中國工商銀行(亞洲)
ICBC (Asia)

2005 Interim Report

中國工商銀行(亞洲)有限公司
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 2005. 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 2005, and the consolidated balance sheet as at 30 June 2005 of the Group, all of which are unaudited and condensed, along with notes to the condensed interim accounts, are set out on pages 13 to 36 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 2005 was HK$476 million. This represented a 33% growth over the same period of last year (First half of 2004: HK$358 million). Basic earnings per share for the six months ended 30 June 2005 were HK$0.45 (First half of 2004: HK$0.42). Return on average ordinary equity increased to 11.4% (First half of 2004: 11.1%).

Interim Dividend

The Directors are pleased to declare an interim dividend of HK$0.18 per ordinary share for the six months ended 30 June 2005 (First half of 2004: HK$0.14). The interim dividend will be payable in cash on or about Friday, 16 September 2005 to shareholders whose names appear on the Register of Members of the Bank at the close of business on Friday, 2 September 2005.

Closure of Register of Members

The Register of Members of the Bank will be closed from Monday, 5 September 2005 to Friday, 9 September 2005, 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 before 4:00 p.m. on Friday, 2 September 2005.

Financial Review

For the first half of 2005, the Group achieved a remarkable record in profit attributable to shareholders of HK$476 million, an increase of 33% when compared to HK$358 million for the corresponding period in 2004.

Consolidated net interest income for the first half of 2005 was slightly up by 2% to HK$570 million from HK$558 million for the first half of 2004.

Tremendous growth in other operating income, up 178% to HK$386 million (First half of 2004: HK$139 million) mainly due to an increase in fees and commission income benefited from strong loans growth, foreign exchange trading as well as the half-year effect of the acquisition of Belgian Bank.

Operating expenses increased by 87% to HK$429 million for the first half of 2005 (First half of 2004: HK$229 million), cost-to-income ratio rose to 44.9% from 32.8% of the same period in 2004, mainly due to the inclusion of Belgian Bank's operations, the premises cost and IT upgrade expenses.

In line with the loan growth and the new approaches to assessing loan impairment according to the Hong Kong Accounting Standard 39, the Group made additional loan impairment allowance (previously referred to as the "charge for bad and doubtful debts") of HK$9 million for the first half of 2005.

Share of net profit of an associated company recorded a profit of HK$0.3 million for the period (First half of 2004: HK$34 million net loss).

Balance Sheet

The Group's total assets reached HK$107,819 million as at 30 June 2005, a 9% rise compared with 31 December 2004 or 12% rise compared with 30 June 2004.

The Group's loan portfolio had diversified from mainly syndicated loans into other areas such as high-yield SME loans, trade finance as well as hire purchase loans. The total loans reached HK$70,145 million as at 30 June 2005 (HK$62,740 million as at 31 December 2004), an increase of 12%.

Due to the continuing interest rate hikes, the Group reduced 11% in certificates of deposits held, amounted to HK$5,815 million as at 30 June 2005 (HK$6,565 million as at 31 December 2004). The held-to-maturity securities decreased by 70% to HK$2,269 million as at 30 June 2005 (HK$7,663 million as at 31 December 2004), the available-for-sale and non-trading securities increased by 3 times to HK$6,262 million as at 30 June 2005 (HK$1,536 million as at 31 December 2004) and the newly-created fair value through profit or loss securities totaled HK$1,125 million as at 30 June 2005 as a result of a change in classification of the securities held after the adoption of Hong Kong Accounting Standard 39.

Total customer deposits plus certificate of deposits issued reached HK$66,737 million as at 30 June 2005, representing 71% of the total liabilities and an increase of 5% compared with HK$63,404 million as at 31 December 2004.

Capital Adequacy and Liquidity

The Group's capital adequacy ratio was down to 15.8% as at 30 June 2005 from 17.4% as at 31 December 2004. The liquidity position remained strong throughout the first half of 2005 with an average liquidity ratio of 35.1% (Average for the first half of 2004: 40.4%)

Impaired/Non-performing Loans

The Group's non-performing loan ratio was 1.3% as at 31 December 2004 and (when combined with Belgian Bank) dropped to 0.7% as at 30 June 2005. The impaired loan ratio (previously referred to as "non-performing loan ratio") of ICBC (Asia) and Belgian Bank as at 30 June 2005 were 0.6% and 1.1% respectively. This improvement in the Group's figures is resulted from our tireless efforts on loan recoveries.

As a result of an improvement in asset quality and the new approaches to assessing loan impairment, the cumulative loan impairment allowances (previously referred to as the "provisions for bad and doubtful debts") of the Group fell by 35% to HK$546 million, in which the individual impairment allowances and collective impairment allowances were HK$213 million and HK$333 million respectively.

Compared with 31 December 2004, overdue loans decreased by HK$214 million to HK$265 million as at 30 June 2005.

Acquisition of Chinese Mercantile Bank

On 30 December 2004, the Bank entered into an acquisition agreement with The Industrial and Commercial Bank of China ("ICBC"), its ultimate holding company, and CITIC Ka Wah Bank Limited in relation to the Bank's acquisition of the entire equity interest in Chinese Mercantile Bank ("CMB"). The consideration for the acquisition was 1.1 times of the audited net asset value of CMB as at the completion date as determined by reference to the completion accounts. CITIC Ka Wah Bank Limited received no consideration for the transaction as ICBC was the beneficial owner of the entire equity interest of CMB. The completion of the acquisition took place on 12 August 2005 and CMB became a wholly-owned subsidiary of the Bank. The Bank has allotted and issued 66,698,102 ordinary shares as consideration shares to ICBC pursuant to the acquisition agreement. Fortis Bank has also exercised its anti-dilution right to subscribe for 6,596,330 ordinary shares of the Bank pursuant to the sale and purchase agreement dated 31 December 2003 entered into between the Bank, Generale Belgian Holding B.V. and Fortis Bank. Accordingly, ICBC's shareholding in the Bank increased from 57.53% to 59.72% whilst the shareholding of Fortis Bank in the Bank remains at 9%.

CMB was previously a Sino-foreign equity joint venture bank incorporated in the PRC and is principally engaged in non-Renminbi banking business in Shenzhen, the PRC. The banking section in the PRC will be further expanded as the PRC economy continues to grow and the PRC banking section is of huge business potential. As many foreign banks have already entered into the PRC banking sector by acquiring minority stakes in domestic banks in the PRC, the transaction provides the Bank with the opportunity to immediately capitalize on the platform and network of CMB.

Business Review

In the first half of year 2005, with continued growth in the economy led mainly by the growth in the US's and China's economy, Hong Kong's unemployment rate improved further to 5.8% at the end of May 2005, which obviously boomed the climate of retail business sector and the local property market as consumer sentiment and confidence continued to improve. Nonetheless, keen competition within the banking industry remained fierce. Despite such a competitive and challenging business environment, the Group still managed to achieve a notable growth for the first half of year 2005.

During the first half of 2005, our retail banking business was growing steadily with both customer deposit and loan balance increased progressively.

Hong Kong's property market was revived in the first quarter of 2005. In response to such period of time, our Bank had cooperated with the major estate developers, to provide special tailor-made mortgage loan plans to homebuyers for their new projects. Up to the end of June, total of new mortgage loans drawn down was HK$1.68 billion approximately. Compared with the same figure in first half-year of 2004, there is a growth rate of almost 28%.

For the China mortgage business, our Bank signed several agreements with Mainland major estate developers in Shanghai and Beijing, to provide HKD/USD currency mortgage loan financing to customers including foreign buyers during the first half year of 2005. Up to the end of June, total of new mortgage loans drawn down for China's property market was HK$170 million approximately.

For the first six months of 2005, our loan portfolio of hire purchase and leasing business recorded a remarkably growth. Our market share on taxi and public light bus further increased to 14% approximately and stood at top 5 ranking in the market.

For Deposit & Investment Services, the Group continued to enhance the wealth management services and expand the investment products range. Four batches of Certificate of Deposit were issued for customers' subscription. Moreover, the Group cooperated with different international financial institutions to offer 12 structured products that linked to stock price or credit performance of the underlying entities. The Group also lined up with one more renowned fund house in the first quarter. As at the end of June, more than 196 funds managed by 7 fund houses was available for the subscription by our customers. To keep expansion of our wealth management business, the Group launched a promotion program for new deposit and unit trusts business in second quarter and reduced the minimum deposit amount for High-Yield Currency-Linked Deposit in order to make the investment products more attractive and competitive in the retail market and extend the products to more potential customers. Our branch network rationalization program had continuously progressed in order to build up a comprehensive and well-covered network.

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 on the mainland.

For initial public offering ("IPO") business, the Group successfully acted as the receiving bank of the listings of the major Chinese enterprises in Hong Kong, including "Shanghai Electric", "China Shenhua" and "Bank of Communications" in the first half of 2005, which had further proved our ability and potential to expand the IPO receiving bank business in the future.

