity is also managed and forecasted on a daily basis to enable the Bank’s Treasury & Markets Department and the Group’s ALCO to react proactively according to fluctuations in market conditions and implement contingency plans on a timely basis. The Group continues to explore and diversify funding channels in order to capitalise on opportunities for its business expansion. The elevation of its profile as a member of ICBC Group has created more room and capabilities in liquidity management. As of 30 June 2004, the Group has a total of HK\$6.8 billion certificates of deposit outstanding to secure longer term funding.

The liquidity position remained strong throughout the first half of 2004 with an average liquidity ratio of 40.4% (Average for the first half of 2003: 41.9%), which was well above the statutory requirement of 25%.

(c) Capital management

The Group manages its capital to execute its strategic business plans and support its growth and investments in an efficient way. The Group’s level of capital base and capital ratio at 30 June 2004 were enhanced, with capital adequacy ratios well above the regulatory requirements. For the six month period ended 30 June 2004, the Group has issued US\$150 million subordinated debts and placed 124,874,000 shares to expand the capital base for future business growth. The Group’s adjusted Tier 1 and total capital adequacy ratios were 10.3% and 18.0%, respectively at 30 June 2004.

(d) Market risk management

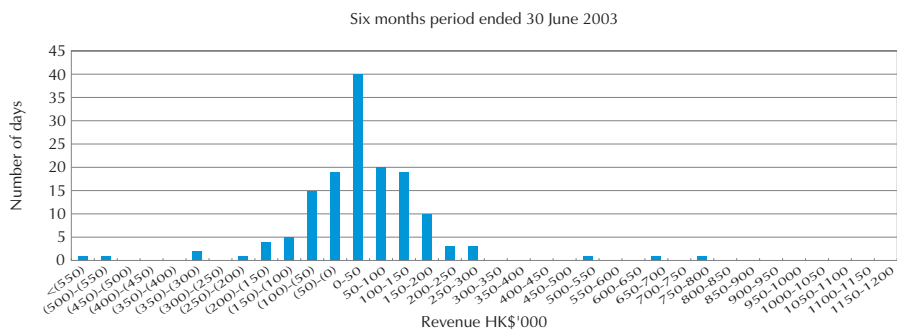
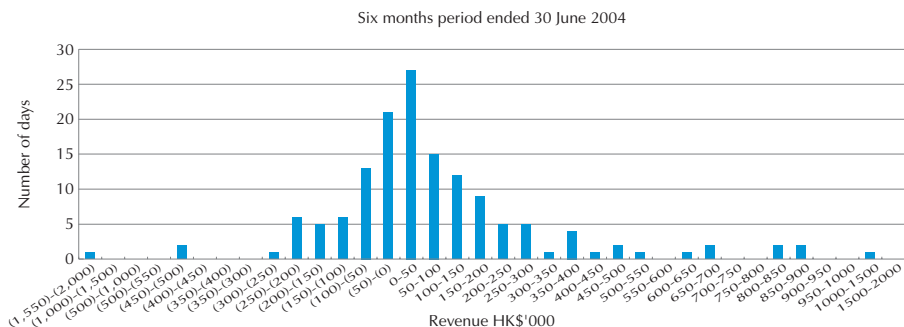
Market risk is the risk that market rates and prices on assets, liabilities and off-balance sheet positions change, thus causing profits or losses. Generally, the Group’s market risk is associated with its positions in foreign exchange, debt securities, equity securities and derivatives in the trading book. Most off-balance sheet derivative positions arise from the execution of customer related orders and positions taken to hedge other elements of the trading book.

Market risk exposure for different types of transactions is managed within risk limits and guidelines approved by the ALCO. Exposures are measured and monitored on the basis of limits like outstanding positions and stoploss amounts. General risk monitoring is carried out by an independent Middle Office Department, which ensures all trading activities are executed within approved limits. The Group’s market risk exposures are reviewed by the ALCO, to which all exceptions to limits are reported. Internal Audit also performs regular review and testing to ensure compliance with all internal guidelines.

The average daily revenue earned from the Group’s market risk related activities during the period was HK\$55,912 (First half of 2003: HK\$34,689) and the standard deviation for such daily revenue was HK\$249,499 (First half of 2003: HK\$155,499).



The following histograms show the frequency distribution of daily revenues related to market risk activities of the Group for the six months period ended 30 June 2004 and 2003.



(e) Interest rate risk management

Interest rate risk is the risk that the Group's position may be adversely affected by a change in market interest rates. The Group's interest rate risk arises mainly from maturity mismatches and the timing differences in the repricing of interest bearing assets and liabilities.

The Group manages its interest rate risk by way of entering into on-balance sheet and off-balance sheet interest rate hedging instruments. The strategy is continually reviewed by the ALCO based on market and interest rate conditions.

(f) Foreign exchange risk management

Foreign exchange risk is the risk that the net exposure positions in foreign currencies will adversely affect the Group as a result of a change in exchange rates. The Group has very limited foreign exchange exposure as there are various limits on foreign exchange positions. The foreign exchange positions are, in the case of the Bank, managed by Treasury & Markets Department within established limits and, in the case of the Group, approved by the ALCO.

Foreign currency funding used to fund Hong Kong dollar assets is normally hedged using currency swaps or forward exchange contracts to mitigate the foreign exchange risk.



(g) Operational risk management

Operational risk is the risk of unexpected financial losses attributable to factors including human error, fraud, unauthorized activities, system failure and natural disaster. It is inherent to every business organization and covers a wide spectrum of issues. Such risk is mitigated through the implementation of comprehensive internal control systems, adequate insurance cover, offshore computer back-up sites and, in the case of the Bank, also thorough contingency plans with periodic drills. The Group's Internal Audit Department also plays an important role in detecting any deviations from operating procedures and identifying weaknesses at all operating levels independently and objectively.

(h) Legal and compliance risk management

Legal and compliance risk is the prospective risk arising from unenforceable contracts and violations of, or nonconformance with, laws and regulations. In 2003, the Bank took steps to further enhance controls regarding legal and compliance risk. Two additional reports, namely, the "Monthly Progress Report" and the "Non-compliance Report" were formulated to better monitor the compliance risk of the Bank. The Legal & Compliance Department will monitor the taking of remedial actions for any non-compliance incident reported. The Legal & Compliance Department was established in November 2001 to handle relevant legal and compliance issues concerning the Bank. With the issuance of the compliance policies and, in the case of the Bank, a monthly "Compliance Bulletin", together with the provision of regular compliance training, all staff of the Bank are kept abreast of the latest legal and regulatory developments. The Legal & Compliance Department of the Bank and Belgian Bank also perform compliance checking and provide advice on new products and corporate issues from a legal and compliance perspective.

