

Committed to Building a Better Tomorrow

Achieving Growth, Quality and Excellence

The performance of BOC Hong Kong (Holdings) Limited (the Company) since its IPO in 2002 has been highly successful on various fronts. Having established a strong management structure and corporate governance framework as well as effective risk management and internal controls that emulate industry best practices, we have consistently delivered strong financial results and enhanced shareholder value. As a reflection of our performance, the Company's share price has more than doubled from its listing price of HK\$8.50, with market capitalisation reaching HK\$223 billion as at end 2006.

2006-2011 Strategic Plan

To reinforce its market position and further improve its performance, the Group started implementing its 2006-2011 Strategic Plan in early 2006 with the vision to become a top-quality financial services group with a powerful base in Hong Kong, a solid presence in China and a strategic foothold in the region. To realize this vision, we have identified five key strategic areas to focus on: (1) the strengthening of our leading position in Hong Kong; (2) the development of new capabilities in product manufacturing and distribution; (3) the building of a stronger presence in China; (4) the exploration of opportunities for regional expansion; and (5) the promotion of our corporate values and core competencies.

To support the implementation of this strategy, we have introduced a new business model known as the Relationship-Product-Channel Model. This involves the strengthening of customer relationship management, the enforcement of a dedicated product management system, and the optimization of workflow and distribution channels. Through this model, we will enhance the Group's overall operational efficiency and competitiveness. We will be in a better position to develop and expand the range of products and services that are tailored the needs of different customer segments, and to enhance cross-selling through stronger customer relationship management and optimized distribution channels.

Significant Achievements in 2006

In 2006, we made good progress in the implementation of our 2006-2011 Strategic Plan. The Group's profit attributable to shareholders, dividend payout, operating income and pre-provision profit all reached new peaks since the Group's restructuring and merger in 2001 and IPO in 2002. The growth rates of our pre-provision profit and net interest margin were amongst the highest in the market. Our improvement in both asset quality and cost-to-income ratio was also remarkable. These impressive results should be taken collectively as a good reflection of our ability and effort to drive business growth and reinforce our market position.

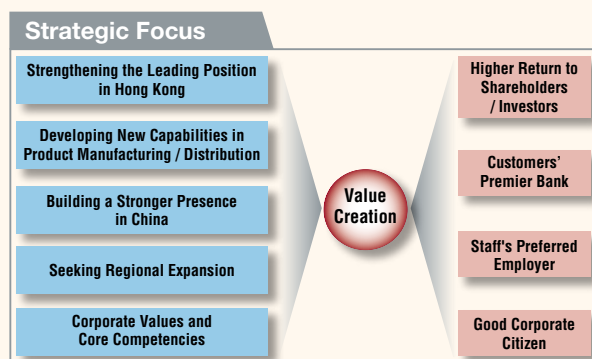
We achieved strong growth in our operating results last year with net operating



income before loan impairment allowances increasing by 17.2% to HK\$21.3 billion. The Group's profit attributable to shareholders reached HK\$14,007 million, up 3.0% from a year ago. Total assets increased by 11.8% to HK\$929 billion. Our asset quality continued to improve with classified loan ratio and impaired loan ratio dropping to 0.57% and 0.26% respectively, outperforming most of our peers.

With a view to enhancing our service capabilities, we completed the acquisition of a 51% controlling stake in BOC Life in mid-2006 from BOC, our parent company. This acquisition represents a breakthrough in our attempt to enhance business capabilities that can eventually help us diversify our income base, increase profit margin and develop a full-service business model.

The growth potential of our China business remains a key focus for us. In January this year, we refined our China expansion strategy, taking a two-pronged approach. Under this approach, our wholly-owned subsidiary Nanyang Commercial Bank (Nanyang) has applied for local incorporation in the Mainland and BOCHK would



Profit & Loss Account (HK\$ millions)	FY 2006	FY 2005	FY 2004 ¹
Net Operating Income Before Loan Impairment Allowances	21,309	18,174	10,352
Net Operating Income	23,099	20,819	17,485
Operating Profit	16,541	15,048	11,980
Non-operating Items	598	1,386	1,862
Profit Attributable to Equity Holders	14,007	13,596	12,121
EPS (HK\$)	1.3248	1.2859	1.1315
Dividend Per Share (HK\$)	0.8480	0.8080	0.7150
Cost to Income Ratio	30.78%	31.75%	34.72%

