中銀香港(控股)有限公司
BOC HONG KONG (HOLDINGS) LIMITED

1917 – 2007
服務香港 共建未來
COMMITTED TO BUILDING A BETTER TOMORROW

(Incorporated in Hong Kong with limited liability)
(Stock Code: 2388)

2006 Annual Results Announcement

CHAIRMAN'S STATEMENT

It gives me great pleasure to report that the Group once again delivered impressive financial results in 2006. Last year, the Group's profit attributable to shareholders reached HK$14,007 million, up 3.0% from 2005. Earnings per share were HK$1.3248, also up 3.0%. Net operating income grew strongly by 11.0% to HK$23,099 million while pre-provision net operating income increased 17.2% to HK$21,309 million. The Group's total assets increased to HK$928,953 million, up 11.8% from a year ago. Asset quality improved further as reflected in the significantly lower impaired loan ratio of 0.26% versus 0.56% in 2005.

The Board is recommending a final dividend for 2006 of HK$0.447 per share at the Annual General Meeting on 23 May 2007. That, together with the interim dividend of HK$0.401 per share, means a total dividend of HK$0.848 per share for the whole year. (Total dividend for 2005: HK$0.808 per share.) The Group's total dividend payout as a percentage of profit attributable to shareholders will be 64.01%, versus 62.83% a year ago.

We are proud that the Group's dividend payout per share has been on the increase for the fourth consecutive year since the Group's public listing in 2002. This should be taken as an ample reflection of our commitment to deliver ever higher shareholder value through achieving good financial results and maintaining a strong financial position.

In line with our forecast, the Hong Kong economy maintained its growth momentum, fueled primarily by investment, exports and domestic consumption. Business sentiments remained largely positive while private consumption increased with the improved job market and higher wages. The financial services market was particularly buoyant, driven by vigorous stock trading and IPO activities, including that of the BOC Group. External trade also grew with stronger demand from the Mainland and the Asia Pacific region. The development of the property market also returned to a more stable condition as interest rates were leveling off. Inflationary pressure in Hong Kong remained mild and even subsided somewhat because of lower oil prices in the latter half of the year. On the whole, Hong Kong's banking and financial services sector had a spectacular year as market sentiments were buoyed by the strong local economy and stabilising US interest rates. Credit demand from banks was boosted by more active stock market, private consumption, increased trade activities and investment. The asset level and quality of banks in general also saw further improvement.

For us, 2006 will be remembered as a watershed year for it marked the commencement of the Group's 2006-2011 strategic plan announced around this time last year. Our 2006-2011 strategic plan contains clearly defined goals and standards which are crucial to our development in the medium term, particularly as regards how far we have moved forward in realising our vision of becoming a top financial services group with a powerful base in Hong Kong, a solid presence in China and a strategic foothold in the region.

Facilitated by the largely favourable operating environment, the Group forged ahead aggressively with the implementation of the 2006-2011 strategic plan. Indeed we have made noteworthy progress in some major areas which are highlighted below.

A key focus of our strategic plan is to strengthen our leading position in Hong Kong and drive business growth. Last year, we further enhanced our services to corporate clients and at the same time built up our mid-cap and SME business. We also strove to strengthen our cross-border banking services and build up our China business. The very encouraging growth of 17.2% in pre-provision net operating income last year demonstrated unequivocally the effectiveness of our efforts so far in the above areas. Specifically we experienced a healthy growth in gross loans and advances of 3.9%, which was driven primarily by the rise in corporate, SME and China loans. Our China operation continued to perform well in terms of both loan growth and profitability.