In the second half of 2005, we forecast that the growth of residential mortgage loan business will continuously be slow down, as the increasing interest rate trend will continue. However, the downward pressure on our net interest margin will be diminished since we will be benefited by the ascending Prime rate and residential mortgage rate for new mortgage loan drawn down. Our mortgage business in China is expected to grow steadily during the second half-year. We will keep developing the markets of Shanghai and Beijing to absorb more high-end customers.

The integration of the Belgian Bank is expected to complete in the fourth quarter of 2005. Our branch network shall then be increased from 20 to 42 branches. With the launching of new IT system platform and new Customer Relationship Management System, we will be able to provide more comprehensive, convenience and quality banking services to our different segments of customers with our unified brand name, ICBC (Asia).

Corporate and Investment Banking continued to upgrade its product and service capacities and expand its client base both locally and internationally. The Group will continue to keep the expansion of the capital market business.

Commercial Banking had continuously expanded as expected during the first half of 2005. Renewed loan demand from SME as well as positive property market sentiment has led to significant loan growth. Despite the tightening of lending policy in PRC, the impact on local SME doing business in China will be minimal.

Treasury and Markets ("T&M") achieved good results in the first half of 2005 in despite of the challenging interest rate environment. T&M had done well in all lines of business, including treasury dealing, investment and fee-based activities.

Our investments were managed conservatively that a large proportion of our investment was the floating-rate securities, which reduced the volatility of interest rate risk. Over 94% of the debt investments were investment grade securities. Besides, the continued tightening in credit spread during the year had given a hand to our performance.

T&M continued to offer new yield-enhancing and principal-guaranteed products, especially those linking with the Renminbi exchange rate to individual investors as well as institutions. We had also offered several structured Certificate of Deposits to retail customers with satisfactory results. To expand and have a stable funding source, our Bank had issued a number of short and medium term Certificate of Deposits.

Financial Institutions Department had continuously strengthened its position on acting as the bridge linking the financial activities between Mainland China and Taiwan. In the first half of 2005, through the competent customer services and competitive pricing, the Group had extended the cooperation with domestic financial institutions for business development.

Looking ahead in the second half of 2005, the operating environment will remain challenging due to the continuing rise in US interest rate; intense competition in the banking industry. Nonetheless, we will continue to control costs through the streamline of operations as well as broadening of our fee income and expanding our consumer finance businesses through the leverage on structural investment and wealth management products for both retail and corporate customers in Hong Kong and China. We also expect the orchestrating growth through the successful integration of Belgian Bank in October this year. A larger operating platform will be generated to provide innovative products and distinguished services.

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

As at 30 June 2005, the interests of the Directors and chief executives of the Bank 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 (the "SFO")) (the "Associated Corporations") as recorded in the register 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 Issuers, were as follows:–

Ordinary shares of HK$2 each in the Bank

Name of Director	Personal interests	Total number of shares held	% of total issued shares
Dr. Jiang Jianqing	14,000	14,000	0.001%
Mr. Zhu Qi	50,000	50,000	0.005%
Mr. Zhang Yi	2,000	2,000	0.0002%
Mr. Tsui Yiu Wa, Alec	100,000	100,000	0.01%
Mr. Yuen Kam Ho, George	50,000	50,000	0.005%

All the interests stated above represent long positions. As at 30 June 2005, no short positions were recorded in the register required to be kept under section 352 of the SFO.

Save as disclosed above, as at 30 June 2005, none of the Directors or chief executives of the Bank or 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 during the period ended 30 June 2005.

Substantial Shareholders' and other persons' Interests and Short Positions in Shares and Underlying Shares

So far as is known to any Director, as at 30 June 2005, the following persons (other than a Director or chief executive of the Bank) who had interests in the shares or underlying shares of the Bank which were recorded in the register required to be kept under section 336 of the SFO:–

Ordinary shares of HK$2 each in the Bank

Name of shareholder	Total number of shares held	% of total issued shares
The Industrial and Commercial Bank of China	602,888,957	57.53%
Fortis Bank SA/NV	94,317,000	9%
Fortis N.V.*	94,317,000	9%
Fortis SA/NV*	94,317,000	9%
Fortis Brussels SA/NV*	94,317,000	9%

* Fortis Bank SA/NV is the legal owner of 94,317,000 ordinary shares of the Bank. Each of Fortis N.V., Fortis SA/NV and Fortis Brussels SA/NV is interested in such shares as a result of Fortis N.V. and Fortis SA/NV being entitled to exercise, or control the exercise of, one-third or more of the voting power at general meetings of Fortis Brussels SA/NV and Fortis Brussels SA/NV being entitled to exercise, or control the exercise of, one-third or more of the voting power at general meetings of Fortis Bank SA/NV.

All the interests stated above represent long positions. As at 30 June 2005, no short positions were recorded in the register required to be kept under section 336 of the SFO.

Save as disclosed above, as at 30 June 2005, the Bank had not been notified by any persons (other than Directors or chief executives of the Bank) who had interests or short positions in the shares or underlying shares of the Bank which would fall to be disclosed to the Bank under the provisions of Part XV of the SFO, or which were recorded in the register required to be kept under section 336 of the SFO.

Risk Management

The Group has established policies and procedures for the identification, measurement, control and monitoring of risk factors (including credit, liquidity, market, interest rate, operational, legal and compliance risks). The management and the relevant functional committees review these policies and procedures on a regular basis, and the Group's Internal Audit Department also performs regular checks to ensure due 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 has standards, policies and procedures and designated functional departments in place to control and monitor these risks.

The Group recognizes that sound credit risk management is essential to business growth and maximization of the return on Group's resources employed. The management has laid down credit policies in forms of credit manuals and other policy papers, which formulate the necessary credit risk management process to identify, measure, monitor and control risks inherent in the operation of various lending business. This process ensures prudence in lending and enables potential problems to be detected and tackled as early as practicable, thereby minimizing business loss.

High-level credit policies of the Group are set, reviewed and constantly updated by the relevant functional committees, and for prominent issues, by the Board of Director 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 selected by the relevant functional committees 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 relevant functional committees.

Credit Risk Management Department is the centralized department in the Bank mandated to carry out credit policies. Whilst in 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. Apart from the independent credit assessment and matrix approval process, regular credit audits are conducted on specific loan portfolio or operating units in the credit process. 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 management spares no efforts in monitoring the quality and behavior of the loan portfolio. The Group's internal credit risks grading system was first introduced in the last quarter of 2000 to track the health of the Group's loan portfolio. The grading system expands beyond the standard 5-grades system of the Hong Kong Monetary Authority and incorporates a 15-tier classification system by weighing borrowers' financial, management, ownership, industrial and other characteristics. With internal data being constantly enriched through years of experience, it is expected that the Group could make further use of statistics in the internal credit risk grading system to profile and track down credit risk migration and to measure loan default probabilities and other credit risk management requirements.

(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 is adequate cash flows to meet all financial obligations in both normal and contingency circumstances in a cost-effective manner whereas at the same time complying with all regulatory requirements. To manage liquidity risk, the Group has established asset and liquidity management policies which are reviewed by the relevant functional committees, and for prominent issues, approved by the Board of Directors. Liquidity is also managed and forecasted on a daily basis to enable the Treasury and Markets ("T&M") and the relevant functional committee 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 to capitalize an opportunity for the Group's business expansion. The elevation of the Group's profile, being a member of ICBC Group, has created more rooms and capabilities in liquidity management. As at 30 June 2005, the Group has a total of approximately HK$8.3 billion certificates of deposit issued to secure longer term funding.

The liquidity position remained strong throughout the first half of 2005 with an average liquidity ratio at 35.1% (Average for the first half of 2004: 40.4%), 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 as at 30 June 2005 remained strong, with capital adequacy ratios well above the regulatory requirements. The Group's adjusted Tier 1 and total capital adequacy ratios were 9.2% and 15.8%, respectively as at 30 June 2005.

(d) Market risk management

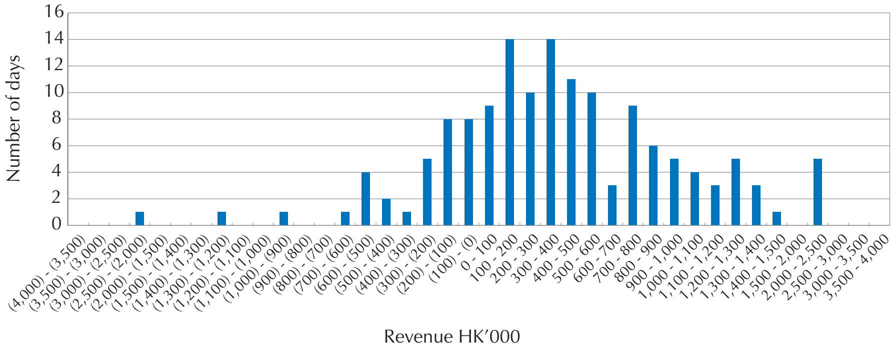
Market risk is the risk that market rates and prices on assets, liabilities and off-balance sheet positions change, thus causing profits or losses. Generally, the Group's market risk is associated with its positions in foreign exchange, debt securities and derivatives. Most off-balance sheet derivative positions arise from the execution of customer-related orders and positions taken for hedging purpose.