Compliance with the Guideline on "Interim Financial Disclosure by Locally Incorporated Authorised Institution"

The Bank has fully complied with the disclosure requirements as set out in the Supervisory Policy Manual entitled "Interim Financial Disclosure by Locally Incorporated Authorized Institutions" issued by the HKMA on 8 November 2002.

Compliance with the Code of Best Practice of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules")

In the opinion of the Directors, the Group has complied with the Code of Best Practice as set out in Appendix 14 of the Listing Rules throughout the six months period ended 30 June 2004, except for the Non-executive Directors and the Independent Non-executive Directors are not appointed for specific terms but are subject to retirement by rotation and re-election at annual general meeting in accordance with the Bank's Articles of Association.

Corporate Governance

The Bank has fully complied with the requirements set out in the Supervisory Policy Manual "Corporate Governance of Locally Incorporated Authorised Institutions" issued by the HKMA on 21 September 2001. There are now five major Committees:

- General Management Committee
- Audit Committee
- Risk Management Committee
- Credit Committee
- Asset and Liability Management Committee



Audit Committee

The Bank has an Audit Committee which comprises Mr. Chen Aiping, Non-executive Director and the three Independent Non-executive Directors, namely Professor Wong Yue Chim, Richard, S.B.S., JP, Mr. Tsui Yiu Wa, Alec and Mr. Yuen Kam Ho, George. The Committee meets on a quarterly basis in order to review the completeness and effectiveness of both the external and internal audit as well as the accounting policies adopted by the Group and discussed internal controls, risk evaluation and financial report matters including a review of the unaudited interim accounts for the six months period ended 30 June 2004 with the Directors.

Purchase, Sale or Redemption of the Bank's Listed Securities

During the period, the Bank has not redeemed any of its listed securities. Neither the Bank nor any of its subsidiaries has purchased or sold any of the Bank's listed securities.

Interim Financial Information

The financial information in this interim report is unaudited and does not constitute statutory accounts.

On behalf of the Board
Industrial and Commercial Bank of China (Asia) Limited
Dr. Jiang Jianqing
Chairman

Hong Kong, 18 August 2004

As at the date of this interim report, the Board of Directors of the Bank comprises Mr. Zhu Qi, Mr. Wong Yuen Fai and Mr. Wang Yan as executive directors, Dr. Jiang Jianqing, Ms. Wang Lili, Mr. Chen Aiping and Mr. Damis Jacobus Ziengs as non-executive directors and Professor Wong Yue Chim, Richard, S.B.S., JP, Mr. Tsui Yiu Wa, Alec and Mr. Yuen Kam Ho, George as independent non-executive directors.



**CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT
FOR THE SIX MONTHS ENDED 30 JUNE 2004**

(Unaudited)

	Note	Six Months Ended		Change %
		30 Jun 2004 HK\$'000	30 Jun 2003 HK\$'000	
Interest income		937,258	784,026	
Interest expense		(379,189)	(404,873)	
Net interest income		558,069	379,153	47%
Other operating income	(4)	139,150	137,787	1%
Operating income		697,219	516,940	35%
Operating expenses	(5)	(228,875)	(151,961)	51%
Amortisation of goodwill		(22,417)	(17,749)	26%
Operating profit before provisions		445,927	347,230	28%
Write-back of/(charge for) bad and doubtful debts — specific	(3)	47,550	(58,426)	-181%
Charge for bad and doubtful debts — general		(26,795)	(18,249)	47%
Operating profit after provisions		466,682	270,555	72%
Net gain/(loss) from disposal/revaluation of fixed assets		3,532	(13)	
Net profit on disposal and redemption of held-to-maturity securities		5	8,292	
Net profit on disposal of non-trading securities		434	8,108	
Impairment loss on non-trading securities		(200)	—	
Share of net loss of associated companies		(33,716)	(6,061)	
Profit before taxation		436,737	280,881	55%
Taxation	(6)	(79,160)	(48,990)	
Profit attributable to shareholders		357,577	231,891	54%
Proposed interim dividends	(7)	146,715	99,191	
Per share:				
• Basic earnings	(8)			
— reported basis		HK\$0.42	HK\$0.33	27%
— cash basis		HK\$0.45	HK\$0.36	25%
• Diluted earnings	(8)			
— reported basis		HK\$0.37	HK\$0.28	32%
— cash basis		HK\$0.40	HK\$0.30	33%
• Proposed interim dividends		HK\$0.14	HK\$0.12	17%



CONDENSED CONSOLIDATED BALANCE SHEET

AS AT 30 JUNE 2004

(Unaudited)

	Note	30 Jun 2004 HK\$'000	31 Dec 2003 HK\$'000	Change %	30 Jun 2003 HK\$'000	Change %
Assets						
Cash and short-term funds	(9)	11,530,508	13,551,535	-15%	9,844,639	17%
Placements with banks and other financial institutions maturing between one and twelve months	(10)	2,166,641	4,718,871	-54%	2,129,478	2%
Trade bills	(11)	1,697,049	789,998	115%	309,460	448%
Certificates of deposit held	(12)	11,281,994	7,554,710	49%	7,223,476	56%
Trading securities	(13)	100	—	—	—	—
Held-to-maturity securities	(14)	7,948,737	4,675,928	70%	5,519,240	44%
Advances and other accounts	(11)	58,343,830	41,465,577	41%	38,596,066	51%
Non-trading securities	(15)	1,426,350	1,344,174	6%	1,055,931	35%
Deferred tax assets, net	(16)	36,017	8,026	349%	35,950	0%
Investments in associated companies		124,245	161,467	-23%	187,277	-34%
Trading rights		2,585	—	—	—	—
Goodwill		895,088	621,212	44%	638,961	40%
Tangible fixed assets	(17)	490,294	428,126	15%	706,395	-31%
		95,943,438	75,319,624	27%	66,246,873	45%
Liabilities						
Deposits and balances of banks and other financial institutions	(18)	21,094,978	22,251,182	-5%	15,976,583	32%
Deposits from customers	(19)	52,881,695	35,392,938	49%	37,993,437	39%
Certificates of deposit issued	(20)	6,826,238	6,913,873	-1%	2,509,613	172%
Provision for taxation		169,175	14,075	1102%	114,833	47%
Deferred tax liabilities		—	—	—	81,799	—
Other accounts and provisions		1,363,364	651,947	109%	422,403	223%
		82,335,450	65,224,015	26%	57,098,668	44%
Capital Resources						
Loan capital	(21)	5,360,802	4,178,304	28%	3,254,617	65%
Ordinary share capital of HK\$2 each		2,095,930	1,248,749	68%	1,248,749	68%
Convertible non-cumulative preference share capital of HK\$5 each		—	1,011,096	—	1,011,096	—
Reserves	(22)	6,151,256	3,657,460	68%	3,633,743	69%
		13,607,988	10,095,609	35%	9,148,205	49%
		95,943,438	75,319,624	27%	66,246,873	45%