We have been actively seeking out and exploring suitable M&A opportunities to develop new capabilities. In June 2006, we succeeded in acquiring at a consideration of HK$900 million a 51% controlling stake in BOC Life which was indirectly and wholly owned by our parent, BOC. Based in Hong Kong, BOC Life is engaged mainly in the offering of life insurance policies and also in writing life insurance policies linked to investment products and retirement scheme management. 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 the China market was a major consideration when we mapped out our current strategic plan. To ensure a bigger presence in this market and in response to the implementation by China's banking authorities of the new Regulations on Administration of Foreign Banks that came into force on 11 December 2006, the Board considered that the best option for the Group would be to adopt a dualistic approach in its China business model. That is, Nanyang Commercial Bank, Limited (Nanyang), our wholly-owned subsidiary, will be incorporated as a local bank in China while BOCHK will continue operating as a foreign-funded bank in China. Application for incorporating in China was submitted by Nanyang in January this year. Once approved, Nanyang, a well-established banking brand in China with extensive experience, will immediately embark on offering comprehensive banking services in China, including RMB retail banking services. Given its strong corporate and institutional client base, BOCHK should remain a foreign-funded bank in China as this status would allow it to maintain its competitive edge in corporate banking and foreign-exchange businesses in the Mainland. Chiyu Banking Corporation Limited, another subsidiary of BOCHK, would also maintain its foreign bank status and continue with its existing operation in China.

The Group maintained its leadership in conducting RMB banking services in the local market. Earlier this year, BOCHK was authorized by the People's Bank of China to continue serving as the clearing bank for RMB business in Hong Kong. On a related front, in anticipation of the upcoming issuance of RMB-denominated bonds in Hong Kong, the role of BOCHK as the clearing bank in Hong Kong could be expanded to cover yuan bonds as well. We welcome these developments which testify to our unique strength in RMB banking and our important role in supporting the development of financial services in both the Mainland and Hong Kong.

This year we celebrate the fifth anniversary of the Company's public listing in Hong Kong. Being the Chairman, I am heartened that we have outgrown our age as a public company. By overcoming major adversities, both external and internal, in the past few years and by excelling ourselves on a constant basis, we have emerged a better managed and more prestigious banking group in Hong Kong. Above all, I am proud that our strenuous and incessant effort in enhancing corporate governance have won us due recognition by the business community. Last year, the Company was named one of the top ten companies for best corporate governance among the 174 locally listed companies in Hong Kong. Our practice in disclosure was also given recognition by a leading professional institute. All these reflect our high standards of corporate governance that stem from a strong commitment to best international practices in accountability and transparency.

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. As a matter of course, we will measure ourselves by the progress and achievement we have made against these initiatives.

Finally, I wish to thank my fellow Board Members for their guidance and counsel. My heartfelt thanks also go to our shareholders and customers for their continued support. Our employees remain our most valuable asset for helping us to break new grounds and set new records again and again. They are the strongest foundation for our present and future growth. Their good work is deeply appreciated by the Board and the Management.

XIAO Gang
Chairman

Hong Kong, 22 March 2007

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section provides an analysis of the Group's performance, financial position, and risk management. The following analysis should be read in conjunction with the financial statements included in this Annual Report. The Group has applied the merger accounting method in accounting for the combination with BOC Life on 1 June 2006. As a result, the 2005 comparative figures were restated as appropriate.

The Group registered record earnings in 2006. This was essentially the result of the Group's strong and broad-based business growth achieved through the effective execution of growth strategies and initiatives.

Business Environment

In 2006, the operating environment remained largely positive. Bolstered by active investment, strong domestic consumption and robust external trade, the Hong Kong economy registered above-the-trend growth for the third consecutive year. Hong Kong's real GDP growth reached 6.8%. Inflation remained mild with the composite consumer price index on average 2.0% higher than 2005. The labour market improved further with the unemployment rate dropping to 4.4% by year end.

During the first half of 2006, the US Federal Funds Target Rate was raised by an aggregate of 100 basis points to 5.25%. In line with the US interest rate hike, both average 1-month and 3-month HIBOR increased. In the second half of 2006, despite the existence of inflationary pressure, the US Federal Funds Rate levelled off due to the softening economy. On the other hand, both average 1-month and 3-month HIBOR declined in view of abundant liquidity in the local banking sector. The yield curve flattened, as evidenced by the narrowing of the average interest spread between 2-year Exchange Fund notes and its 10-year counterparts from 82 basis points to 31 basis points at end-2006 which compressed the reinvestment return on debt securities.

The interest rate differential between USD and HKD widened in 2006. In 2006, the Group's average HKD Prime rates increased by 186 basis points compared to the previous year whereas the average US Federal Funds Rate increased by 176 basis points for the same period. Meanwhile, the average HKD 1-month HIBOR and 1-month USD LIBOR for 2006 increased by 118 basis points and 171 basis points respectively.