Market risk exposure for different types of transactions is managed within risk limits and guidelines approved by the management and the Asset and Liability Management Committee ("ALCO"), and for prominent issues, by the Board of Directors. Exposures are measured and monitored against limits on positions, stop-loss, value-at-risk, sensitivity, delta, gamma, etc. Daily risk monitoring is carried out by an independent Middle Office Department, which ensures all dealing activities are conducted within approved limits. The Group's market risk exposures are reviewed by the ALCO and the Risk Management Committee. All exceptions to limits are reported to the ALCO. Stress tests are performed regularly to estimate the possible losses under extreme circumstances. The Group's Internal Audit Department also performs regular review and testing on dealing activities to ensure compliance with all internal guidelines. Besides, various reputable treasury systems are being used to further strengthen the functions of control and monitoring.

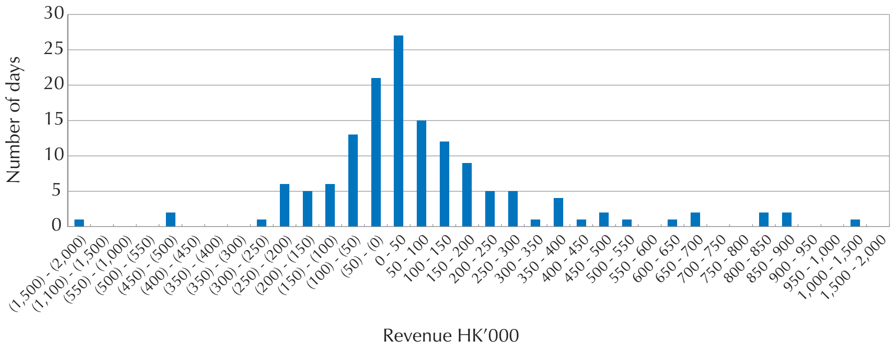
The average daily revenue earned from the Group's market risk related activities during the period ended 30 June 2005 was HK$405,069 (First half of 2004: HK$55,912) and the standard deviation for such daily revenue was HK$646,488 (First half of 2004: HK$249,499).

The following histograms show the frequency distribution of daily revenues related to market risk activities of the Group for the six months periods ended 30 June 2005 and 2004.

Six months period ended 30 June 2005



Six months period ended 30 June 2004



(e) *Interest rate and foreign exchange risk management*

Interest rate risk is the risk that the Group's position may be adversely affected by a change in market interest rates. Interest rate risk arises mainly from the maturity mismatch of interest bearing assets and liabilities and yield curve movement. Interest rate risk exposure is managed within risk limits and guidelines again approved by the management and the ALCO.

The Group manages its interest rate risk by way of entering into on-balance sheet and off-balance sheet interest rate hedging instruments. The effectiveness of the hedging activities is assessed regularly according to the requirements of the Hong Kong Accounting Standard 39. The risk management strategy is continually reviewed by the ALCO based on market conditions.

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 and there are various limits on foreign exchange positions. The foreign exchange positions are managed by T&M within established limits 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.

(f) 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 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.

(g) 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. Over the past year, the Group took significant steps to further enhance controls regarding legal and compliance risk.

The Legal and Compliance Department was established in November 2001 to handle relevant legal and compliance issues concerning the Group. With the issuance of Compliance Policy and monthly Compliance Bulletin, together with the provision of regular compliance training, all staff is kept abreast of the latest legal and regulatory developments. The Legal and Compliance Department also performs compliance checking, provides advice on new products and corporate issues to ensure compliance in all aspects, and reviews contracts to be made by the Group with third parties in order to minimize prospective legal risks.

Further, a team of qualified personnel and legal officers has been appointed in the Head Office of Belgian Bank to handle relevant legal and compliance issues concerning the Group in Belgium. Acting as the Belgian spokesperson and counterpart to the Belgian authorities and supervisory bodies, the qualified personnel will ensure that the regulatory requirements of the relevant Belgian authorities and supervisory bodies are fully complied with and that periodic reporting to the relevant Belgian authorities is made promptly. The legal officers will assist the Group with any Belgian-related issues to ensure that prospective legal risk will be minimized.

Compliance with the Guideline on "Interim Financial Disclosure by Locally Incorporated Authorized Institutions"

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 Hong Kong Monetary Authority.

Corporate Governance

The Bank has fully complied with the requirements set out in the Supervisory Policy Manual entitled "Corporate Governance of Locally Incorporated Authorized Institutions" issued by the Hong Kong Monetary Authority on 21 September 2001. The prominent functional committees of the Bank are as follows:–

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

Except for the Non-executive Directors 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, the Bank has applied the principles and complied with all code provisions and, where applicable, the recommended best practices of the Code on Corporate Governance Practices as set out in Appendix 14 of the Rules Governiing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") throughout the six months ended 30 June 2005.

Model Code for Securities Transactions by Directors

The Bank has adopted the model code for securities transactions by directors set out in Appendix 10 of the Listing Rules as its own code of conduct regarding Directors' securities transactions. The Bank confirms that, having made specific enquiry of all Directors, the Directors have complied with the required standard set out in the Model Code for the period ended 30 June 2005.

Audit Committee

The Bank has an Audit Committee which comprises Mr. Chen Aiping, a Non-executive Director, and the three Independent Non-executive Directors, namely Professor Wong Yue Chim, Richard, SBS, 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 discuss internal controls, risk evaluation and financial report matters including a review of the unaudited interim accounts for the six months period ended 30 June 2005 with the Directors.

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

During the period ended 30 June 2005, neither the Bank nor any of its subsidiaries has purchased, sold or redeemed any of the Bank's listed securities.

Interim Financial Information

The Audit Committee of the Bank has reviewed the results for the six months ended 30 June 2005 of the Bank. 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, 16 August 2005

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. Zhang Yi 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, SBS, 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 2005

(Unaudited)

	Note	Six Months Ended 30 Jun 2005 HK$'000	30 Jun 2004 HK$'000	Change %
Interest income		**1,623,932**	937,258	
Interest expense		**(1,053,815)**	(379,189)	
Net interest income		**570,117**	558,069	2%
Other operating income	*(5)*	**386,228**	139,150	178%
Operating income		**956,345**	697,219	37%
Operating expenses	*(6)*	**(428,926)**	(228,875)	87%
Amortisation of goodwill		**–**	(22,417)	
Operating profit before loan impairment allowances/provisions		**527,419**	445,927	18%
Write-back of bad and doubtful debts – specific provisions	*(4)*	**–**	47,550	
Charge for bad and doubtful debts – general provisions		**–**	(26,795)	
Write-back of individual impairment allowances	*(4)*	**24,260**	–	
Charge for collective impairment allowances		**(33,524)**	–	
Operating profit after loan impairment allowances/provisions		**518,155**	466,682	11%
Net (loss)/gain from disposal/revaluation of fixed assets		**(903)**	3,532	
Net profit on disposal and redemption of held-to-maturity securities		**4**	5	
Net profit on disposal of available-for-sale securities		**59,720**	–	
Net profit on disposal of non-trading securities		**–**	434	
Impairment loss on non-trading securities		**–**	(200)	
Share of net profit/(loss) of associated companies		**283**	(33,716)	
Profit before taxation		**577,259**	436,737	32%
Taxation	*(7)*	**(101,708)**	(79,160)	
Profit attributable to shareholders		**475,551**	357,577	33%
Proposed interim dividend	*(8)*	**188,634**	146,715	
Per share:				
• Basic earnings	*(9)*			
– reported basis		**HK$0.45**	HK$0.42	7%
– cash basis		**HK$0.45**	HK$0.45	0%
• Diluted earnings	*(9)*			
– reported basis		**HK$0.45**	HK$0.37	22%
– cash basis		**HK$0.45**	HK$0.40	13%
• Proposed interim dividend		**HK$0.18**	HK$0.14	29%

CONDENSED CONSOLIDATED BALANCE SHEET
AS AT 30 JUNE 2005

(Unaudited)