**CONDENSED CONSOLIDATED CASH FLOW STATEMENT
FOR THE SIX MONTHS ENDED 30 JUNE 2004**

(Unaudited)

	Six Months Ended	
	30 Jun 2004 HK\$'000	30 Jun 2003 HK\$'000
Net cash outflow from operating activities	(6,179,763)	(965,938)
Net cash inflow/(outflow) from investing activities	4,170,739	(514)
Net cash inflow/(outflow) from financing activities	2,271,126	(235,235)
Effect of foreign exchange differences	12,572	(133)
Increase/(decrease) in cash and cash equivalents	274,674	(1,200,792)
Cash and cash equivalents at 1 January	9,302,481	4,522,100
Cash and cash equivalents at 30 June	9,577,155	3,321,308

Analysis of the balances of cash and cash equivalents:

	30 Jun 2004	30 Jun 2003
	HK\$'000	HK\$'000
Cash and balances with banks and other financial institutions	947,318	172,750
Money at call and short notice	10,341,286	9,460,558
Treasury bills with original maturity within three months	82,998	—
Placements with banks and other financial institutions with original maturity within three months	2,097,289	2,128,521
Certificates of deposits held with original maturity within three months	3,435,352	0
Deposits and balances of banks and other financial institutions with original maturity within three months	(7,327,088)	(8,440,521)
	9,577,155	3,321,308



**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED 30 JUNE 2004**

(Unaudited)

	30 Jun 2004 <i>HK\$'000</i>	30 Jun 2003 <i>HK\$'000</i>
Total equity as at 1st January	5,917,305	5,906,914
Writeback of impairment loss on bank premises	29,751	—
Change in fair value of non-trading securities	(78,475)	(23,382)
Release to deferred tax liabilities	8,611	153
Exchange difference arising on translation of accounts of a foreign associated companies	244	32
Exchange difference arising on translation of accounts of a foreign subsidiaries	(10)	—
Net losses not recognised in the profit and loss account	(39,879)	(23,197)
Profit attributable to shareholders	357,577	231,891
Investment revaluation reserve realised on disposal of non-trading securities	(501)	(15,372)
Dividends	(247,948)	(206,648)
Issue of ordinary shares	2,286,697	—
Share issue expenses	(26,065)	—
Total equity as at 30th June	8,247,186	5,893,588



NOTES TO THE CONDENSED INTERIM ACCOUNTS

1 Basis of preparation and accounting policies

These unaudited consolidated condensed interim accounts are prepared in accordance with Hong Kong Statement of Standard Accounting Practice ("SSAP") 25, Interim Financial Reporting, issued by the Hong Kong Society of Accountants.

These unaudited consolidated condensed interim accounts should be read in conjunction with the 2003 annual accounts.

The accounting policies and basis of preparation of the unaudited interim results of the Group are consistent with those adopted in the Group's audited 2003 annual financial statements. The Bank completed the acquisition of Belgian Bank on 30 April 2004. The results and financial position for the six months ended 30 June 2004 are presented on a consolidated basis.



2 Segment reporting

(a) By class of business

The Group comprises three business segments. Commercial and retail banking includes retail banking, commercial lending and trade finance. Treasury and markets activities include foreign exchange, money market and capital market activities. Corporate and investment banking activities mainly comprise corporate banking, the provision of debt capital markets and corporate finance and advisory services.

	For the period ended 30 Jun 2004				Total HK\$'000
	Commercial and retail banking HK\$'000	Treasury and markets HK\$'000	Corporate and investment banking HK\$'000	Unallocated HK\$'000	
Net interest income	309,487	191,914	75,032	(18,364)	558,069
Other operating income	80,883	21,956	22,479	13,832	139,150
Operating income	390,370	213,870	97,511	(4,532)	697,219
Operating expenses	(165,636)	(26,921)	(16,128)	(20,190)	(228,875)
Amortisation of goodwill	(820)	—	—	(21,597)	(22,417)
Operating profit/(loss) before provisions	223,914	186,949	81,383	(46,319)	445,927
Write-back of bad and doubtful debts — specific	11,384	—	11,481	24,685	47,550
(Charge for)/write-back of bad and doubtful debts — general	(28,039)	(2,370)	3,524	90	(26,795)
Operating profit/(loss) after provisions	207,259	184,579	96,388	(21,544)	466,682
Net gain/(loss) from disposal/ revaluation of fixed assets	(150)	(1)	—	3,683	3,532
Net profit on disposal and redemption of HTM	—	5	—	—	5
Net profit on disposal of non-trading securities	—	434	—	—	434
Impairment loss on non-trade securities	—	—	—	(200)	(200)
Share of net loss of associated companies	—	—	—	(33,716)	(33,716)
Profit/(loss) before taxation	207,109	185,017	96,388	(51,777)	436,737
Segment assets	35,442,411	34,441,487	22,801,589	685,289	93,370,776
Investment in associated companies	—	—	—	124,245	124,245
Unallocated assets	—	—	—	2,448,417	2,448,417
Total assets	35,442,411	34,441,487	22,801,589	3,257,951	95,943,438
Segment liabilities	37,793,580	21,577,505	14,191,205	250,513	73,812,803
Unallocated liabilities	—	—	—	8,522,647	8,522,647
Total liabilities	37,793,580	21,577,505	14,191,205	8,773,160	82,335,450
Capital expenditure	2,987	4,127	—	4,040	11,154
Depreciation charge	6,876	655	35	4,408	11,974



2 Segment reporting (continued)

(a) By class of business (continued)

