

Moving Forward *with a Strategy* for Broader Frontiers



If there was one phrase that best characterises the achievement of Bank of China (Hong Kong) since its IPO it would be 'Delivering on Promises'. The investor community has been impressed by the way it has delivered superior financial results, improved asset quality, implemented corporate governance enhancements, and likewise formulated a coherent strategy to ensure solid growth for the future.

Delivering results

The Hong Kong-listed financial institution is a core component of the Hang Seng Index as well as MSCI Index series and in year 2005 results delivered solid gains. BOCHK saw profit attributable to shareholders rise 12.8% (versus the same period in 2004) to HK\$13,494 million. The return on equity rose to 18.24% and the return on average total assets hit 1.66%. Most impressive of all was the decline in impaired loans. In a sign of the bank's strong risk management impaired loans saw a 54% drop to HK\$4.3 billion, which equates to 1.28% of total loans.

In a sign that the bank was managing to maintain its market leader – and consolidate its position as one of Hong Kong's top two banks – it increased its total assets in the year to HK\$822,105 million, which equates to a 3.2% rise. Total loans achieved a broad-based growth of 6.6% from corporate and retail customers to HK\$334.0 billion at the end of 2005.

A corner stone of the bank's strategy is wealth management. While maintaining the leading position in the residential mortgage, syndicated lending and local personal RMB services markets, BOCHK continued to broaden its wealth management business platform by introducing the prestigious VIP wealth management services. Wealth management customers and their assets under management increased respectively by 64% and 50% in 2005.

The other strategic focus is the China business. In 2005, its China branches recorded strong loan growth of 61% to reach HK\$15.1 billion and continued to enlarge product offerings such as insurance agency business and structured deposits.

Likewise another strategic area is Hong Kong personal RMB banking services – a core specialty for BOCHK. In the year it saw RMB deposits rose 74% and led the Hong Kong market in RMB credit card issuance and its China UnionPay Card merchant acquiring business. RMB credit card spending recorded remarkable increase of 265%.

In a confirmation of its strategic importance, BOCHK's Chairman, Xiao Gang said: "Our strengths in the RMB business have already been firmly established. We believe we are now in a highly advantageous position to benefit further from gradual and orderly relaxation of the RMB currency control in the Mainland."

Corporate governance reforms

The company is committed to maintaining and upholding good corporate governance in order to protect the interests of shareholders, customers and staff. BOCHK's directors and management believe that good corporate governance is also crucial to the healthy development of the company over the longer term.

Since its listing in 2002, BOCHK has striven to follow the latest improvements in international and local corporate governance best practices. In vindication of its efforts, it was named as one of the top five companies among the 33 Hang Seng index constituent stocks in the Corporate Governance Disclosures Report released by Standard & Poor's. This 2004 report applauded the company's superior disclosure policy. BOCHK's governance principles and framework, mandates, as well as the attendance rate of the Board and Board Committees are disclosed in the annual report and/or its corporate website.

The Board, for example, held six meetings in 2005 and it was publicly disclosed that the attendance rate among directors was 93%.

In further evidence of the company's approach to governance, it voluntarily restricted the mandate to allot, issue and otherwise deal with shares of the issued share capital of the company from 20% (the upper limit allowed by the Listing Rule) to 10% in the case of an issue of shares solely for cash and the Board will not exercise the mandate at a discount that will result in significant dilution of shareholders's value, as a Board policy. The move was in response to the Board's acknowledgement of investor concerns in relation to the possible dilution of shareholder value resulting from the exercise of the general mandate to issue shares.

