



中銀香港(控股)有限公司

BOC HONG KONG (HOLDINGS) LIMITED

(Incorporated in Hong Kong with limited liability)
(the "Company")

(Stock Code: 2388)

ANNOUNCEMENT

Presentation of Past Financial Results on Different Accounting Standards

SUMMARY

The Company makes this announcement in anticipation of BOC's Global Offering. BOC is an intermediate holding company as well as controlling shareholder of the Company. The Company understands that if BOC proceeds with the Global Offering, it will issue Prospectuses in which the consolidated financial information of "BOC Hong Kong Group" for the Relevant Periods prepared under IFRS will be disclosed.

For reasons explained in this announcement, the consolidated financial information of "BOC Hong Kong Group" for the Relevant Periods to be disclosed by BOC in its Prospectuses will not be the same as the consolidated financial information of the Group for the Relevant Periods published by the Company pursuant to applicable laws and regulations in Hong Kong.

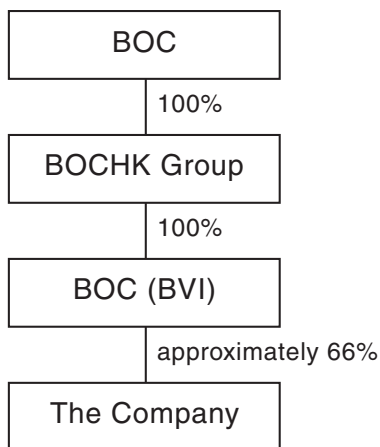
The Board considers that the best way to ensure that shareholders and the investing public understand the material differences between the consolidated financial information of the Group published by the Company on the one hand, and the consolidated financial information of BOC Hong Kong Group to be disclosed by BOC in its Prospectuses on the other hand, is to present the consolidated financial information of the Group for the Relevant Periods prepared under the HK GAAP/HKFRSs and IFRS respectively as set out in this announcement, and to present reconciliation of the profit after tax/net assets of the Group prepared under HK GAAP/HKFRSs to the profit after tax/net assets of the Group prepared under IFRS.

Background

The Company makes this announcement in anticipation of BOC's Global Offering. BOC is an intermediate holding company as well as controlling shareholder of the Company. The purpose of this announcement is to provide shareholders and the investing public with information that would enable them to better understand published financial information pertaining to the Group.

The Company understands that if BOC proceeds with the Global Offering, it will issue Prospectuses in which the consolidated financial information of “BOC Hong Kong Group” for the Relevant Periods will be disclosed. It is the Company’s understanding that BOC will do so on the basis that “BOC Hong Kong Group” refers to BOCHK Group and its subsidiaries. It is also the Company’s understanding that the consolidated financial information of “BOC Hong Kong Group” will be prepared and presented in the Prospectuses in accordance with IFRS.

The Company is a subsidiary of BOCHK Group. The latter, through BOC (BVI) , indirectly held an approximately 66% equity interest in the Company as at 31 December 2003, and throughout the years ended 31 December 2004 and 31 December 2005. BOCHK Group is 100% owned by BOC. Below is an organisation chart which shows the structure through which BOC holds its equity interest in the Company:



The consolidated financial information of “BOC Hong Kong Group” to be disclosed by BOC in its Prospectuses will not be the same as the consolidated financial information of the Group published by the Company pursuant to applicable laws and regulations in Hong Kong. There are two reasons for this.

First, the definitions of “BOC Hong Kong Group” (as adopted by BOC for the purpose of the Prospectuses) and “Group” (as adopted by the Company in preparing and presenting its consolidated financial information) are different: “BOC Hong Kong Group” refers to BOCHK Group and its subsidiaries, whereas “Group” refers to the Company and its subsidiaries (see the above organisation chart). Despite the difference in definitions between “BOC Hong Kong Group” and “Group”, their financial results for the Relevant Periods (with the exception of the year ended 31 December 2003) are substantially the same. This is because BOCHK Group and BOC (BVI) are holding companies only and have no substantive operations of their own. In 2003, BOC (BVI) disposed of 1,070,000,000 ordinary shares it held in the Company through a share placement. The net gain that BOC (BVI) made on that disposal contributed to the financial results of BOC Hong Kong Group for the year ended 31 December 2003, giving rise to a material difference between the financial results of “BOC Hong Kong Group” and “Group” for that year.