	Note	30 Jun 2005 HK$'000	31 Dec 2004 HK$'000	Change %	30 Jun 2004 HK$'000	Change %
Assets						
Cash and short-term funds	(10)	**17,700,898**	13,845,905	28%	11,530,508	54%
Placements with banks and other financial institutions maturing between one and twelve months	(11)	**2,382,200**	5,132,657	-54%	2,166,641	10%
Trade bills	(12)	**2,270,265**	1,859,246	22%	1,697,049	34%
Certificates of deposit held	(13)	**5,814,571**	6,564,527	-11%	11,281,994	-48%
Securities measured at fair value through profit or loss		**1,124,806**	–		100	1124706%
– Trading	(14)	**98**	–		100	
– Designated	(15)	**1,124,708**	–		–	
Held-to-maturity securities	(16)	**2,268,629**	7,662,886	-70%	7,948,737	-71%
Derivative financial instruments		**128,749**	–		–	
Available-for-sale securities	(17)	**6,262,174**	–		–	
Advances and other accounts	(12)	**68,711,489**	61,366,802	12%	58,343,830	18%
Non-trading securities		**–**	1,535,710		1,426,350	
Deferred tax assets, net	(18)	**24,498**	27,403	-11%	36,017	-32%
Investments in associated companies		**28,615**	28,332	1%	124,245	-77%
Intangible assets		**1,005,787**	998,054	1%	897,673	12%
Tangible fixed assets	(19)	**95,826**	322,128	-70%	490,294	-80%
		107,818,507	99,343,650	9%	95,943,438	12%
Equity and liabilities						
Deposits and balances of banks and other financial institutions	(20)	**22,231,904**	17,520,277	27%	21,094,978	5%
Deposits from customers	(21)	**58,425,848**	56,058,169	4%	52,881,695	10%
– At fair value through profit or loss		**735,540**	–		–	
– At amortised cost		**57,690,308**	56,058,169		52,881,695	
Certificates of deposit issued	(22)	**8,311,486**	7,345,360	13%	6,826,238	22%
– At fair value through profit or loss		**3,132,248**	–		–	
– At amortised cost		**5,179,238**	7,345,360		6,826,238	
Issued debt securities	(23)	**3,051,102**	3,095,423	-1%	–	
– At fair value through profit or loss		**3,051,102**	–		–	
– At amortised cost		**–**	3,095,423		–	
Provision for taxation		**76,178**	14,553	423%	169,175	-55%
Derivative financial instruments		**191,276**	–		–	
Other accounts and provisions		**1,410,721**	1,420,221	-1%	1,363,364	3%
		93,698,515	85,454,003	10%	82,335,450	14%
Loan capital	(24)	**5,347,635**	5,348,229	0%	5,360,802	0%
Share capital		**2,095,930**	2,095,930	0%	2,095,930	0%
Reserves	(25)	**6,676,427**	6,445,488	4%	6,151,256	9%
		14,119,992	13,889,647	2%	13,607,988	4%
		107,818,507	99,343,650	9%	95,943,438	12%

CONDENSED CONSOLIDATED CASH FLOW STATEMENT
FOR THE SIX MONTHS ENDED 30 JUNE 2005

(Unaudited)

	Six Months Ended	
	30 Jun 2005	30 Jun 2004
	HK$'000	*HK$'000*
Net cash outflow from operating activities	**(1,468,893)**	(6,179,763)
Net cash (outflow)/inflow from investing activities	**(27,675)**	4,170,739
Net cash (outflow)/inflow from financing activities	**(401,181)**	2,271,126
Effect of foreign exchange differences	**(4,071)**	12,572
(Decrease)/increase in cash and cash equivalents	**(1,901,820)**	274,674
Cash and cash equivalents at 1 January	**8,443,309**	9,302,481
Cash and cash equivalents at 30 June	**6,541,489**	9,577,155

Analysis of the balances of cash and cash equivalents:

	30 Jun 2005	30 Jun 2004
	HK$'000	*HK$'000*
Cash and balances with banks and other financial institutions	**1,236,093**	947,318
Money at call and short notice	**15,182,760**	10,341,286
Treasury bills with original maturity within three months	**146,339**	82,998
Placements with banks and other financial institutions with original maturity within three months	**50,300**	2,097,289
Certificates of deposits held with original maturity within three months	**–**	3,435,352
Deposits and balances of banks and other financial institutions with original maturity within three months	**(10,074,003)**	(7,327,088)
	6,541,489	9,577,155

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED 30 JUNE 2005

(Unaudited)

	30 Jun 2005 *HK$'000*	30 Jun 2004 *HK$'000*
Total equity as at 1 January, as previously reported	**8,541,418**	5,917,305
Effects of change in accounting policies *(Note 2(d))*	**220,139**	–
Total equity as at 1 January, as restated	**8,761,557**	5,917,305
Write-back of impairment loss on bank premises	**–**	29,751
Change in fair value of available-for-sale securities	**(69,025)**	–
Change in fair value of non-trading securities	**–**	(78,475)
Release to deferred tax liabilities	**26,930**	8,611
Exchange difference arising on translation of results of a foreign associated company	**–**	244
Exchange difference arising on translation of results of a foreign subsidiary	**(534)**	(10)
Net losses not recognised in the profit and loss account	**(42,629)**	(39,879)
Profit attributable to shareholders	**475,551**	357,577
Investment revaluation reserve realised on disposal of available-for-sale securities	**(97,253)**	–
Investment revaluation reserve realised on disposal of non-trading securities	**–**	(501)
Dividends	**(324,869)**	(247,948)
Issue of ordinary shares	**–**	2,286,697
Share issue expenses	**–**	(26,065)
Total equity as at 30 June	**8,772,357**	8,247,186

NOTES TO THE CONDENSED INTERIM ACCOUNTS

1. **Basis of preparation and accounting policies**

The accounting policies and basis of preparation adopted in these unaudited consolidated condensed interim financial statements are consistent with those adopted in the Group's 2004 Annual Report except for the new adoption of new/revised Hong Kong Financial Reporting Standards ("HKFRSs") and Hong Kong Accounting Standards ("HKASs") as disclosed in note 2 below.

2. **Impact of new/revised HKFRSs and HKASs**

The Hong Kong Institute of Certified Public Accountants ("HKICPA") has issued a number of new/revised HKFRSs, and HKASs and Interpretations, which are generally effective for accounting periods beginning on or after 1 January 2005. The Group has adopted the following HKFRSs and HKASs issued up to 30 June 2005 which are pertinent to its operations and relevant to these interim financial statements:

- HKAS 17 "Leases"
- HKAS 32 "Financial Instruments: Disclosure and Presentation"
- HKAS 36 "Impairment of Assets"
- HKAS 38 "Intangible Assets"
- HKAS 39 "Financial Instruments: Recognition and Measurement"
- HKFRS 3 "Business Combinations"
- HKFRS 5 "Non-current Assets Held For Sale and Discontinued Operations"

These HKFRSs and HKASs prescribe new accounting measurement and disclosure practices. The major and significant effects of the adoption of these HKFRSs and HKASs on the Group's accounting policies and on amounts disclosed in the interim financial statements are summarised as follows:

(a) The adoption of revised HKAS 17 "Leases" has resulted in a change in accounting policy relating to leasehold land. Leasehold land and buildings were previously carried at cost less accumulated depreciation and impairment loss. Following the adoption of HKAS 17 "Leases", a lease of land and building should be split into a lease of land and a lease of building in proportion to the relative fair values of the leasehold interests in the land element and the building element of the lease at inception. The land lease prepayment is stated at cost and amortised over the period of the lease or where there is impairment, the impairment is expensed in the profit and loss account, whereas the leasehold building is stated at cost less accumulated depreciation and impairment loss. Previously included in fixed assets is the land element of the leasehold properties, which is now disclosed as other assets.

(b) In prior years, positive goodwill was amortised on a straight line basis over its useful life and was subject to impairment testing when there were indications of impairment. With effect from 1 January 2005, in accordance with HKFRS 3 "Business Combinations" and HKAS 36 "Impairment of Assets", the Group no longer amortises positive goodwill. Such goodwill is tested annually for impairment, including in the year of its initial recognition, as well as when there are indications of impairment. Impairment losses are recognised when the carrying amount of the cash generating unit to which the goodwill has been allocated exceeds its recoverable amount. The new policy in respect of positive goodwill has been applied prospectively in accordance with the transitional arrangements under HKFRS 3 "Business Combinations". As a result, comparative amounts have not been restated, the cumulative amount of amortisation as at 1 January 2005 has been offset against the cost of the goodwill and no amortisation charge for goodwill has been recognised in the profit and loss account for the six months ended 30 June 2005.

(c) The adoption of HKAS 32 "Financial Instruments: Disclosure and Presentation" and HKAS 39 "Financial Instruments: Recognition and Measurement" has resulted in a change in accounting policy for recognition, measurement, disclosure and presentation of financial assets and liabilities. It has also resulted in the recognition of derivatives at fair value and the change in the recognition and measurement of hedging activities.

2. **Impact of new/revised HKFRSs and HKASs** *(continued)*

(c) *(continued)*

In particular, for loans and receivables, specific provisions and general provisions were made by applying various percentages to the unsecured portion of loans classified as pass, special mention, substandard, doubtful and loss in prior years. Following the adoption of HKAS 32 "Financial Instruments: Disclosure and Presentation" and HKAS 39 "Financial Instruments: Recognition and Measurement", loans and receivables are measured by amortised cost where the carrying amount of the asset is computed by discounting the future cash flows to the present value using the original effective interest rate. The previous approach of maintaining specific and general provisioning is replaced with individual and collective impairment allowances. Where objective evidence of impairment exists, the recoverable amount of an asset is calculated by discounting the future cash flows to the present value using the original effective interest rate taking into account the value of collateral, if any. The difference between the carrying amount and the recoverable amount of the asset is recognised as impairment.