	For the period ended 30 Jun 2003				
	Commercial and retail banking HK\$'000	Treasury and markets HK\$'000	Corporate and investment banking HK\$'000	Unallocated HK\$'000	Total HK\$'000
Net interest income	143,988	134,695	81,596	18,874	379,153
Other operating income	29,711	10,610	88,371	9,095	137,787
Operating income	173,699	145,305	169,967	27,969	516,940
Operating expenses	(73,518)	(26,115)	(25,928)	(26,400)	(151,961)
Amortisation of goodwill	—	—	—	(17,749)	(17,749)
Operating profit/(loss) before provisions	100,181	119,190	144,039	(16,180)	347,230
Charge for bad and doubtful debts — specific	(19,566)	—	(3,216)	(35,644)	(58,426)
Charge for bad and doubtful debts — general	(19,526)	(818)	(4,774)	6,869	(18,249)
Operating profit/(loss) after provisions	61,089	118,372	136,049	(44,955)	270,555
Net gain/(loss) from disposal/revaluation of fixed assets	(7)	—	—	(6)	(13)
Net profit on disposal and redemption of HTM	—	8,292	—	—	8,292
Net profit on disposal of non-trading securities	—	8,108	—	—	8,108
Share of net loss of associated companies	—	—	—	(6,061)	(6,061)
Profit/(loss) before taxation	61,082	134,772	136,049	(51,022)	280,881
Segment assets	16,144,560	25,515,196	22,088,136	923,629	64,671,521
Investment in associated companies	—	—	—	187,277	187,277
Unallocated assets	—	—	—	1,388,075	1,388,075
Total assets	16,144,560	25,515,196	22,088,136	2,498,981	66,246,873
Segment liabilities	19,101,644	16,274,041	18,755,173	222,109	54,352,967
Unallocated liabilities	—	—	—	2,745,701	2,745,701
Total liabilities	19,101,644	16,274,041	18,755,173	2,967,810	57,098,668
Capital expenditure	1,059	50	13	2,152	3,274
Depreciation charge	5,566	147	37	5,573	11,323

(b) By geographical areas

The Group operates predominantly in Hong Kong. Less than 10% of the Group's income, profit, assets, liabilities, contingent liabilities or commitments is attributable to the Group's overseas operations.



3 Analysis of provisions writeback/(charge) for bad and doubtful debts — specific

	30 Jun 2004 HK\$'000	30 Jun 2003 HK\$'000
Additional provisions	(11,365)	(73,183)
Less: Provisions writeback	58,915	14,757
	47,550	(58,426)

4 Other operating income

	30 Jun 2004 HK\$'000	30 Jun 2003 HK\$'000
Fees and commission income	101,434	120,604
Less: fees and commission expense	(2,164)	(1,224)
Net fees and commission income	99,270	119,380
Net gain from foreign exchange activities	12,905	3,238
Net (loss)/gain from trading securities	(6)	1,117
Dividend income from investments in securities:		
— Listed investments	1,512	1,889
— Unlisted investments	4,715	1,876
Others	20,754	10,287
	139,150	137,787

5 Operating expenses

Including depreciation on tangible fixed assets and amortisation of trading rights for the six months ended 30 June 2004 amounting to HK\$11,974,000 (30 June 2003: HK\$11,323,000) and HK\$230,000 (30 June 2003: Nil) respectively.

6 Taxation

Hong Kong Profits Tax has been provided at the rate of 17.5% (2003: 17.5%) on the estimated assessable profits arising in Hong Kong during the period.

The amount of taxation charged/(credited) to the consolidated profit and loss account represents:

	30 Jun 2004 HK\$'000	30 Jun 2003 HK\$'000
Current taxation:		
— Hong Kong profits tax	80,331	53,710
— Overseas taxation	643	—
Deferred taxation (note 16)	(1,814)	(4,720)
	79,160	48,990



6 Taxation (continued)

The taxation on the Group's profit before taxation differs from the theoretical amount that would arise using the taxation rate in Hong Kong as follows:

	30 Jun 2004 HK\$'000	30 Jun 2003 HK\$'000
Profit before taxation	436,737	280,881
Calculated at a taxation rate of 17.5% (2003: 17.5%)	76,429	49,154
Effect of different taxation rates in other countries	312	—
Income not subject to taxation	(8,192)	(2,112)
Expenses not deductible for taxation purposes	10,611	1,948
Taxation charge	79,160	48,990

7 Proposed interim dividends

	30 Jun 2004 HK\$'000	30 Jun 2003 HK\$'000
Proposed interim dividend, HK\$0.14 per share (2003: HK\$0.12 per share), to be paid to:		
— Convertible preference shareholders	—	24,266
— Ordinary shareholders	146,715	74,925
	146,715	99,191

8 Earnings per share

The calculation of basic earnings per share is based on the net profit attributable to shareholders (net of dividends payable on convertible preference shares) for the period of HK\$357,577,000 (2003: HK\$207,625,000) and on 851,203,926 (2003: 624,374,304) shares, being the weighted average number of ordinary shares in issue during the period.

The calculation of diluted earnings per share is based on the profit attributable to shareholders of HK\$357,577,000 (2003: HK\$231,891,000) and on 957,869,008 (2003: 826,593,522) shares, being the weighted average number of ordinary shares and convertible preference shares in issue during the period.

The calculation of earnings per share on cash basis is based on the respective earnings per share adjusted for goodwill amortised for the period. This supplementary information is considered a useful additional indication of performance.

9 Cash and short-term funds

	30 Jun 2004 HK\$'000	31 Dec 2003 HK\$'000
Cash and balances with banks and other financial institutions	947,318	200,126
Money at call and short notices	10,341,286	13,189,509
Treasury bills (including Exchange Fund Bills)	241,904	161,900
	11,530,508	13,551,535
Remaining maturity of treasury bills:		
— Three months or less	221,938	20,004
— One year or less, but over three months	19,966	141,896
	241,904	161,900



10 Placements with banks and other financial institutions maturing between one and twelve months

	30 Jun 2004 <i>HK\$'000</i>	31 Dec 2003 <i>HK\$'000</i>
Remaining maturity:		
— Three months or less	2,138,627	3,166,231
— One year or less, but over three months	28,014	1,552,640
	2,166,641	4,718,871

11 Total advances and other accounts

	30 Jun 2004 <i>HK\$'000</i>	31 Dec 2003 <i>HK\$'000</i>
Advances to customers	57,140,056	40,375,437
Advances to banks and other financial institutions	650,083	637,502
Trade bills	1,707,763	797,978
Provisions for bad and doubtful debts:		
— Specific	(384,665)	(308,459)
— General	(470,009)	(342,291)
	58,643,228	41,160,167
Accrued interest and other accounts	1,397,805	1,096,033
Provisions for accrued interest	(154)	(625)
	60,040,879	42,255,575

(a) Non-performing loans

	Gross advances <i>HK\$'000</i>	% of advances to customers	Market value of collateral <i>HK\$'000</i>	Specific provision made <i>HK\$'000</i>	Interest suspended <i>HK\$'000</i>
As at 30 June 2004	901,811	1.6%	444,772	384,642	67,844
As at 31 December 2003	668,397	1.7%	396,318	308,406	117,679

Non-performing loans are advances on which interest is being placed in suspense or on which interest accrual has ceased.