Balance Sheet (HK\$ millions)	Dec 2006	Dec 2005	Dec 2004
Total Assets	928,953	831,002	796,776
Total Liabilities	842,313	749,289	727,016
Capital and Reserves Attributable to Equity Holders	84,655	79,935	68,521
ROE	17.02%	18.27%	18.58%
Capital Adequacy Ratio	13.99%	15.37%	16.14%

Note: 1. The financial information prior to 2005 had not been restated to reflect the adoption of merger accounting upon the acquisition of BOC Life as the difference before and after restatement is insignificant

remain a foreign-funded bank in China. Chiyu, our other subsidiary bank, would also remain a foreign-funded bank.

This approach will allow us to develop retail and wholesale banking simultaneously in China. We can capitalize on Nanyang's unique brand awareness and expertise in RMB retail banking, wealth management and SME banking services. Given its strong corporate and institutional client base, BOCHK maintains its superior market position in servicing large corporate clients and conducting foreign exchange business in China.

To support this business model and to drive business growth, we will expand our branch network by opening new outlets in major cities in the Pearl River Delta, Yangzi River Delta and the coastal region, including Dongguan, Suzhou and Hangzhou. We will also continue to forge closer cooperation with our parent BOC for mutual gains, particularly in corporate business referral, the distribution of wealth management products and cross-border banking services.

Corporate Governance

The Company believes that good corporate governance is crucial to effective internal controls, the Company's healthy development in the long term and safeguarding the interests of shareholders, customers and staff. Since its listing in 2002, the Company has followed closely the latest developments in local and international corporate governance best practices. The Company is in full compliance with all the provisions of the Code on Corporate Governance Practices (the Code) as appended to the Listing Rules of Hong Kong. It also complies with nearly all the recommended best practices set out in the Code. Starting from the third quarter of 2006, the Company publishes quarterly financial and business reviews to keep shareholders updated of the performance, financial position and prospects of the Company.

To assist the Board in discharging its responsibilities and in line with international best practices, four standing committees have been established under the Board, namely, Audit Committee, Risk Committee, Nomination and Remuneration Committee, and Strategy and Budget Committee. The Nomination and Remuneration Committee is chaired by a non-executive director while the other committees are all chaired by independent non-executive directors (INEDs).

In 2006, the Company further improved its governance practices and enhanced its Board structure by adding two INEDs. As a result, 12 of the 13 Board members are non-executive directors, of whom 6 are INEDs, representing approximately 46% of the Board members. In a further refinement, the Board also decided that as a matter of policy all resolutions put to shareholders at general meetings should be voted on by poll instead of a show of hands and the results would be published on the next business

day in the press as well as the websites of the Stock Exchange and BOCHK.

The Company's strenuous and incessant effort in enhancing corporate governance have won us due recognition by the business community. In 2006, the Company was named one of the top ten companies for corporate governance among the 174 locally listed companies surveyed in the Hong Kong Institute of Directors' Corporate Governance Scorecard Project. The Company also received a Special Mention in the Hang Seng Index Category of the Best Corporate Governance Disclosure Awards 2006 from the Hong Kong Institute of Certified Public Accountants in recognition of its high standards in corporate governance best practices and the disclosure of information in its annual report. All these reflect our strong commitment to the principles of accountability and transparency.

Outlook

Our record-breaking financial performance and business growth in 2006 speak forcefully for the solid foundations and capabilities that we have built up in recent years as well as our effective execution of the Group's strategic initiatives. Going forward, we will drive organic growth by enhancing our business structure through diversification. In particular, we will focus on high-margin segments, notably wealth management and insurance. We will continue to pursue opportunities that can enhance our business capabilities. We already took the first step in this regard last year by acquiring BOC Life. We will explore opportunities both locally and offshore that fit our business model. Our major focus is on asset management, stock brokerage and insurance.

Commenting on the Group's outlook, our Chairman, Xiao Gang said, "The Group's 2006-2011 Strategic Plan represents our continued commitment to build a better future for all our stakeholders. For 2007 and beyond, we will continue to carry out vigorously the various strategic initiatives under the plan to maintain our current lead, drive higher growth and better equip ourselves for new opportunities."

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