The local stock market was buoyant in 2006 amidst ample liquidity. Market sentiments were further boosted by the enthusiastic response to the spate of major IPOs, especially in the second half of the year. The total fund raised by IPOs in 2006 was HK$334bn, more than double that of 2005. The Hang Seng Index surged by 34.2% to close at 19,964.72 points at end-December 2006. The robust stock market helped boost the equity investment and IPO-related businesses of the banking sector.

After a relatively quiet first half, the local property market regained some growth momentum in the second half of 2006. The number of transactions increased as US interest rates appeared to have peaked in the latter half of 2006. Intensified market competition, however, meant greater downward pressure on mortgage yield. HIBOR-linked mortgage plans became more popular as the 1-month HIBOR remained at a relatively low level throughout the year.

In 2006, the local banking sector continued to operate under a benign credit environment. The classified loan ratio of retail banks as a whole improved from 1.37% at end-2005 to 1.11% at end-2006. Overall, the local banking sector was able to benefit from the continuous economic growth, buoyant investment markets and improved asset quality, but at the same time, faced challenges from intensified market competition and limited local lending opportunities.

Consolidated Financial Review

The Group's financial performance in 2006 was satisfactory. Both operating profit before loan impairment allowances and profit attributable to shareholders reached record highs. In view of the Group's strong core earnings growth, operating profit before loan impairment allowances increased by HK$2,348 million, or 18.9%, to HK$14,751 million. Despite a fall in both loan impairment allowances write-back (loan impairment allowances write-back was mainly due to loan recoveries) and investment property revaluation gain, profit attributable to shareholders increased by HK$411 million, or 3.0%, to HK$14,007 million. Earnings per share were HK$1.3248, up HK$0.0389. Return on average total assets (ROA) and return on average shareholders' funds (ROE) were 1.56% and 17.02% respectively. By comparison, ROA and ROE appeared lower in 2006 because of the relatively high loan impairment allowances write-back and revaluation gain on investment properties recorded in 2005. Indeed, ROA and ROE before loan impairment allowances in 2006 improved by 0.12 percentage point and 1.25 percentage points to 1.61% and 17.92% respectively over 2005.

Financial Highlights

Analyses of the financial performance and business operations of the Group for 2006 are set out in the following sections.

Net Interest Income and Margin

In 2006, net interest income increased by HK$2,711 million, or 20.7%, to HK$15,835 million. Average interest-earning assets grew by HK$74,579 million, or 9.8%, to HK$835,493 million, due to the increase in deposits (including funds from IPO subscription). Net interest margin increased by 18 basis points to 1.90% while net interest spread remained flat. Contribution from net free fund rose by 18 basis points because of rising interest rates.

Market interest rates were higher in 2006 than in 2005. After the refinement of the operation of the linked exchange rate mechanism by the HKSAR government in May 2005, one-month HIBOR mounted from 1.96% at end-April 2005 to 4.10% at end-2005, culminating at 4.68% in May 2006. Starting from the second half of 2006, it dropped gradually, falling to 3.87% in mid-August and then remaining relatively stable at the average of 4.05% in the fourth quarter. On the other hand, LIBOR rates behaved quite differently – One-month LIBOR increased and peaked in August 2006 at 5.42% and remained relatively flat till end-2006. Average one-month HIBOR increased by 118 basis points to 4.12% as compared to 2.94% a year ago while average one-month LIBOR increased by 171 basis points to 5.10% during the same period. The Group's average HKD Prime rate rose to 8.03% in 2006, compared to 6.17% a year ago, thus widening the HKD Prime-to-one-month HIBOR spread (hereinafter called "Prime-HIBOR spread") by 68 basis points to 3.91%.