Second, the Group has prepared its consolidated financial statements in accordance with HK GAAP prior to 1 January 2005 and as from 1 January 2005 onwards in accordance with HKFRSs; whereas the consolidated financial information of “BOC Hong Kong Group” to be disclosed in BOC’s Prospectuses will be prepared in accordance with IFRS. Following the pronouncement of the new HKFRSs by the Hong Kong Institute of Certified Public Accountants, effective from 1 January 2005, the Group has prepared its consolidated accounts in accordance with the HKFRSs. (HKFRSs is a collective term which includes all applicable individual Hong Kong Financial Reporting Standards, HKAS and related Interpretations.) The effect of the adoption of HKFRSs is to converge HK GAAP and IFRS. Going forward, and despite the fact that HKFRSs have been converged with IFRS, the differences arising from the different measurement basis of bank premises will be carried forward from year to year while the timing difference related to the measurement of treasury products will be reversed and eliminated in the future years.

The Board considers that the best way to ensure that shareholders and the investing public understand the material differences between the consolidated financial information of the Group for the Relevant Periods published by the Company pursuant to the applicable laws and regulations in Hong Kong on the one hand, and the consolidated financial information of BOC Hong Kong Group for the Relevant Periods to be disclosed by BOC in its Prospectuses on the other hand, is to: firstly, present the consolidated financial information of the Group for the Relevant Periods on a comparative basis by setting them out as if they have been prepared in accordance with HK GAAP/HKFRSs and IFRS; and secondly, present a reconciliation of the profit after tax/net assets of the Group prepared under HK GAAP/HKFRSs to the profit after tax/net assets of the Group prepared under IFRS. The Group’s consolidated financial information prepared in accordance with IFRS has not been audited.

The major differences between HK GAAP/HKFRSs and IFRS, which arise from the difference in measurement basis and the timing difference in the initial adoption of HKFRSs and IFRS relate to the following:

- approaches in determining loan loss allowance;
- re-measurement of carrying value of treasury products including classification and measurement of certain securities and measurement of non-trading derivatives;
- restatement of carrying value of bank premises; and
- deferred taxation impact arising from the above different measurement basis.

Effective 1 January 2005, the approaches adopted in determining loan loss allowances under HKFRSs and IFRS have converged and there will be no differences going forward. The differences arising from re-measurement of carrying value of treasury products will gradually reverse in future. The differences relating to the restatement of carrying value of bank premises as a result of the election of the different measurement basis allowed under both HKFRSs and IFRS will be recurring in the future.

Consolidated financial information prepared in accordance with HK GAAP (for the years ended 31 December 2003 and 2004)/HKFRSs (for the year ended 31 December 2005)

The Group's consolidated financial information for the Relevant Periods, prepared in accordance with HK GAAP (for the years ended 31 December 2003 and 2004)/HKFRSs (for the year ended 31 December 2005), are as follows:

	Year ended 31 December 2003 <i>HK\$'m</i>	Year ended 31 December 2004 <i>HK\$'m</i>	Year ended 31 December 2005 <i>HK\$'m</i>
Net interest income	12,874	11,193	12,874
Net fees and commission income	2,997	3,221	3,053
Net trading income	899	1,123	1,674
Other operating income	483	320	295
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Operating income	17,253	15,857	17,896
Operating expenses	(5,658)	(5,505)	(5,730)
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Operating profit before provisions/impairment on advances	11,595	10,352	12,166
(Charge for)/Write-back of bad and doubtful debt	(1,671)	1,628	–
Reversal of loan impairment allowances on advances	–	–	2,645
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Operating profit	9,924	11,980	14,811
Write-back of restructuring provisions	–	–	209
Net (loss)/gain from disposal/revaluation of fixed assets	(756)	1,363	50
Net (loss)/gain from disposal of/fair value adjustments on investment properties	(365)	721	1,396
Net gain/(loss) from early redemption of held-to-maturity securities	–	2	(4)
Net loss from disposal of available-for-sale securities	–	–	(104)
Reversal of impairment losses on held-to-maturity securities	30	–	12
Net loss on disposal of subsidiaries	(1)	–	(10)
Net gain on disposal of an associate	–	50	–
(Provisions)/Reversal of impairment losses on interests in associates	(132)	152	4
Share of profits less losses of associates	(9)	(16)	4
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Profit before taxation	8,691	14,252	16,368
Taxation	(589)	(2,131)	(2,710)
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Profit for the year	8,102	12,121	13,658