(d) **Summary of the effects of changes in the above accounting policies**

(i) Effect on opening balance of total equity at 1 January 2005 (as adjusted)

	Retained profits *HK$'000*	**Capital and other reserves** *HK$'000*	**Total** *HK$'000*
Effect of new policy (increase/(decrease))			
Prior period adjustments:			
HKAS 17			
Fixed assets	(3,612)	(132,636)	(136,248)
Deferred tax	–	23,212	23,212
	(3,612)	(109,424)	(113,036)
HKAS 39			
Available-for-sale securities	110,780	150,391	261,171
Securities measured at fair value through profit or loss	(24,200)	–	(24,200)
Deposits and balances of banks and other financial institutions	6,376	–	6,376
Deposits from customers	6,614	–	6,614
Derivatives	(105,511)	–	(105,511)
Certificates of deposit issued	(18,546)	–	(18,546)
Issued debts	20,673	–	20,673
Impairment allowance – individual	47,690	–	47,690
Impairment allowance – collective	201,784	–	201,784
Funding swap	(3,414)	–	(3,414)
Deferred tax	(35,312)	(24,150)	(59,462)
	206,934	126,241	333,175
Total effect as at 1 January 2005	203,322	16,817	220,139

2. Impact of new/revised HKFRSs and HKASs *(continued)*

(d) Summary of the effects of changes in the above accounting policies *(continued)*

(ii) Effect on profit after taxation for the six months ended 30 June 2005 (estimated)

	6 months ended 30 June 2005 Retained profits *HK$'000*
Effect of new policy (increase/(decrease))	
HKFRS 3	
Amortisation of goodwill	32,070
	32,070
HKAS 17	
Depreciation	1,616
Land lease prepayment amortisation	(662)
	954
HKAS 39	
Available-for-sale securities	11,050
Securities measured at fair value through profit or loss	2,860
Deposits and balances of banks and other financial institutions	(6,368)
Deposits from customers	1,561
Derivatives	(9,735)
Certificate of deposit issued	42,303
Issued debts	12,610
Impairment allowance – individual	(8,008)
Impairment allowance – collective	19,062
Deferred tax	(3,336)
Current tax	(8,098)
	53,901
Total effect for the period	86,925
Effect on earnings per share:	
– Basic	HK$0.08
– Diluted	HK$0.08

3. Segment reporting

(a) By class of business

The Group comprises three business segments. Commercial and retail banking activities include 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 six months ended 30 Jun 2005				
	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	431,048	37,708	98,815	2,546	570,117
Other operating income	164,487	163,778	40,232	17,731	386,228
Operating income	595,535	201,486	139,047	20,277	956,345
Operating expenses	(311,296)	(34,472)	(21,092)	(62,066)	(428,926)
Operating profit/(loss) before loan impairment allowances	284,239	167,014	117,955	(41,789)	527,419
Write-back of individual impairment allowances	8,706	–	549	15,005	24,260
Charge for collective impairment allowances	(25,235)	(6,535)	(1,517)	(237)	(33,524)
Operating profit/(loss) after loan impairment allowances	267,710	160,479	116,987	(27,021)	518,155
Net loss from disposal of fixed assets	(90)	(1)	–	(812)	(903)
Net profit on disposal and redemption of held-to-maturity securities	–	4	–	–	4
Net profit on disposal of available-for-sale securities	9	54,248	1,559	3,904	59,720
Share of net profit of asscoiated company	–	–	–	283	283
Profit/(loss) before taxation	267,629	214,730	118,546	(23,646)	577,259
Segment assets	42,224,837	35,756,323	27,015,279	700,376	105,696,815
Investments in associated company	–	–	–	28,615	28,615
Unallocated assets	–	–	–	2,093,077	2,093,077
Total assets	42,224,837	35,756,323	27,015,279	2,822,068	107,818,507
Segment liabilities	40,939,514	23,254,416	17,004,535	146,211	81,344,676
Unallocated liabilities	–	–	–	12,353,839	12,353,839
Total liabilities	40,939,514	23,254,416	17,004,535	12,500,050	93,698,515
Capital expenditure	10,391	210	32	12,661	23,294
Depreciation and amortisation charges	8,327	622	33	23,167	32,149

3. **Segment reporting** *(continued)*

(a) **By class of business** *(continued)*

	For the six months ended 30 Jun 2004				
	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	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 provisions	11,384	–	11,481	24,685	47,550
(Charge for)/write-back of bad and doubtful debts – general provisions	(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 (loss)/gain from disposal/ revaluation of fixed assets	(150)	(1)	–	3,683	3,532
Net profit on disposal and redemption of held-to-maturity securities	–	5	–	–	5
Net profit on disposal of non-trading securities	–	434	–	–	434
Impairment loss on non-trading securities	–	–	–	(200)	(200)
Share of net loss of asscoiated 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
Investments 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

(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.

4. **Analysis of write-back of/(charge for) individual impairment allowances/specific provisions for bad and doubtful debts**

	30 Jun 2005 ***HK$'000***	30 Jun 2004 *HK$'000*
Additional impairment allowances/provisions	**(11,062)**	(11,365)
Less: Impairment allowances/provisions write-back	**35,322**	58,915
	24,260	47,550

5. Other operating income

	30 Jun 2005 *HK$'000*	30 Jun 2004 *HK$'000*
Fees and commission income	**192,733**	101,434
Less: fees and commission expense	**(4,814)**	(2,164)
Net fees and commission income	**187,919**	99,270
Net gain from foreign exchange activities	**131,654**	12,905
Net gain/(loss) from trading securities	**77**	(6)
Net gain from available-for-sale securities	**11,050**	–
Net gain from fair value through profit or loss securities	**2,860**	–
Net gain from fair value through profit or loss financial liabilities	**62,908**	–
Net loss on derivatives	**(19,424)**	–
Dividend income from investments in securities:		
– Listed investments	**–**	1,512
– Unlisted investments	**2,393**	4,715
Others	**6,791**	20,754
	386,228	139,150

6. Operating expenses

Including depreciation on tangible fixed assets and amortisation of intangible assets for the six months ended 30 June 2005 amounting to HK$13,165,000 (30 June 2004: HK$11,974,000) and HK$18,984,000 (30 June 2004: HK$230,000) respectively.

7. Taxation

Hong Kong profits tax has been provided at the rate of 17.5% (2004: 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 2005 *HK$'000*	30 Jun 2004 *HK$'000*
Current taxation:		
– Hong Kong profits tax	**106,642**	80,331
– Overseas taxation	**1,481**	643
Deferred taxation *(note 18)*	**(6,415)**	(1,814)
	101,708	79,160

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 2005 *HK$'000*	30 Jun 2004 *HK$'000*
Profit before taxation	**577,259**	436,737
Calculated at a taxation rate of 17.5% (2004: 17.5%)	**101,021**	76,429
Effect of different taxation rates in other countries	**716**	312
Income not subject to taxation	**(3,544)**	(8,192)
Expenses not deductible for taxation purposes	**3,515**	10,611
Taxation charge	**101,708**	79,160

8. Proposed interim dividend

	30 Jun 2005	30 Jun 2004
	HK$'000	*HK$'000*
Proposed interim dividend, HK$0.18 per share (2004: HK$0.14 per share), to be paid to ordinary shareholders	**188,634**	146,715

9. Earnings per share

The calculation of basic earnings per share is based on the net profit attributable to shareholders for the period of HK$475,551,000 (2004: HK$357,577,000) and on 1,047,964,783 (2004: 851,203,926) 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$475,551,000 (2004: HK$357,577,000) and on 1,047,964,783 (2004: 957,869,008) 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.

10. Cash and short-term funds

	30 Jun 2005	31 Dec 2004
	HK$'000	*HK$'000*
Cash and balances with banks and other financial institutions	**890,298**	1,420,330
Money at call and short notices	**15,528,554**	11,053,837
Treasury bills (including Exchange Fund Bills)	**1,282,046**	1,371,738
	17,700,898	13,845,905
Remaining maturity of treasury bills:		
– Three months or less	**1,282,046**	1,199,881
– One year or less, but over three months	**–**	171,857
	1,282,046	1,371,738

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

	30 Jun 2005	31 Dec 2004
	HK$'000	*HK$'000*
Remaining maturity:		
– Three months or less	**50,300**	2,411,687
– One year or less, but over three months	**2,331,900**	2,720,970
	2,382,200	5,132,657

12. Total advances and other accounts

	30 Jun 2005 HK$'000	31 Dec 2004 HK$'000
Advances to customers	**67,500,714**	60,190,657
Advances to banks and other financial institutions	**368,244**	679,016
Trade bills	**2,275,805**	1,869,961
Accrued interest and other accounts	**1,382,525**	1,322,586
	71,527,288	64,062,220
Less: Impairment allowances		
– Individual	**(213,236)**	–
– Collective	**(332,298)**	–
Less: Provisions for bad and doubtful debts		
– Specific	**–**	(332,544)
– General	**–**	(503,535)
Provisions for accrued interest	**–**	(93)
	70,981,754	63,226,048

(a) Impaired / non-performing loans

	30 Jun 2005		31 Dec 2004	
	HK$'000	% of advances to customers	HK$'000	% of advances to customers
Gross impaired loans	**474,648**	**0.7**	–	–
Gross non-performing loans	**–**	**–**	764,877	1.3
Individual impairment allowances	**213,236**		–	
Specific provisions	**–**		332,544	
Suspended interest	**–**		69,176	

Impaired loans are advances which have been classified as "substandard", "doubtful" and "loss" under the Group's classification of loan quality.