The increase in net interest income was mainly driven by the growth of interest-earning assets and contribution of net free funds. For 2006, the Group's average gross yield on loans and advances to customers increased by 157 basis points to 5.65%. This was attributable to higher market interest rates and the increase in higher yielding loans such as credit cards receivable and the lending business of Mainland branches. Although the weighted average yield on residential mortgage portfolio, excluding Government Home Ownership Scheme (GHOS) mortgages, decreased by 12 basis points year on year to 2.56% from 2.44% below HKD Prime rate, overall loan spread improved as a result of widening of Prime-HIBOR spread. The Group continued to diversify its investment portfolio effectively. By increasing its investments in asset-backed securities, mortgage-backed securities and corporate bonds, the Group raised its gross yield on debt securities by 126 basis points. However, improvement in net contribution from the debt securities portfolio was held back by the flattening yield curve. Fixed deposit spread widened as a result of the Group's conscious effort in managing funding costs. On the other hand, higher deposit rates and the increase in average fixed deposits led to higher overall funding cost. For instance, average interest rates on savings and fixed deposits increased by 159 basis points and 119 basis points respectively.

Second Half Performance

Compared to the first half of 2006, net interest income increased by HK$827 million, or 11.0 %, in the second half. Average interest-earning assets grew by HK$3,266 million, or 0.4%. Net interest margin and net interest spread rose by 16 basis points and 15 basis points respectively. Contribution from net free funds rose by 1 basis point.

Following a relatively steep rise in the first half of 2006, market interest rates became more stable in the second half. Because of higher liquidity in the market, average one-month HIBOR declined in the second half by 15 basis points vis-à-vis the first half of 2006. Meanwhile, average 1-month LIBOR increased by only 49 basis points. Consequently, improvement in the contribution of net free fund slowed down. The Group continued to benefit from diversification of debt securities holding with gross yield on debt securities rose by 41 basis points. Moreover, as the Group's higher yielding loans increased and Prime-to-HIBOR spread widened, loan spread improved. Weighted average yield from the residential mortgage portfolio, excluding GHOS mortgages, declined by 8 basis points to 2.60% below the HKD Prime rate. Total deposit spread widened as savings rate decreased coupled with higher average market rates.

Net Fees and Commission Income

Net fees and commission income increased by HK$772 million, or 26.2%, to HK$3,717 million mainly due to the significant increase in commissions from stock brokerage of HK$669 million or 93.7% and in asset management fee income of HK$114 million or 56.2%. The buoyant equity market and IPO activities helped boost stock transactions. With its newly launched eIPO services and IPO promotion programmes, the Group grew its stock brokerage business volume substantially by 112%. At the same time, the sales of open-end funds also rose by 90.0%. However, the sales of structured notes declined and the income derived therefrom was down by HK$15 million or 12.5%. Moreover, as a result of the combination with BOC Life, fee income from life insurance only included that from the Group's other insurance business partner after group consolidation elimination. It fell by HK$56 million, or 54.9%, mainly due to competition. Fees from card business recorded a growth of 9.5%, as cardholder spending and merchant acquisition volume increased by 13.7% and 22.5% respectively. Fees from trust services and payment services grew by 10.3% and 9.7% respectively. Riding on the active IPO activities, the Group's fees income from IPO-related activities such as receiving banker's fee and brokerage surged by HK$48 million or a fourfold growth. Meanwhile, RMB-related services also rose by HK$34 million or 79.1%. Fees and commission expenses rose by HK$207 million or 19.5% as the Group continued to expand its stock brokerage, credit card and RMB-related businesses. Moreover, additional charges under the Deposit Protection Scheme that commenced in September 2006 also contributed to the increase in fees and commission expenses.

Second Half Performance

Compared to the first half of 2006, net fees and commission income increased by HK$195 million, or 11.1%, in the second half. The active Hong Kong stock market helped boost the Group's fee income from stock brokerage by HK$95 million, or 14.8%. Fee income from bond sales surged by HK$47 million, or 162.1%, which was in line with the increase in the sales volume of retail bonds. Loan commissions grew by HK$41 million, or 35.3%, due to higher business volume. Fees from card business, trust services and bills commissions also increased by 15.2%, 18.5% and 7.3% respectively. Fees and commission expenses in this period rose by HK$86 million, or 14.6%, mainly due to increase in stock brokerage, credit card expenses and the additional charges under the Deposit Protection Scheme.

Investment and Insurance Business

In 2006, total investment and insurance income surged by HK$867 million, or 60.9%, to HK$2,290 million, primarily due to an increase in investment and insurance fee income of HK$732 million, or 65.4%, and the rise in BOC Life's insurance and investment income by HK$135 million, or 44.4%. The increase in BOC Life's insurance and investment income was mainly attributable to higher interest income from securities investments as a result of the significant growth of premium income and an increase in net trading income, partly offset by a growth in net insurance benefits and claims.