There were no advances to banks and other financial institutions on which interest is being placed in suspense or on which interest accrual has ceased as at 30 June 2004 and 31 December 2003 nor were there any specific provision made for them on these two days.

(b) Remaining maturity of advances to customers

	30 Jun 2004 <i>HK\$'000</i>	31 Dec 2003 <i>HK\$'000</i>
Repayable on demand	1,557,444	1,399,038
Three months or less	7,906,872	3,172,496
One year or less, but over three months	3,499,549	2,476,420
Five years or less, but over one year	24,503,636	19,187,983
Over five years	17,846,331	13,470,067
Undated	1,826,224	669,433
	57,140,056	40,375,437



11 Total advances and other accounts (continued)

(c) Remaining maturity of advances to banks and other financial institutions

	30 Jun 2004 HK\$'000	31 Dec 2003 HK\$'000
Three months or less	50,000	222,500
One year or less, but over three months	248,138	20,000
Five years or less, but over one year	351,945	395,002
	650,083	637,502

12 Certificates of deposit held

	30 Jun 2004 HK\$'000	31 Dec 2003 HK\$'000
Remaining maturity:		
— Three months or less	3,929,584	77,981
— One year or less, but over three months	1,043,126	829,925
— Five years or less, but over one year	5,031,353	5,247,855
— Over five years	1,277,931	1,398,949
	11,281,994	7,554,710

13 Trading securities

	30 Jun 2004 HK\$'000	31 Dec 2003 HK\$'000
Remaining maturity of debt securities:		
— Five years or less, but over one year	100	—

14 Held-to-maturity securities

	30 Jun 2004 HK\$'000	31 Dec 2003 HK\$'000
Remaining maturity:		
— Three months or less	50,014	—
— One year or less, but over three months	1,236,714	90,411
— Five years or less, but over one year	4,058,407	3,148,013
— Over five years	2,603,602	1,437,504
	7,948,737	4,675,928



15 Non-trading securities

	30 Jun 2004 HK\$'000	31 Dec 2003 HK\$'000
Debt securities	977,020	839,960
Equity securities	449,330	504,214
	1,426,350	1,344,174
Remaining maturity of debt securities:		
— Three months or less	155,930	—
— One year or less, but over three months	—	155,140
— Five years or less, but over one year	703,109	634,821
— Over five years	117,981	45,392
— Undated	—	4,607
	977,020	839,960

16 Deferred tax assets, net

Deferred taxation are calculated in full on temporary differences under the liability method using a principal taxation rate of 17.5% (2003: 17.5%).

The movement in deferred tax assets and liabilities during the period/year is as follows:

	30 Jun 2004 HK\$'000	31 Dec 2003 HK\$'000
At the beginning of period/year	8,026	(50,722)
Acquisition of subsidiaries	17,566	—
Credited to profit and loss (<i>note 6</i>)	1,814	14,692
Credited to equity	8,611	44,056
At the end of period/year	36,017	8,026

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The following amounts, determining after appropriate offsetting, are shown in the balance sheet.

	30 Jun 2004 HK\$'000	31 Dec 2003 HK\$'000
Deferred tax assets	78,140	43,698
Deferred tax liabilities	(42,123)	(35,672)
	36,017	8,026

The amounts shown in the balance sheet include the following:

	30 Jun 2004 HK\$'000	31 Dec 2003 HK\$'000
Deferred tax assets to be recovered after more than 12 months	77,608	43,698
Deferred tax liabilities to be settled after more than 12 months	(39,777)	(33,953)



17 Tangible fixed assets

	Bank premises & properties HK\$'000	Leasehold improvements HK\$'000	Furniture & equipments HK\$'000	Total HK\$'000
Cost or valuation:				
At 1 January 2004	591,375	79,936	115,393	786,704
Acquisition subsidiaries	—	40,602	83,656	124,258
Additions	—	310	10,844	11,154
Revaluation	(184,275)	—	—	(184,275)
Disposals	—	—	(2,520)	(2,520)
At 30 June 2004	407,100	120,848	207,373	735,321
Accumulated depreciation:				
At 1 January 2004	216,375	57,274	84,929	358,578
Acquisition subsidiaries	—	23,264	71,289	94,553
Charge for the period	2,128	3,639	6,207	11,974
Revaluation	(217,753)	—	—	(217,753)
Disposals	—	—	(2,325)	(2,325)
At 30 June 2004	750	84,177	160,100	245,027
Net book value:				
At 30 June 2004	406,350	36,671	47,273	490,294
At 31 December 2003	375,000	22,662	30,464	428,126

18 Deposits and balances of banks and other financial institutions

	30 Jun 2004 HK\$'000	31 Dec 2003 HK\$'000
Remaining maturity:		
— Repayable on demand	2,338,785	1,782,781
— Three months or less	11,063,968	14,312,136
— One year or less, but over three months	7,692,225	6,156,265
	21,094,978	22,251,182

19 Deposits from customers

	30 Jun 2004 HK\$'000	31 Dec 2003 HK\$'000
Demand deposits and current accounts	3,006,528	1,052,903
Savings deposits	9,695,980	4,674,028
Time, call and notice deposits	40,179,187	29,666,007
	52,881,695	35,392,938
Remaining maturity:		
— Repayable on demand	12,964,784	5,837,396
— Three months or less	37,468,904	28,360,575
— One year or less, but over three months	1,905,358	1,182,304
— Five years or less, but over one year	542,649	12,663
	52,881,695	35,392,938



20 Certificates of deposit issued

	30 Jun 2004 HK\$'000	31 Dec 2003 HK\$'000
Remaining maturity:		
— Three months or less	—	200,000
— One year or less, but over three months	1,360,910	1,682,897
— Five years or less, but over one year	5,465,328	5,030,976
	6,826,238	6,913,873

21 Loan capital

	30 Jun 2004 HK\$'000	31 Dec 2003 HK\$'000
Subordinated floating rate notes:		
— with a final maturity on 2 July 2011 (callable on 3 July 2006)	584,820	584,820
— with a final maturity on 12 December 2011 (callable on 13 December 2006)	623,808	623,808
— with a final maturity on 26 March 2012 (callable on 27 March 2007)	545,916	545,916
— with a final maturity on 8 December 2012 (callable on 10 December 2007)	500,000	500,000
— with a final maturity on 28 April 2014 (callable on 28 April 2009)	1,169,955	—
— perpetual (callable on 10 December 2012)	1,935,916	1,935,916
Exchange adjustment	387	(12,156)
	5,360,802	4,178,304

Loan capital were raised by the Bank for the development and expansion of business and have been fully subscribed by the ultimate holding company. These notes qualify for and have been included as the Bank's supplementary capital in accordance with the Third Schedule to the Banking Ordinance.