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

There were no impaired advances to banks and other financial institutions as at 30 June 2005 nor advances on which interest is being placed in suspense or on which interest accrual has ceased as at 31 December 2004 nor were there any individual impairment allowances and specific provision made for them on these two respective dates.

(b) Remaining maturity of advances to customers

	30 Jun 2005 HK$'000	31 Dec 2004 HK$'000
Repayable on demand	**2,269,053**	1,996,570
Three months or less	**7,782,913**	6,428,776
One year or less, but over three months	**5,680,174**	4,825,462
Five years or less, but over one year	**29,465,935**	26,505,361
Over five years	**20,735,873**	18,893,045
Undated	**1,566,766**	1,541,443
	67,500,714	60,190,657

12. Total advances and other accounts *(continued)*

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

	30 Jun 2005 *HK$'000*	31 Dec 2004 *HK$'000*
Three months or less	**70,000**	77,742
One year or less, but over three months	**220,514**	349,653
Five years or less, but over one year	**77,730**	251,621
	368,244	679,016

13. Certificates of deposit held

	30 Jun 2005 *HK$'000*	31 Dec 2004 *HK$'000*
Remaining maturity:		
– Three months or less	**739,030**	461,037
– One year or less, but over three months	**1,069,525**	321,444
– Five years or less, but over one year	**3,596,780**	4,696,225
– Over five years	**409,236**	1,085,821
	5,814,571	6,564,527

14. Trading securities

	30 Jun 2005 *HK$'000*	31 Dec 2004 *HK$'000*
Remaining maturity:		
– Five years or less, but over one year	**98**	–

15. Securities measured at fair value through profit or loss

	30 Jun 2005 *HK$'000*	31 Dec 2004 *HK$'000*
Remaining maturity:		
– Five years or less, but over one year	**476,466**	–
– Over five years	**648,242**	–
	1,124,708	–

16. Held-to-maturity securities

	30 Jun 2005 *HK$'000*	31 Dec 2004 *HK$'000*
Remaining maturity:		
– Three months or less	**429,916**	382,167
– One year or less, but over three months	**95,403**	956,504
– Five years or less, but over one year	**1,450,670**	3,893,849
– Over five years	**292,640**	2,430,366
	2,268,629	7,662,886

17. Available-for-sale securities

	30 Jun 2005	31 Dec 2004
	HK$'000	*HK$'000*
Debt securities	**5,806,097**	–
Equity securities	**456,077**	–
	6,262,174	–
Remaining maturity of debt securities:		
– Three months or less	**70,272**	–
– One year or less, but over three months	**465,852**	–
– Five years or less, but over one year	**3,552,129**	–
– Over five years	**1,712,025**	–
– Undated	**5,819**	–
	5,806,097	–

18. 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% (2004: 17.5%).

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

	30 Jun 2005	31 Dec 2004
	HK$'000	*HK$'000*
At the beginning of period/year, as previously reported	**27,403**	8,026
Adjustments arising from change in accounting policies	**(36,250)**	–
At the beginning of period/year, as restated	**(8,847)**	8,026
Acquisition of subsidiaries	**–**	17,565
Credited/(charged) to profit and loss account *(note 7)*	**6,415**	(14,448)
Credited to equity	**26,930**	16,260
At the end of period/year	**24,498**	27,403

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 2005	31 Dec 2004
	HK$'000	*HK$'000*
Deferred tax assets	**56,660**	84,579
Deferred tax liabilities	**(32,162)**	(57,176)
	24,498	27,403

The amounts shown in the balance sheet include the following:

	30 Jun 2005	31 Dec 2004
	HK$'000	*HK$'000*
Deferred tax assets to be recovered after more than 12 months	**56,660**	84,579
Deferred tax liabilities to be settled after more than 12 months	**(24,363)**	(51,367)

19. 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 2005	**248,200**	**115,206**	**213,084**	**576,490**
Additions	**–**	**11,866**	**5,221**	**17,087**
Reclassification	**(229,277)**	**–**	**–**	**(229,277)**
Disposals	**–**	**(6,141)**	**(2,739)**	**(8,880)**
At 30 June 2005	**18,923**	**120,931**	**215,566**	**355,420**
Accumulated depreciation:				
At 1 January 2005	**–**	**86,266**	**168,096**	**254,362**
Charge for the period	**442**	**5,072**	**7,651**	**13,165**
Disposals	**–**	**(6,093)**	**(1,840)**	**(7,933)**
At 30 June 2005	**442**	**85,245**	**173,907**	**259,594**
Net book value:				
At 30 June 2005	**18,481**	**35,686**	**41,659**	**95,826**
At 31 December 2004	248,200	28,940	44,988	322,128

20. Deposits and balances of banks and other financial institutions

	30 Jun 2005 ***HK$'000***	31 Dec 2004 *HK$'000*
Remaining maturity:		
– Repayable on demand	**1,445,990**	1,420,630
– Three months or less	**14,013,443**	9,755,771
– One year or less, but over three months	**6,772,471**	6,343,876
	22,231,904	17,520,277

21. Deposits from customers

	30 Jun 2005 ***HK$'000***	31 Dec 2004 *HK$'000*
Demand deposits and current accounts	**3,077,768**	3,415,738
Savings deposits	**9,458,415**	10,843,446
Time, call and notice deposits	**45,889,665**	41,798,985
	58,425,848	56,058,169
Remaining maturity:		
– Repayable on demand	**12,549,262**	14,346,645
– Three months or less	**43,004,942**	39,735,118
– One year or less, but over three months	**2,374,556**	1,535,242
– Five years or less, but over one year	**497,088**	441,164
	58,425,848	56,058,169

22. Certificates of deposit issued

	30 Jun 2005 HK$'000	31 Dec 2004 HK$'000
Remaining maturity:		
– Three months or less	**875,253**	175,006
– One year or less, but over three months	**5,007,459**	5,242,034
– Five years or less, but over one year	**2,428,774**	1,928,320
	8,311,486	7,345,360

23. Issued debt securities

	30 Jun 2005 HK$'000	31 Dec 2004 HK$'000
Remaining maturity:		
– Five years or less, but over one year	**3,051,102**	3,095,423

24. Loan capital

	30 Jun 2005 HK$'000	31 Dec 2004 HK$'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**	1,169,955
– perpetual (callable on 10 December 2012)	**1,935,916**	1,935,916
Exchange adjustment	**(12,780)**	(12,186)
	5,347,635	5,348,229

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.

25. Reserves

	30 Jun 2005 HK$'000	31 Dec 2004 HK$'000
Ordinary share premium	**4,700,602**	4,700,602
Convertible preference share premium	**16,126**	16,126
Bank premises revaluation reserve	**1,215**	110,638
Investment revaluation reserve	**(75,482)**	(62,377)
Exchange reserve	**(412)**	122
General reserve	**219,200**	219,200
Retained profits*	**1,815,178**	1,461,177
	6,676,427	6,445,488
Proposed dividends not provided for	**188,634**	324,869

* In accordance with the HKMA guideline "Impact of the New Hong Kong Accounting Standards on Authorised Institutions' Capital Base and Regulatory Reporting", the Bank has earmarked a "Regulatory Reserve" of HK$350,724,000 from retained profits and it is included as tier 2 capital together with the Bank's collective impairment allowances after the adoption of HKAS 39.

26. Balances with group companies

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

	30 Jun 2005 *HK$'000*	31 Dec 2004 *HK$'000*
On-balance sheet		
Cash and short-term funds	**1,894,451**	1,336,356
Placements with banks and financial institutions maturing between one and twelve months	**1,993,550**	4,691,603
Advances and other accounts	**87,327**	84,617
	3,975,328	6,112,576
Deposits and balances of banks and other financial institutions	**18,494,790**	15,134,478
Certificates of deposit issued	**3,884,617**	3,887,100
Other accounts and provisions	**201,959**	156,840
	22,581,366	19,178,418
Loan capital	**5,347,635**	5,348,229
Off-balance sheet		
Foreign exchange contracts – contractual amount	**6,395,166**	5,559,672
Interest rate swap – notional principal	**8,312,563**	7,946,905
Interest rate option – contractual amount		
– option purchased	**810,843**	797,307
– options written	**1,797,767**	1,807,902
	2,608,610	2,605,209
Other commitments with maturity within 1 year – overdraft facility	**1,010,940**	1,010,646

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

	30 Jun 2005 *HK$'000*	31 Dec 2004 *HK$'000*
On-balance sheet		
Advances and other accounts	**2,816**	3,499
Deposits and balances of banks and other financial institutions	**116,275**	103,334
Deposits from customers	**358,508**	444,967
Other accounts and provisions	**4,264**	1,565
	479,047	549,866
Off-balance sheet		
Foreign exchange contracts – contractual amount	**12,437**	30,954
Interest rate swaps – notional principal	**255,732**	255,771

26. Balances with group companies *(continued)*

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

	30 Jun 2005 *HK$'000*	31 Dec 2004 *HK$'000*
On-balance sheet		
Deposits from customers	**15,691**	18,934
Other accounts and provisions	**1**	–
	15,692	18,934

27. Significant related party transactions

Related parties are those parties that have the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or other entities.