Second Half Performance

Compared to the first half of 2006, total investment and insurance income increased by HK$156 million, or 14.6%, mainly due to an increase in investment and insurance fee income of HK$135 million, or 15.7%. Insurance and investment income of BOC Life grew by HK$21 million, or 10.0%.

Net Trading Income

Net trading income registered a gain of HK$1,888 million in 2006, of which HK$1,468 million was derived from the Group's banking business and HK$420 million came from BOC Life. The net trading income of the banking business decreased by HK$283 million, or 16.2%, mainly because of the decline in net trading income from foreign exchange and foreign exchange related products of HK$301 million, or 21.3%. The decline was caused by the decrease in net trading income from foreign exchange swap contracts. Net trading income from interest rate instruments also dropped by HK$73 million due to the decline in the fair value of the Group's interest rate swap contracts, which was partly offset by the increase in net trading income from equity instruments and commodities. Net trading income of BOC Life was up by HK$725 million, compared to a net loss of HK$305 million in 2005. The rise in net trading income was mainly driven by an increase of HK$676 million in net trading income from interest rate instruments and an increase of HK$48 million in net trading income from equity instruments. Net trading income from interest rate instruments posted a net gain of HK$359 million, versus a net loss of HK$317 million in 2005. This gain was mainly attributable to the favourable changes in the fair value of securities investments and the structured notes held by BOC Life.

Second Half Performance

Compared to the first half of 2006, net trading income rose by HK$490 million or 70.1% in the second half mainly due to an increase in the fair value of the securities investments and structured notes held by BOC Life. The increase was partly offset by the decline in net trading income from foreign exchange swap contracts and the decrease in the fair value of interest rate swap contracts of the banking business.

Net Insurance Premium Income

Compared to 2005, net insurance premium income registered a solid growth of HK$2,565 million, or 70.7%, to HK$6,195 million. This growth was driven by the 58.5% growth in the number of new insurance policies concluded. The strong growth of premium income was the result of satisfactory sales of new life insurance products introduced during the year.

Second Half Performance

Compared to the first half of 2006, net insurance premium income decreased by HK$757 million or 21.8% to HK$2,719 million. The decline was mainly due to comparatively lower sales of policies after a strong first half.

Net Insurance Benefits and Claims

Compared to 2005, net insurance benefits and claims increased by HK$3,293 million or 97.9% to HK$6,655 million mainly due to growth of the life and annuity insurance underwriting business. Prospective liabilities were recognised on the basis of the assumptions made as to mortality, investment income and fair value changes in the underlying investments.

Second Half Performance

Compared to the first half of 2006, net insurance benefits and claims increased by HK$535 million or 17.5% to HK$3,595 million in the second half, mainly due to increase in new business.

Operating Expenses

In line with overall business expansion, the Group's operating expenses increased by HK$787 million, or 13.6%, to HK$6,558 million. Staff costs rose by HK$511 million or 14.6% following the pay rise in April 2006 and the recruitment of new staff needed by the Group. Compared to end-2005, headcount measured in full-time equivalents rose by 65 from 12,933 to 12,998 at end-2006.

Premises and equipment expenses increased by HK$128 million or 17.3% primarily due to higher rental and IT costs incurred.

Depreciation on owned fixed assets rose by HK$103 million, or 18.1%, to HK$671 million in 2006 largely due to appreciation of the value of bank premises.

Second Half Performance

Compared to the first half of 2006, operating expenses rose by HK$616 million or 20.7%. This was basically in line with the normal seasonal trend, in particular, salary adjustments began from the second quarter of each year.

Reversal of Loan Impairment Allowances on Advances

The Group recorded a net release of loan impairment allowances of HK$1,790 million in 2006, primarily due to loan recoveries. Compared to 2005, net release of loan impairment allowance was down HK$855 million or 32.3%, mainly caused by a decline in release of allowances.

Net impairment charge on individual assessment increased by HK$72 million due to lower release of allowances. The significant release in 2005 was mainly attributable to the recovery of a large account. Additional allowances amounting to HK$647 million, which were HK$657 million lower than those for 2005, were needed to cover the formation of new impaired loans[#] and further deterioration of existing impaired accounts.