	Year ended 31 December 2003 <i>HK\$m</i>	Year ended 31 December 2004 <i>HK\$m</i>	Year ended 31 December 2005 <i>HK\$m</i>
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Assets

Segment assets	761,394	796,486	821,870
Interests in associates	278	62	61
Unallocated corporate assets	915	228	174
	<u>762,587</u>	<u>796,776</u>	<u>822,105</u>

Liabilities

Segment liabilities	699,530	726,506	737,845
Unallocated corporate liabilities	1,640	510	3,527
	<u>701,170</u>	<u>727,016</u>	<u>741,372</u>

Net assets

	<u>61,417</u>	<u>69,760</u>	<u>80,733</u>
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Other information

Additions of fixed assets	369	450	569
Depreciation	611	585	566
Contingent liabilities and commitments	149,139	154,452	161,687

Consolidated financial information (unaudited) prepared in accordance with IFRS

The Group's consolidated financial information (unaudited) for the Relevant Periods, prepared in accordance with IFRS, are as follows:

	Year ended 31 December 2003 <i>HK\$m</i>	Year ended 31 December 2004 <i>HK\$m</i>	Year ended 31 December 2005 <i>HK\$m</i>
Interest income	17,827	15,524	26,503
Interest expense	(4,912)	(4,485)	(13,000)
Net interest income	<u>12,915</u>	<u>11,039</u>	<u>13,503</u>
Fees and commission income	3,375	3,894	3,827
Fees and commission expense	(557)	(774)	(968)
Net fees and commission income	<u>2,818</u>	<u>3,120</u>	<u>2,859</u>
Net trading income	1,539	1,877	1,789
Net gains/(losses) on investment securities	(273)	157	(82)
Other operating income/(expense)	(114)	1,685	2,254
Net gains/(losses) on sale of shares in a subsidiary	(1)	–	(10)
Impairment (losses)/write back on loans and advances	24	2,522	2,502
Other operating expenses	(5,776)	(5,607)	(5,690)
Operating profit	<u>11,132</u>	<u>14,793</u>	<u>17,125</u>
Share of results of associates	(4)	(7)	2
Profit before income tax	<u>11,128</u>	<u>14,786</u>	<u>17,127</u>
Income tax expense	(1,026)	(2,420)	(2,738)
Profit for the year	<u>10,102</u>	<u>12,366</u>	<u>14,389</u>
Segment assets	771,991	802,249	815,886
Investments in associates	138	62	61
Total assets	<u>772,129</u>	<u>802,311</u>	<u>815,947</u>
Segment liabilities	708,338	733,045	740,365
Segment net assets	<u>63,791</u>	<u>69,266</u>	<u>75,582</u>
Other segment items:			
Capital expenditure	369	450	569
Depreciation and amortization	733	731	522
Credit commitments	149,139	154,452	161,687

Reconciliation of profit after tax/net assets prepared under HK GAAP (for the years ended 31 December 2003 and 2004)/HKFRSs (for the year ended 31 December 2005) (as extracted from the Group's Consolidated Profit and Loss Accounts and Consolidated Balance Sheets for the Relevant Periods) to profit after tax/net assets prepared under IFRS

The following table presents the reconciliations of profit after tax and net assets of the Group prepared under HK GAAP/HKFRSs and IFRS. The notes numbered (1) to (4) to the following table explain the adjustments made as a result of the differences between HK GAAP/HKFRSs and IFRS. Due to the differences between HK GAAP/HKFRSs and IFRS in income statement presentation and the classification of income statement items, a line-by-line comparison of the Group's consolidated financial information for the Relevant Periods prepared under the two accounting bases is not meaningful.