On 1 January 2005, the Group has adopted HKAS 24 "Related Party Disclosures" which has affected the identification of related parties and some other related-party disclosures. This HKAS requires the disclosure of the compensation of key management personnel. In addition, it requires the Group to disclose related party transactions with state-controlled entities as these profit-oriented state-controlled entitles are no longer exempted from disclosures. The additional disclosures have been detailed in (e) and (f) below.

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 2005 *HK$'000*	30 Jun 2004 *HK$'000*
Interest income		
– Placement *(Note (i))*	**82,024**	27,700
– Interest rate swaps *(Note (ii))*	**192,654**	165,432
Interest expense		
– Deposits *(Note (iii))*	**(193,962)**	(90,692)
– Interest rate swaps *(Note (ii))*	**(157,486)**	(129,895)
– Certificates of deposits issued *(Note (iv))*	**(68,819)**	(34,368)
– Loan capital *(Note (v))*	**(76,312)**	(29,649)
Net option premium expense *(Note (vi))*	**(4,615)**	(1,329)
Management fee income *(Note (vii))*	**3,000**	3,000
Service fee income *(Note (x))*	**855**	1,110
Premises income *(Note (xi) & (xii))*	**594**	–
Service fee expense *(Note (ix))*	**(3,771)**	(2,440)
Premises expense *(Note (viii))*	**–**	(3,056)

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.

27. Significant related party transactions *(continued)*

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

(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 24).

(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 and the Supplemental Collaboration Agreement dated 4 February 2005, 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, the Supplemental Collaboration Agreement dated 4 February 2005 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 and the Supplemental Service Levels Agreement dated 4 February 2005, 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 and the Supplemental Outsourcing Agreement dated 4 February 2005, 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.

(xi) In accordance with the Licence Agreement dated 31 December 2004, premises expense was paid by the Branch to the Bank for using a portion of floor area on the 28th floor, ICBC Tower, 3 Garden Road, Central, Hong Kong.

(xii) In accordance with two Licence Agreements dated 31 December 2004 and 1 April 2005 respectively, premises expense was paid by ICEA Services Limited to the Bank for using Suites 2501-2 and the 26th Floor, ICBC Tower, 3 Garden Road, Central, Hong Kong.

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

Sub-participation of syndicated loans

During the six months ended 30 June 2005, 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$776,714,000 (First half of 2004: HK$610,000,000) 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$2,460,897,000 (First half of 2004: HK$513,372,000). 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.

Sale of debt securities

During the six months ended 30 June 2005, the Bank sold debt securities with a carrying value of HK$550,000,000 (First half of 2004: HK$601,000,000) to the ultimate holding company and fellow subsidiaries. These transactions were entered into on normal commercial terms with reference to prevailing market rates.

27. **Significant related party transactions** *(continued)*

(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 2005 was HK$842,282,000 and HK$504,401,000 respectively (31 December 2004: HK$849,196,000 and HK$504,212,000 respectively).

(d) **Acquisition of Chinese Mercantile Bank**

On 30 December 2004, the Bank entered into an acquisition agreement with The Industrial and Commercial Bank of China ("ICBC"), its ultimate holding company, and CITIC Ka Wah Bank Limited in relation to the Bank's acquisition of the entire equity interest in Chinese Mercantile Bank ("CMB"). The consideration for the acquisition was 1.1 times of the audited net asset value of CMB as at the completion date as determined by reference to the completion accounts. CITIC Ka Wah Bank Limited received no consideration for the transaction as ICBC was the beneficial owner of the entire equity interest of CMB. The completion of the acquisition took place on 12 August 2005 and CMB became a wholly-owned subsidiary of the Bank. The Bank has allotted and issued 66,698,102 ordinary shares as consideration shares to ICBC pursuant to the acquisition agreement. Fortis Bank has also exercised its anti-dilution right to subscribe for 6,596,330 ordinary shares of the Bank pursuant to the sale and purchase agreement dated 31 December 2003 entered into between the Bank, Generale Belgian Holding B.V. and Fortis Bank. Accordingly, ICBC's shareholding in the Bank increased from 57.53% to 59.72% whilst the shareholding of Fortis Bank in the Bank remains at 9%.

CMB was previously a Sino-foreign equity joint venture bank incorporated in the PRC and is principally engaged in non-Renminbi banking business in Shenzhen, the PRC. The banking section in the PRC will be further expanded as the PRC economy continues to grow and the PRC banking section is of huge business potential. As many foreign banks have already entered into the PRC banking sector by acquiring minority stakes in domestic banks in the PRC, the transaction provides the Bank with the opportunity to immediately capitalize on the platform and network of CMB.

(e) **Transactions with other state controlled entities**

The state controlled entities are those over which the PRC government directly holds over 50% of the outstanding shares or voting rights, and has the ability to control or the power to govern their financial or operational policies. It should be noted, however, that substantially all of the Group's business activity is conducted with the PRC companies and the influence of the PRC government with these companies is pervasive. In this regard, the PRC government indirectly holds interest in many companies. Some of these interests may, in themselves or when combined with other indirect interest, be controlling interest. Such interests, however, would not be known to the Group and are not reflected below.

The Group enters into banking transactions with other state controlled entities in the ordinary course of business. These include loans, deposits, investment securities, money market transactions and off-balance sheet exposures. These transactions are executed at the relevant market rates at the time of the transactions.

27. Significant related party transactions *(continued)*

(e) Transactions with other state controlled entities *(continued)*

The outstanding balances of related party transactions and related provisions at the period/year end, and the related major income and/or expense for the period/year are as follows:

(i) Loans and advances to customers

	30 Jun 2005	31 Dec 2004
	HK$'million	*HK$'million*
Outstanding balance at beginning of the period/year	**4,260**	4,127
Less: allowance for impairment losses*	**(103)**	(139)
	4,157	3,988
Outstanding balance at end of the period/year	**4,979**	4,260
Less: allowance for impairment losses*	**(60)**	(103)
	4,919	4,157

	Six months ended	
	30 Jun 2005	30 Jun 2004
	HK$'million	*HK$'million*
Interest income	**79**	43

* The allowance for impairment losses only relates to the amount of individual assessments. The Group is unable to estimate and allocate the allowance for impairment losses relating to the collective assessment against the loan and advances to related parties.

(ii) Investment securities

	30 Jun 2005	31 Dec 2004
	HK$'million	*HK$'million*
Outstanding balance at beginning of the period/year		
– Held-to-maturity securities	**78**	77
– Available-for-sale securities	**644**	825
	722	902
Outstanding balance at end of the period/year		
– Held-to-maturity securities	**–**	78
– Available-for-sale securities	**604**	644
	604	722

	Six months ended	
	30 Jun 2005	30 Jun 2004
	HK$'million	*HK$'million*
Interest income	**4**	4
Dividend income	**–**	2

27. Significant related party transactions *(continued)*

(e) Transactions with other state controlled entities *(continued)*

(iii) Due from other banks and financial institutions

	30 Jun 2005 *HK$'million*	31 Dec 2004 *HK$'million*
Outstanding balance at beginning of the period/year	**1,177**	233
Outstanding balance at end of the period/year	**1,137**	1,177

	Six months ended 30 Jun 2005 *HK$'million*	 30 Jun 2004 *HK$'million*
Interest income	**13**	7

(iv) Due to other banks and financial institutions

	30 Jun 2005 *HK$'million*	31 Dec 2004 *HK$'million*
Outstanding balance at beginning of the period/year	**–**	32
Outstanding balance at end of the period/year	**–**	–

	Six months ended 30 Jun 2005 *HK$'million*	 30 Jun 2004 *HK$'million*
Interest expenses	**1**	–

(v) Due to customer

	30 Jun 2005 *HK$'million*	31 Dec 2004 *HK$'million*
Outstanding balance at beginning of the period/year	**2,452**	1,857
Outstanding balance at end of the period/year	**3,840**	2,452

	Six months ended 30 Jun 2005 *HK$'million*	 30 Jun 2004 *HK$'million*
Interest expenses	**21**	2

27. **Significant related party transactions** *(continued)*

(e) **Transactions with other state controlled entities** *(continued)*

(vi) Off-balance sheet exposures

	30 Jun 2005 *HK$'million*	31 Dec 2004 *HK$'million*
Contingent liabilities and commitments (including guarantees)	**128**	193

(f) The Group accepts deposits from and grants loans and credit facilities to key management personnel in the ordinary course of business. During both the current and prior periods, no material transaction was conducted with key management personnel of the Group, its holding companies and parties related to them.