Net release of collective impairment allowances declined substantially by HK$1,259 million. The reduction reflected a natural slowdown in the improvement in the bad debt migration rate after the Group's significant improvement in asset quality last year on the back of improved economic conditions and borrowers' debt servicing capability.

The Group made remarkable progress in the recovery of loans that were previously written off. Total recoveries (individually and collectively assessed) were HK$2,115 million, up HK$476 million, mainly due to the recoveries of certain large accounts.

Second Half Performance

Compared to the first half of 2006, net release of loan impairment allowances was up by HK$506 million in the second half. It was mainly attributable to the recoveries of certain large accounts, which were partially offset by lower release of collective impairment allowances in the second half of the year.

With low classified loan formation and strong collection efforts, classified loans* were reduced by HK$2,275 million, or 53.4%, in 2006. Classified loan ratio fell from 1.28% in 2005 to a record low of 0.57% at end-2006. At the same time, impaired loan ratio improved from 0.56% to 0.26% at end-2006.

Over the past five years, the Group has shown substantial improvement in asset quality. Classified loans were reduced at a compound annual rate of 47%. Classified loan ratio dropped substantially from 7.98% at end-2002 to 0.57% at end-2006.

Impaired loans are advances where objective evidence exists that full repayment of principal or interest is considered unlikely.

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

Property Revaluation

The aggregate impact of property revaluation before tax on the income statement was HK$573 million, of which HK$574 million came from the revaluation of investment properties and HK$1 million from loss on revaluation of bank premises. The related deferred tax charge on revaluation of investment properties amounted to HK$55 million. As a result, the net impact of fair value adjustments on investment properties on the Group's attributable profit in 2006 was HK$519 million. When compared to 2005, the decrease in net gain on property revaluation was in line with the stabilising property prices.

Second Half Performance

Compared to the first half of 2006, net gain from revaluation of investment properties fell by HK$391 million in the second half, which was in line with the movement of local property prices.

Financial Position

The Group's total assets were HK$928,953 million as at 31 December 2006, up HK$97,951 million or 11.8% from the end of 2005:

- Cash and balances with banks and other financial institutions increased by HK$269 million or 0.9%, while interbank placements increased by HK$4,774 million or 3.8%.
- Securities investments rose by HK$66,176 million, or 25.0%, to HK$330,385 million as the Group increased its investments in asset-backed securities, mortgage-backed securities and selected corporate bonds in order to increase income contribution from securities investments.
- The Group continued to actively manage the balance sheet. As a result, the proportion of short-term surplus funds to total assets decreased while the proportion of securities investment portfolio increased.

Advances to Customers

Total advances to customers grew by HK$13,067 million or 3.9%, which was mainly attributable to the growth in loans for use outside Hong Kong and corporate loans in Hong Kong. The growth was partly offset by the decline in residential mortgage loan as a result of intensified competition and market sluggishness.

Loans for use in Hong Kong increased slightly by 0.1%:

- Lending to the industrial, commercial and financial sectors rose by HK$2,680 million, or 1.8%, driven by loans for property investment and transport and transport equipment.
- Residential mortgage loans (excluding those under GHOS) decreased by HK$2,218 million, or 2.2%, to HK$96,953 million due to keen market competition particularly in the first half of the year.
- Card advances grew by HK$822 million, or 17.6%, to HK$5,490 million as a result of an increase in cardholder spending.
- Other consumer lending rose by HK$751 million, or 9.3%, to HK$8,831 million.

Trade finance increased by HK$786 million, or 4.9%, on the back of robust merchandise exports and strong local demand. Meanwhile, loans for use outside Hong Kong grew significantly by HK$11,993 million or 27.3%. The increase was mainly driven by overseas lending and loan growth of the Group's Mainland branches.

Second Half Performance

When compared to the first half of the year, total loans recorded a broad-based rebound in the second half. Strong growth momentum was shown in both individual and corporate loans. The Group's new pricing strategy on mortgage products was well received. Residential mortgages increased by HK$2,511 million, or 2.7%, recovering much of the fall in the first half of the year. Corporate loans in Hong Kong increased by HK$1,536 million, or 1.0%, while trade finance rose by HK$1,057 million, or 6.7%. Loan for use outside Hong Kong grew significantly by HK$8,047 million, or 16.8%, of which lending through the Group's Mainland branches surged by HK$3,430 million or 22.6%.