22 Reserves

	30 Jun 2004 HK\$'000	31 Dec 2003 HK\$'000
Ordinary share premium	4,700,603	1,786,686
Convertible preference share premium	16,126	505,496
Bank premises revaluation reserve	143,361	118,816
Investment revaluation reserve	(59,076)	6,080
Exchange reserve	(5)	(239)
General reserve	219,200	219,200
Retained profits	1,131,047	1,021,421
	6,151,256	3,657,460
Proposed dividends not provided for	146,715	247,382



23 Balances with group companies

(a) Included in the following balance sheet captions are balances with the ultimate holding company:

	30 Jun 2004 HK\$'000	31 Dec 2003 HK\$'000
On-balance sheet		
Cash and short-term funds	3,109,006	2,716,201
Placements with banks and financial institutions maturing between one and twelve months	2,137,122	4,718,871
Advances and other accounts	74,108	66,201
	5,320,236	7,501,273
Deposits and balances of banks and other financial institutions	16,838,448	20,317,169
Certificates of deposit issued	3,899,800	3,805,280
Other accounts and provisions	128,629	120,695
	20,866,877	24,243,144
Loan capital	5,360,802	4,178,304
Off-balance sheet		
Foreign exchange contracts — contractual amount	7,360,301	11,334,371
Interest rate swap — notional principal	7,725,323	5,932,892
Currency options — contractual amount — options purchased	6,079	133,520
— options written	—	77,632
	6,079	211,152
Interest rate option — contractual amount — option purchased	381,575	200,000
— options written	1,809,982	160,000
	2,191,557	360,000
Other commitments with maturity within 1 year — overdraft facility	1,013,948	1,009,216



23 Balances with group companies (continued)

(b) Included in the following balance sheet captions are balances with fellow subsidiaries:

	30 Jun 2004 HK\$'000	31 Dec 2003 HK\$'000
On-balance sheet		
Advances and other accounts	2,847	3,509
Deposits and balances of banks and other financial institutions	31,497	73,290
Deposits from customers	326,067	370,510
Other accounts and provisions	948	896
	358,512	444,696
Off-balance sheet		
Foreign exchange contracts		
— contractual amount	62,209	46,550
Interest rate swaps		
— notional principal	280,057	278,699

(c) Included in the following balance sheet captions are balances with associated companies:

	30 Jun 2004 HK\$'000	31 Dec 2003 HK\$'000
On-balance sheet		
Deposits from customers	15,728	15,430
Other accounts and provisions	2	29
	15,730	15,459

24 Related party transactions

During the period, the Group entered into various transactions in the normal course of business with related parties, including the ultimate holding company, fellow subsidiaries and associated companies.

(a) Summary of transactions entered into during the ordinary course of business with related parties

The aggregated income and expense arising from the related party transactions with the ultimate holding company, fellow subsidiaries and associated companies are summarised as follows:

	30 Jun 2004 HK\$'000	30 Jun 2003 HK\$'000
Interest income		
— Placement (Note (i))	27,700	24,090
— Interest rate swaps (Note (iii))	165,432	147,002
Interest expense		
— Deposits (Note (iii))	(90,692)	(66,257)
— Interest rate swaps (Note (iii))	(129,895)	(157,323)
— Certificates of deposits issued (Note (iv))	(34,368)	(8,600)
— Loan capital (Note (v))	(29,649)	(28,587)
Net option premium expense (Note (vi))	(1,329)	(865)
Management fee income (Note (vii))	3,000	2,400
Service fee income (Note (x))	1,110	600
Service fee expense (Note (ix))	(2,440)	(2,154)
Premises expense (Note (viii))	(3,056)	(3,056)



24 Related party transactions (continued)

(a) Summary of transactions entered into during the ordinary course of business with related parties (continued)

Notes:

- (i) Interest income was received on inter-bank deposits placed with the ultimate holding company and fellow subsidiaries at prevailing market rates.
- (ii) Interest income and expense was received from and paid to the ultimate holding company and fellow subsidiaries on interest rate swaps at prevailing market rates. These transactions included interest rate swaps entered on a back-to-back basis with the ultimate holding company and fellow subsidiaries.
- (iii) Interest expense was paid on the deposits taken from the ultimate holding company and fellow subsidiaries.
- (iv) Interest expense was paid to the ultimate holding company for certificates of deposit issued by the Bank and subscribed by the ultimate holding company with nominal value of US\$500,000,000.
- (v) Interest expense was paid to the ultimate holding company for subordinated floating rate notes issued by the Bank and fully subscribed by the ultimate holding company (Note 21).
- (vi) Net option premium expense was paid to the ultimate holding company and fellow subsidiaries on the various option contracts at prevailing market rates.
- (vii) In accordance with the Collaboration Agreement dated 3 July 2001, management fee income was received from the Hong Kong Branch of ICBC ("the Branch") for the provision of services such as accounting and budgeting, internal audit, marketing and back office settlement and clearing.
- (viii) In accordance with the Collaboration Agreement dated 3 July 2001 and the Licence Agreement dated 27 December 2001, premises expense was paid to the Branch for using a portion of floor area rented by the Branch.
- (ix) In accordance with the Service Levels Agreement dated 21 February 2002, service fee expense was paid to the ultimate holding company for the provision of data processing services to the Bank.
- (x) In accordance with the Outsourcing Agreement dated 18 December 2002, service fee income was received from the Branch for the provision of management, administrative and marketing services in respect of credit card business of the Branch launched in Hong Kong commencing from 18 December 2002.