The key management compensation for the six months ended 30 June 2005 and 2004 is detailed as follows:

	30 Jun 2005 *HK$'000*	30 Jun 2004 *HK$'000*
Salaries and other short-term employee benefits	**6,233**	4,720
Post-employment benefits	**–**	–
	6,233	4,720

28. **Off-balance sheet exposures**

(i) **Contingent liabilities and commitments**

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

	30 Jun 2005 *HK$'000*	31 Dec 2004 *HK$'000*
Direct credit substitutes	**1,571,340**	1,448,759
Transaction-related contingencies	**164,927**	292,890
Trade-related contingencies	**3,056,412**	2,742,368
Other commitments		
– With an original maturity of under 1 year or which are unconditionally cancellable	**17,132,035**	15,102,129
– With an original maturity of 1 year and over	**10,249,390**	8,027,091
Forward forward deposits placed	**1,547,774**	247,339
	33,721,878	27,860,576

28. Off-balance sheet exposures *(continued)*

(ii) Derivatives

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

	30 Jun 2005 ***HK$'000***	31 Dec 2004 *HK$'000*
Exchange rate contracts		
Forwards	**7,178,646**	5,993,405
Swaps	**29,076,661**	22,016,734
Currency options purchased	**2,508,003**	2,266,297
Currency options written	**2,945,419**	2,272,254
	41,708,729	32,548,690
Interest rate contracts		
Interest rate swaps	**25,668,819**	35,220,123
Interest rate options purchased	**4,927,133**	4,502,864
Interest rate options written	**4,927,133**	4,352,864
	35,523,085	44,075,851
Other contracts		
Equity options purchased	**23,916**	83,455
Equity options written	**23,916**	83,455
	47,832	166,910
	77,279,646	76,791,451

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 2005		31 Dec 2004	
	Replacement cost ***HK$'000***	**Credit risk weighted amount** ***HK$'000***	Replacement cost *HK$'000*	Credit risk weighted amount *HK$'000*
Contingent liabilities and commitments		**6,508,476**		5,159,075
Exchange rate contracts	**194,090**	**135,285**	85,360	92,370
Interest rate contracts	**366,092**	**106,054**	320,926	95,144
Other contracts	**625**	**–**	1,010	–
	560,807	**6,749,815**	407,296	5,346,589

The replacement costs and credit risk weighted amounts of the off-balance sheet exposures do not take into account the effects of bilateral netting arrangements.

SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)

(1) Capital adequacy ratio and capital base

	30 Jun 2005		31 Dec 2004	
	Unadjusted ratio	**Adjusted ratio**	Unadjusted ratio	Adjusted ratio
Capital adequacy ratio	**15.9%**	**15.8%**	17.4%	17.4%

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 2005 *HK$'000*	31 Dec 2004 *HK$'000*
Core capital:		
Paid up ordinary share capital	**2,095,930**	2,095,930
Ordinary share premium	**4,700,602**	4,700,602
Irredeemable non-cumulative convertible preference share premium	**16,126**	16,126
Reserves	**1,469,417**	1,309,690
Deduct: Goodwill	**(891,024)**	(870,514)
	7,391,051	7,251,834
Eligible supplementary capital:		
Reserves on revaluation of land and interests in land	**823**	77,420
Reserves on revaluation of holding of securities not held for trading purpose	**(463)**	(2,390)
General provision for doubtful debts	**–**	503,535
Collective impairment allowances for impaired assets and regulatory reserve	**683,022**	–
Perpetual subordinated debts	**1,932,760**	1,932,904
Term subordinated debts	**3,414,875**	3,415,325
	6,031,017	5,926,794
Total capital base before deductions	**13,422,068**	13,178,628
Deductions from total capital base	**(608,471)**	(608,471)
Total capital base after deductions	**12,813,597**	12,570,157

(2) Liquidity ratio

	30 Jun 2005	30 Jun 2004
Average liquidity ratio for the six months ended	**35.1%**	40.4%

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.

	USD *HK$'000*	EUR *HK$'000*	AUD *HK$'000*	RMB *HK$'000*	JPY *HK$'000*	Total *HK$'000*
As at 30 Jun 2005						
Spot assets	**39,579,000**	**3,895,000**	**2,929,000**	**241,000**	**2,041,000**	**48,685,000**
Spot liabilities	**(51,783,000)**	**(2,325,000)**	**(2,661,000)**	**(183,000)**	**(193,000)**	**(57,145,000)**
Forward purchases	**30,799,000**	**1,062,000**	**41,000**	**2,718,000**	**1,246,000**	**35,866,000**
Forward sales	**(18,392,000)**	**(2,670,000)**	**(301,000)**	**(2,715,000)**	**(3,064,000)**	**(27,142,000)**
Net option position	**(56,000)**	**9,000**	**19,000**	**–**	**8,000**	**(20,000)**
Net long/(short) position	**147,000**	**(29,000)**	**27,000**	**61,000**	**38,000**	**244,000**
As at 31 Dec 2004						
Spot assets	35,587,000	3,964,000	3,219,000	175,000	1,815,000	44,760,000
Spot liabilities	(51,425,000)	(1,852,000)	(3,178,000)	(116,000)	(232,000)	(56,803,000)
Forward purchases	27,449,000	482,000	131,000	1,296,000	1,164,000	30,522,000
Forward sales	(11,622,000)	(2,598,000)	(159,000)	(1,294,000)	(2,744,000)	(18,417,000)
Net long/(short) position	(11,000)	(4,000)	13,000	61,000	3,000	62,000

(4) (i) **Advances to customers – by industry sectors**

	30 Jun 2005 *HK$'000*	31 Dec 2004 *HK$'000*
Loans for use in Hong Kong		
Industrial, commercial and financial		
– Property development	**4,129,102**	2,694,880
– Property investment	**9,363,097**	8,347,495
– Financial concerns	**4,760,750**	4,022,477
– Stockbrokers	**52,224**	19,159
– Wholesale and retail trade	**2,097,683**	2,306,936
– Civil engineering works	**823,365**	665,885
– Manufacturing	**7,678,178**	6,354,464
– Transport and transport equipment	**9,595,681**	8,555,892
– Electricity, gas and telecommunications	**2,073,135**	1,378,126
– Hotels, boarding house and catering	**1,303,015**	2,070,985
– Others	**4,823,127**	4,825,332
Individuals		
– Loans for the purchase of flats in Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	**118,483**	128,481
– Loans for the purchase of other residential properties	**12,588,163**	12,512,124
– Credit card advances	**58,143**	63,315
– Others	**1,151,573**	1,038,187
Trade finance	**6,061,629**	4,547,376
Loans for use outside Hong Kong	**823,366**	659,543
	67,500,714	60,190,657

(ii) **Advances to customers – by geographical areas**

At 30 June 2005 and 31 December 2004, over 90% of the Group's advances to customers, impaired/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	Individual impairment allowance HK$'000	Specific provision made HK$'000
As at 30 Jun 2005							
Three to six months overdue	**86,903**	**0.1%**	**34,671**	**19,794**	**67,109**	**62,350**	**–**
Six months to one year overdue	**14,912**	**0.0%**	**15,375**	**10,942**	**3,970**	**3,872**	**–**
Over one year overdue	**163,075**	**0.2%**	**29,744**	**19,054**	**144,021**	**114,830**	**–**
	264,890	**0.3%**	**79,790**	**49,790**	**215,100**	**181,052**	**–**
As at 31 Dec 2004							
Three to six months overdue	35,488	0.1%	44,299	28,544	6,944	–	8,311
Six months to one year overdue	17,875	0.0%	21,287	14,308	3,567	–	4,133
Over one year overdue	425,329	0.7%	126,326	109,407	315,922	–	253,572
	478,692	0.8%	191,912	152,259	326,433	–	266,016

There were no advances to banks and other financial institutions which were overdue for over 3 months as at 30 June 2005 and 31 December 2004.

(6) Other overdue assets

	30 Jun 2005 ***HK$'000***	31 Dec 2004 *HK$'000*
Accrued interest:		
– Three to six months overdue	**276**	299
– Six months to one year overdue	**44**	193
– Over one year overdue	**63**	188
	383	680
– Rescheduled assets	**296**	370
	679	1,050

(7) Repossessed assets

At 30 June 2005, the estimated market value of the repossessed assets of the Group was HK$15,600,000 (31 December 2004: HK$25,003,000).

(8) Rescheduled advances

	30 Jun 2005 ***HK$'000***	31 Dec 2004 *HK$'000*
Rescheduled advances (net of overdue loans over 3 months)	**76,040**	115,945
% of advances to customers	**0.1%**	0.2%

There were no advances to banks and other financial institutions which were rescheduled as at 30 June 2005 and 31 December 2004.

(9) 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$'million*	Public sector entities *HK$'million*	Others *HK$'million*	Total *HK$'million*
As at 30 Jun 2005				
Asia Pacific excluding Hong Kong	**9,674**	**567**	**8,292**	**18,533**
North and South America	**805**	**524**	**6,394**	**7,723**
Europe	**13,738**	**1,178**	**1,056**	**15,972**
As at 31 Dec 2004				
Asia Pacific excluding Hong Kong	12,045	569	4,702	17,316
North and South America	838	303	3,865	5,006
Europe	9,698	2,146	1,181	13,025