In terms of currency mix, HKD and USD advances to customers accounted for 82.5% and 14.1% respectively at the end of 2006. Other currency advances to customers accounted for 3.4%. There was no significant change in currency mix in 2006.

Deposits from Customers

Total deposits from customers increased by HK$62,033 million, or 9.8%, to HK$694,691 million in 2006. Given the buoyant stock market, customers were more inclined to maintain a higher degree of liquidity. As a result, savings deposits increased considerably by 18.5% or HK$40,113 million. Time, call and notice deposits rose by 5.1% or HK$19,889 million while demand deposits and current accounts increased by 7.0% or HK$2,031 million. The Group's deposits mix improved with the proportion of lower cost deposits, which consists of current accounts and savings deposits, to total deposits rising from 38.4% at end-2005 to 40.9% at end-2006. There was a growing demand for structured deposits – a hybrid of retail deposit and derivatives offering a higher nominal interest rate to depositors. Structured deposits grew to HK$9,085 million, up HK$2,712 million or 42.6%, representing about 1.3% of the adjusted total deposits from customers. The Group's loan-to-deposit ratio was 49.32% at end-2006.

Second Half Performance

Compared to end-June 2006, total deposits from customers rose by HK$53,800 million, or 8.4%, in the second half. Savings deposits increased by HK$32,685 million, or 14.6%. Time, call and notice deposits grew by HK$18,571 million, or 4.8% while demand deposits and current accounts increased by HK$2,544 million or 8.9%.

In terms of currency mix, HKD and USD deposits accounted for 69.8% and 20.9% respectively at the end of 2006. Other currency deposits accounted for 9.3%. The Group's HKD loan-to-deposit ratio was 58.3%, down from 65.0% at end-2005, mainly due to a higher increase in HKD deposits from customers relative to HKD advances to customers.

Asset Quality

Owing to better credit quality as well as strong collection and write-off, the Group's asset quality continued to improve with the classified loan ratio falling to the historical low of 0.57%, versus 1.28% at end-2005. Classified loans decreased by approximately HK$2.3 billion or 53% to HK$2.0 billion. New classified loans were maintained at a low level, representing less than 0.3% of total loans outstanding. Total collections amounted to approximately HK$2.0 billion. Write-off of classified loans amounted to HK$0.8 billion. About HK$0.1 billion of the reduction in classified loans was due to the treatment of repossessed assets as a direct offset against the classified loans outstanding.

Total impairment allowances, including both IA and CA, amounted to HK$1,103 million. Impairment allowances on classified loan ratio was 28.62%. If the value of underlying collateral was included, the total coverage ratio would increase to 106.74%. The Group's regulatory reserve rose by HK$95 million to HK$3,621 million as advances to customers increased.

The quality of the Group's residential mortgage loans continued to improve. The combined delinquency and rescheduled loan ratio decreased from 0.30% at end-2005 to 0.21% at end-2006. The quality of card advances also improved, with the charge-off ratio dropping from 2.67% to 2.44% year-on-year.

Capital and Liquidity Ratios

Total capital base of the Group after deduction increased by 6.5% to HK$71,547 million, implying an increase in retained earnings. Despite this, the consolidated capital adequacy ratio of the banking group fell to 13.99% from 15.37% at end-2005 because of a 17.0% increase in total risk-weighted assets. This was the result of the growth of securities investment.

Average liquidity ratio rose to 50.46%, compared to 42.02% in 2005. The Group continued to actively manage its balance sheet. Investments in liquefiable securities was increased, which helped strengthen its liquidity position.

Business Review

This section covers the review of the Group's business lines together with their respective financial results.

Retail Banking

Results

Retail Banking registered healthy business growth in 2006. Operating income grew by 14.3% year-on-year to HK$11,385 million. The growth was driven by the increase of both net interest income and other operating income. Operating profit before loan impairment allowances increased by HK$908 million or 16.7% to HK$6,352 million. Profit before taxation was HK$6,307 million, down HK$81 million or 1.3% from 2005 because of the relatively high release of impairment allowances recorded in 2005.