(b) Buy and sale of certain assets from/to related parties

Sub-participation of syndicated loans

During the six months ended 30 June 2004, the Bank entered into various capital market transactions with the Branch, the ultimate holding company and fellow subsidiaries. These transactions included sub-participation in syndicated loans of the Bank by the Branch, the ultimate holding company and fellow subsidiaries for a total of HK\$610,000,000 (2003: HK\$1,851,085,000) and similar sub-participation in syndicated loans of the Branch, the ultimate holding company and fellow subsidiaries by the Bank for a total of HK\$513,372,000 (2003: HK\$2,806,278,000). These transactions were priced based on either on the terms of the underlying loan agreement, if applicable, or prevailing market rates if such comparable rates are available, or on terms that are no less favourable than those available to other independent syndicate members.



24 Related party transactions (continued)

(b) Buy and sale of certain assets from/to related parties (continued)

Sale of debt securities

During the six months ended 30 June 2004, the Bank sold debt securities with a carrying value of HK\$601,000,000 (2003: HK\$431,716,000) to the ultimate holding company and fellow subsidiaries. These transactions were entered into on normal commercial terms with reference to prevailing market rates.

(c) Undertaking from the ultimate holding company

To demonstrate its support to the Bank, a Letter of Comfort dated 3 July 2001 was extended by the ultimate holding company, pursuant to which it will provide the Bank with such funding as may be required by the Bank to ensure that it will maintain sufficient capital and liquidity levels.

Simultaneously on 3 July 2001, the ultimate holding company and the Bank entered into a guarantee agreement whereby the ultimate holding company agreed to guarantee to the extent of HK\$9,000,000,000 the payment obligations of certain customers whose "large exposures" were transferred to the Bank pursuant to the Business Transfer Agreement and to indemnify the Bank in respect of any losses incurred if any obligation of such customers becomes unenforceable. The amount of such on-balance sheet and off-balance sheet large exposures of the Bank covered by this guarantee as at 30 June 2004 was HK\$913,077,000 and HK\$590,705,000 respectively (31 December 2003: HK\$1,616,964,000 and HK\$791,924,000 respectively).

(d) Financial advisory engagement with a fellow subsidiary

The Bank entered into engagement agreements with ICEA Capital Limited ("ICEA"), a fellow subsidiary of the Bank, on 28 October 2003 and 31 December 2003 whereby the Bank appointed ICEA as the financial advisor of the Bank for the proposed acquisition of the issued share capital in FBAHK at a financial advisory fee of HK\$5,000,000 in aggregate and fully paid as at 30 June 2004.

25 Off-balance sheet exposures

(a) Contingent liabilities and commitments

The following is a summary of the contractual amounts of each significant class of contingent liabilities and commitments:

	30 Jun 2004 HK\$'000	31 Dec 2003 HK\$'000
Direct credit substitutes	1,663,442	2,107,357
Transaction-related contingencies	291,386	188,505
Trade-related contingencies	3,089,593	919,114
Other commitments		
— With an original maturity of under 1 year or which are unconditionally cancellable	14,477,292	5,307,690
— With an original maturity of 1 year and over	8,852,018	8,066,276
Forward deposits placed	218,065	87,069
	28,591,796	16,676,011



25 Off-balance sheet exposures (continued)

(b) Derivatives

The following is a summary of the notional amounts of each significant type of derivatives:

	30 Jun 2004 HK\$'000	31 Dec 2003 HK\$'000
Exchange rate contracts		
Forwards	9,115,357	2,089,629
Swaps	21,352,534	28,803,775
Currency options purchased	1,106,556	335,466
Currency options written	1,124,002	335,466
	32,698,449	31,564,336
Interest rate contracts		
Interest rate swaps	29,358,033	16,424,687
Interest rate options purchased	4,207,388	2,072,947
Interest rate options written	3,433,420	1,301,891
	36,998,841	19,799,525
Other contracts		
Equity options purchased	16,283	50,116
Equity options written	16,283	50,116
	32,566	100,232
	69,729,856	51,464,093

The contractual or notional amounts of off-balance sheet instruments provide only an indication of the volume of business outstanding at the balance sheet date and they do not represent the amount of risk.

The aggregate replacement cost and credit risk weighted amounts of the above off-balance sheet exposures are:

	30 Jun 2004		31 Dec 2003	
	Replacement cost HK\$'000	Credit risk weighted amount HK\$'000	Replacement cost HK\$'000	Credit risk weighted amount HK\$'000
Contingent liabilities and commitments		5,352,455		4,441,136
Exchange rate contracts	62,477	89,927	60,765	76,905
Interest rate contracts	250,815	80,371	337,633	85,374
Other contracts	34	—	334	—
	313,326	5,522,753	398,732	4,603,415

There was no bilateral netting arrangement on the above off-balance sheet instruments.



SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)

1 Capital adequacy ratio and capital base

	30 Jun 2004		31 Dec 2003	
	Unadjusted ratio	Adjusted ratio	Unadjusted ratio	Adjusted ratio
Capital adequacy ratio	18.0%	18.0%	16.7%	16.7%

The unadjusted capital adequacy ratio is computed on the consolidated basis which comprises the positions of the Bank and its subsidiaries as required by the Hong Kong Monetary Authority for its regulatory purposes, and is in accordance with the Third Schedule to the Banking Ordinance.

The adjusted capital adequacy ratio which takes into account market risks as at the balance sheet date is computed in accordance with the guideline "Maintenance of Adequate Capital Against Market Risks" issued by the Hong Kong Monetary Authority and on the same consolidated basis as for unadjusted capital adequacy ratio.

The components of the total capital base after deductions include the following items:

	30 Jun 2004 HK\$'000	31 Dec 2003 HK\$'000
Core capital:		
Paid up ordinary share capital	2,095,930	1,248,749
Paid up irredeemable non-cumulative convertible preference share capital	—	1,011,096
Ordinary share premium	4,700,603	1,786,686
Irredeemable non-cumulative convertible preference share premium	16,126	505,496
Reserves	1,171,131	990,966
Deduct: Goodwill	(895,088)	(621,212)
	7,088,702	4,921,781
Eligible supplementary capital:		
Reserves on revaluation of land and interests in land	100,353	83,172
Reserves on revaluation of holding of securities not held for trading purpose	(25,070)	(15,852)
General provision for doubtful debts	470,009	342,291
Perpetual subordinated debts	1,935,952	1,931,584
Term subordinated debts	3,424,850	2,246,720
	5,906,094	4,587,915
Total capital base before deductions	12,994,796	9,509,696
Deductions from total capital base	(623,666)	(697,287)
Total capital base after deductions	12,371,130	8,812,409



2 Liquidity ratio

	30 Jun 2004	30 Jun 2003
Average liquidity ratio for the six months ended	40.4%	41.9%

The average liquidity ratio for the period is the simple average of each calendar month's average liquidity ratio, which is computed on the consolidated basis as required by the Hong Kong Monetary Authority for its regulatory purposes, and is in accordance with the Fourth Schedule to the Banking Ordinance.