	Note	Year ended 31 December 2003 HK\$m		Year ended 31 December 2004 HK\$m		Year ended 31 December 2005 HK\$m	
		Profit after tax	Net assets	Profit after tax	Net assets	Profit after tax	Net assets
Profit after tax/net assets prepared under HK GAAP/HKFRSs		8,102	61,417	12,121	69,760	13,658	80,733
Add: IFRS adjustments							
Loan loss allowance	(1)	1,826	3,134	754	4,015	(172)	-
Re-measurement of carrying value of treasury products	(2)	67	(850)	576	(448)	465	70
Restatement of carrying value of bank premises	(3)	544	1,011	(797)	(3,337)	439	(6,248)
Deferred tax adjustments	(4)	(437)	(921)	(288)	(724)	(69)	1,027
Other adjustments		-	-	-	-	68	-
Profit after tax/net assets prepared under IFRS		<u>10,102</u>	<u>63,791</u>	<u>12,366</u>	<u>69,266</u>	<u>14,389</u>	<u>75,582</u>

(1) Loan loss allowance

Such adjustments were mainly due to the different approaches used to determine loan loss allowance under different accounting standards. Before 2005, the provisioning approach adopted by the Company mainly followed the guidelines issued by the Hong Kong Monetary Authority. This approach was different from the requirements of IFRS under which impairment losses assessment is based on the estimated future cash flows of the loans or group of loans as of each balance sheet date.

Effective 1 January 2005, the provisioning approach adopted under HKFRSs and IFRS was aligned. Due to the difference in the timing of first adoption of HKFRSs and IFRS, impairment charges to the profit and loss account under HKFRSs and IFRS for 2005 were different.

(2) Re-measurement of carrying value of treasury products

- (i) Non-trading derivatives held for hedging purposes were not required to be marked to market under HK GAAP before 2005. Therefore, adjustments have been made to re-measure such non-trading derivatives held for hedging purposes at their fair value under IFRS.
- (ii) Classification and measurement of certain investment securities under HK GAAP and IFRS were different before 2005, in particular there was no available-for-sale category under HK GAAP. Therefore, investment securities were reclassified and remeasured in accordance with IAS 39 and to align with the accounting policies of BOC for the Relevant Periods.

(3) Restatement of carrying value of bank premises

The Company has elected revaluation basis rather than cost basis to account for bank premises under HK GAAP/HKFRSs. On the contrary, BOC has elected cost convention under IFRS. Therefore, adjustments have been made to restate the carrying value of bank premises as well as to re-calculate the depreciation charge and disposal gain/loss under IFRS.

(4) Deferred tax adjustments

These represent the deferred tax effect of the aforesaid adjustments.

Definitions

In this document, unless the context otherwise requires, the following expressions have the following meanings:

“Board”	means the board of directors of the Company;
“BOC”	means Bank of China Limited;
“BOC (BVI)”	means BOC Hong Kong (BVI) Limited;
“BOCHK Group”	means BOC Hong Kong (Group) Limited;
“Company”	means BOC Hong Kong (Holdings) Limited;
“Global Offering”	means the listing of the shares of BOC on the Hong Kong Stock Exchange Limited and the global offering of BOC’s shares;
“Group”	means the Company and its subsidiaries;
“HKFRSs”	means the Hong Kong Financial Reporting Standards;

“HK GAAP”	means the Hong Kong Generally Accepted Accounting Practice;
“HKASs”	means the Hong Kong Accounting Standards;
“IFRS”	means the International Financial Reporting Standards;
“Prospectus(es)”	means one or more prospectus(es) or offering circular(s) issued by BOC in connection with the Global Offering; and
“Relevant Periods”	means the years ended 31 December 2003, 31 December 2004 and 31 December 2005.

By Order of the Board
Jason C.W. Yeung
Company Secretary

Hong Kong, 28 April 2006

As at the date hereof, the Board comprises: Mr. XIAO Gang (Chairman), Mr. SUN Changji* (Vice-chairman), Mr. HE Guangbei (Vice-chairman and Chief Executive), Mr. HUA Qingshan*, Mr. LI Zaohang*, Mr. ZHOU Zaiqun*, Mdm. ZHANG Yanling*, Dr. FUNG Victor Kwok King**, Mr. KOH Beng Seng**, Mr. SHAN Weijian**, Mr. TUNG Chee Chen**, Mr. TUNG Wai-Hok Savio** and Mdm. YANG Linda Tsao**.*

* *non-executive directors*

** *independent non-executive directors*

“Please also refer to the published version of this announcement in The Standard”