To assist the Board in fulfilling its responsibilities and in accordance with best corporate governance practices, four standing committees were established under the Board, namely, Audit Committee, Risk Committee,

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Profit & Loss Account (HK\$ millions)	FY 2005	FY 2004	FY 2003	FY 2002
Operating Income	17,896	15,857	17,253	18,114
Operating Expenses	(5,730)	(5,505)	(5,658)	(6,025)
Operating Profit Before Impairment/Provisions	12,166	10,352	11,595	12,089
Operating Profit After Impairment/Provisions	14,811	11,980	9,924	9,234
Property Revaluation	1,445	1,862	(1,111)	(977)
Profit Attributable to Shareholders	13,494	11,963	7,963	6,787
EPS (HK\$)	1.2763	1.1315	0.7532	0.6419
Dividend Per Share (HK\$)	0.808	0.715	0.515	0.398
Cost to Income Ratio	32.02%	34.72%	32.79%	33.26%

Balance Sheet (HK\$ millions)	Dec 2005	Dec 2004	Dec 2003	Dec 2002
Total Assets	822,105	796,776	762,587	735,536
Total Liabilities	741,372	727,016	701,170	677,751
Shareholders' Funds	79,435	68,521	60,261	56,671
ROE	18.24%	18.58%	13.62%	12.52%
Capital Adequacy Ratio	15.37%	16.14%	15.11%	13.99%

Nomination and Remuneration Committee, and Strategy and Budget Committee. A sub-committee known as Legal and Compliance Committee is also established under the Audit Committee.

The Board delegates to the Chief Executive and his management team the power to manage and administer the day-to-day affairs of the group. At the same time, the Board gives clear guidance as to the powers of the management, in particular with respect to the circumstances under which the management need report back to and obtain prior approval from the Board before making a decision.

The roles of the Chairman and the Chief Executive are separated and are performed by different individuals so that power is not concentrated in any one individual. In addition, the division of responsibilities between the Chairman and the Chief Executive is expressly set out in the Board's mandate.



The Board currently comprises thirteen Directors, of whom six are independent non-executive Directors, six are non-executive Directors and one is an executive Director. This ensures the independence and objectivity of the Board's decision-making process and the thoroughness and impartiality of the Board's oversight of the management.

Having regard to *The Code on Corporate Governance Practices* (the 'Code' of the Listing Rules which came into effect on 1 January 2005, BOCHK has since the beginning of 2005 proceeded to make further refinements that were deemed necessary. The bank is in full compliance with all the code provisions and that it also complies with nearly all the recommended best practices set out in the Code.

The company has embarked on a bank-wide initiative to instill the "BOC Spirit" corporate culture. This has six core values: social responsibility, performance, integrity, respect, innovation and teamwork. The mission is: to deliver value and superior returns to shareholders; while building customer satisfaction and providing high quality and professional services to clients; and offering rewarding careers and staff commitment.

Strategies and outlook

BOCHK has the vision to become premier bank for its customers and is fully committed to serving its customers and shareholders as it seeks to become a best of breed bank in Asia and the wider world.

BOCHK has demonstrated its commitment in recent years to improving all of its key financial ratios and conducting its business to the highest international standards. This track record necessarily instills a lot of confidence in the Board and the bank's strengthened management.

The Company's strategic objective is to be a top-quality financial services group with its base firmly entrenched in Hong Kong. On this foundation, BOCHK will solidify its presence in China and will look for opportunities to establish a strategic foothold in other Asian markets. The Company will rely on organic growth to boost its existing business lines but consider it equally important to build up their product manufacturing and distribution capabilities to support their growth in Hong Kong. Towards this end, the Company will consider opportunities to secure new expertise through acquisition of new talents or business operations that are complementary to existing operation. BOCHK aims to achieve a broader service mix to include services like life insurance, asset management and securities operations. At the same time, the Company will also build up its treasury product manufacturing capabilities to broaden its corporate finance product range.

BOCHK is truly at the heart of the Hong Kong economy. Formed from the consolidation of 12 banks in 2001, the Bank of China's presence in the territory gives it a unique legacy. It has deep relationships in Hong Kong and a broad penetration with its 300 branches in Hong Kong and overseas. Since 1994 it has also been one of the three note issuers in the SAR.

As Chairman Xiao notes: "Looking ahead, we believe the fundamentals of the Hong Kong domestic economy have become stronger. The strategic plan will steer the Group towards realizing the objective of becoming a top-quality financial services group. It will also ensure that we can continue to grow our business on all fronts and deliver higher value to shareholders and customers."

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