3 Currency concentration

The net position in foreign currencies are disclosed when each currency constitutes 10% or more of the total net position in all foreign currencies.

	US\$ HK\$'000	EUR HK\$'000	RMB HK\$'000	Total HK\$'000
As at 30 Jun 2004				
Spot assets	30,954,000	2,647,000	126,000	33,727,000
Spot liabilities	(43,723,000)	(1,354,000)	(70,000)	(45,147,000)
Forward purchases	22,754,000	1,035,000	863,000	24,652,000
Forward sales	(10,043,000)	(2,332,000)	(863,000)	(13,238,000)
Net (short)/long position	(58,000)	(4,000)	56,000	(6,000)
As at 31 Dec 2003				
Spot assets	26,204,000	475,000	50,000	26,729,000
Spot liabilities	(40,430,000)	(114,000)	—	(40,544,000)
Forward purchases	23,079,000	32,000	566,000	23,677,000
Forward sales	(8,678,000)	(407,000)	(566,000)	(9,651,000)
Net long/(short) position	175,000	(14,000)	50,000	211,000



4 Segmental Information

(i) Advances to customers — by industry sectors

	30 Jun 2004 HK\$'000	30 Jun 2003 HK\$'000
Loans for use in Hong Kong		
Industrial, commercial and financial		
— Property development	2,487,745	2,603,588
— Property investment	8,500,202	4,565,689
— Financial concerns	3,851,840	4,703,357
— Stockbrokers	11,119	28,765
— Wholesale and retail trade	2,196,693	1,157,964
— Civil engineering works	587,067	953,962
— Manufacturing	5,334,032	3,312,613
— Transport and transport equipment	7,171,501	6,058,827
— Electricity, gas and telecommunications	1,790,244	1,305,959
— Hotels, boarding house and catering	1,314,365	1,066,807
— Others	4,969,296	4,081,030
Individuals		
— Loans for the purchase of flats in Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	139,518	91,024
— Loans for the purchase of other residential properties	12,636,608	7,891,846
— Credit advances	56,357	—
— Others	966,616	597,389
Trade finance	4,617,895	1,566,929
Loans for use outside Hong Kong	508,958	389,688
	57,140,056	40,375,437

(ii) Advances to customers — by geographical areas

At 30 June 2004 and 31 December 2003, over 90% of the Group's advances to customers, non-performing loans and overdue loans were made to counterparties located in Hong Kong. In determining this analysis no account has been taken of transfer of risk with respect to claims guaranteed by a party in a country which is different from that of the counterparty.



5 Overdue advances

	Gross advances HK\$'000	% of advances to customers	Market value of collateral HK\$'000	Amount of secured balance HK\$'000	Amount of unsecured balance HK\$'000	Specific provision made HK\$'000
As at 30 June 2004						
Three to six months overdue	45,851	0.1%	60,950	39,026	6,825	12,086
Six months to one year overdue	21,830	0.0%	28,201	17,436	4,394	6,276
Over one year overdue	484,871	0.9%	202,355	158,483	326,388	267,555
	552,552	1.0%	291,506	214,945	337,607	285,917
As at 31 December 2003						
Three to six months overdue	38,943	0.1%	44,929	35,556	3,387	3,574
Six months to one year overdue	130,546	0.3%	39,426	35,886	94,660	76,748
Over one year overdue	342,423	0.9%	191,133	151,815	190,608	177,690
	511,912	1.3%	275,488	223,257	288,655	258,012

There were no advances to banks and other financial institutions which were overdue for over 3 months as at 30 June 2004 and 31 December 2003.

6 Other overdue assets

	30 Jun 2004 HK\$'000	31 Dec 2003 HK\$'000
Accrued interest:		
— Three to six months overdue	503	233
— Six months to one year overdue	138	342
— Over one year overdue	1,223	3,442
	1,864	4,017
— Rescheduled assets	39	78
	1,903	4,095

7 Repossessed assets

Assets acquired by repossession of collateral for realisation continue to be reported as advances. Provision is made on the shortfall between the expected sales proceeds from realisation of the repossessed assets and the outstanding advances.

At 30 June 2004, the repossessed assets of the Group amounted to HK\$35,390,000 (31 December 2003: HK\$35,464,000).



8 Rescheduled advances

	30 Jun 2004 HK\$'000	31 Dec 2003 HK\$'000
Rescheduled advances (net of overdue loans over 3 months)	141,512	61,487
% of advances to customers	0.2%	0.2%

There were no advances to banks and other financial institutions which were rescheduled as at 30 June 2004 and 31 December 2003.

9 Reconciliation

	30 Jun 2004 HK\$'000	31 Dec 2003 HK\$'000
Overdue loans (Note 1)	552,552	511,912
Rescheduled loans (Note 2)	141,512	61,487
	694,064	573,399
Less: Overdue loans on which interest is still being accrued	(10,908)	(3,367)
Less: Rescheduled loans on which interest is still being accrued	(13,994)	(14,516)
Add: Non-performing loans which are not overdue or rescheduled	232,649	112,881
Total non-performing loans	901,811	668,397

Notes:

- Overdue loans are advances which are overdue for over three months.
- Rescheduled loans which have been overdue for more than three months under the revised repayment terms are included under overdue advances and not rescheduled advances.

10 Cross-border claims

The Group analyses cross-border claims by geographical areas. In determining this analysis, it has been taken into account of transfer of risk with respect to claims guaranteed by a party in a country different from that of the counterparty. Those areas which constitute 10% or more of the aggregate cross-border claims are as follows:

	Banks and other financial institutions HK\$'000	Public sector entities HK\$'000	Others HK\$'000	Total HK\$'000
As at 30 Jun 2004				
Asia Pacific excluding Hong Kong	11,830,000	564,000	4,760,000	17,154,000
North and South America	480,000	285,000	4,182,000	4,947,000
Europe	10,797,000	1,967,000	1,063,000	13,827,000
As at 31 Dec 2003				
Asia Pacific excluding Hong Kong	13,479,000	1,269,000	4,275,000	19,023,000
North and South America	895,000	95,000	3,309,000	4,299,000
Europe	9,665,000	—	928,000	10,593,000