Net interest income rose by 7.2% to HK$7,851 million. The overall profitability of Prime-based loans, which formed the bulk of Retail Banking's loan assets, improved due to widened Prime-HIBOR spread. The improvement in loan spread was held back by narrowed deposit spread as increase in savings rates outpaced the increase in market rates.

Other operating income soared by 34.3% to HK$3,534 million because of the strong growth of net fees and commission income by 38.8%. The buoyant equity market and IPO activities spurred the growth of the transaction volume of the Group's stock brokerage business, thereby increasing the commissions from securities trading. This, coupled with the growth of commissions from the sales of open-end investment funds, more than offset the decline in commissions from the sales of structured notes.

Operating expenses rose by 11.5% to HK$5,033 million mainly because of the rise in staff costs after pay rise and the recruitment of new staff to support business expansion.

Retail Banking's net charge for loan impairment allowances for 2006 amounted to HK$27 million, versus net releases of HK$956 million in 2005. The net charge for loan impairment allowances reflected a slowdown in the improvement in bad debt migration and additional allowances for increased credit card advances.

Advances and other accounts, including mortgage loans and card advances, increased by 0.7% to HK$130,124 million. Customer deposits increased by 3.0% to HK$549,982 million.

Strong growth of investment and insurance business

Investment and insurance, both being the Group's business focuses, delivered encouraging results in 2006. Capitalising on bullish stock trading and its enhanced trading platform, the Group grew its stock brokerage business volume substantially by 112%. At the same time, with improved sales productivity and a broadened product range, the Group recorded a 90.0% growth in the sales volume of open-end funds. The China and Emerging Market Equity Funds were some of the best-sellers.

Taking advantage of the IPO boom, the Group launched eIPO financing services while aggressively promoting its IPO-related business. The Group became the major receiving bank for most of the large-scale IPOs in Hong Kong. The number of IPO subscriptions received and processed by the Group reached a record high in 2006. Over 50% of the subscriptions were submitted through the automated channel.

Through effective marketing campaigns and personalised services, the Group grew its number of wealth management customers and assets under management by 45.9% and 42.9% respectively.

To expand its life insurance business, the Group launched a diverse range of new products in 2006, including the "Supreme Saver 06- 5 Year Life Endowment Plan", "Prudent Saver 5-year Life Endowment Plan", "Companion Insurance Plan" and "Total Value Retirement Solution Plan". These products were well received by customers. "Total Value Retirement Solution Plan" was the first kind of investment-linked annuities in the banking market.

Growth momentum of residential mortgages regained

Intense competition and a relatively lacklustre residential mortgage sector had an adverse impact on the Group's residential mortgages in the first half of the year. The Group adjusted its promotion strategies and introduced flexible mortgage products such as "Fixed rate mortgage plan", "HIBOR-based mortgage plan", "All-you-want" and "Smart" mortgage schemes to satisfy customers' diverse finance needs. New residential mortgages grew substantially by 97% in the second half of the year and the Group regained its leading position in the market. Meanwhile, the credit quality of residential mortgages continued to improve as the delinquency and rescheduled loan ratio dropped further to 0.21%.

In pursuit of high net worth customers through professional premium services

The Group continued with its effort to win and better serve high net worth customers in 2006. In collaboration with BOC, in December 2005 the Group launched a new service enabling wealth management customers to access priority and privileged banking services at BOC branches in the whole Asia Pacific region. In addition, value-added banking solutions covering investment management, financial planning and pre-arranged banking services were tailored for Mainland customers. During the year, the BOCHK Wealth Management Expo was held and various large scale and localised investment seminars were organised regularly to update customers on the latest investment climate.

"Wealth MaxiWiser", a financial planning tool, was further enhanced to strengthen portfolio management advisory services, achieve effective customer management and maximise customers' wealth. Currently, 100 Wealth Management Prime centres and 20 Wealth Management VIP centres are in operation to provide tailor-made financial solutions to customers.

Expansion of credit card business

The Group's card business continued to expand in terms of customer base and service range. Card advances increased by 17.6% and the number of cards issued grew by 4.1%. Cardholder spending volume and merchant acquiring volume expanded by 13.7% and 22.5% respectively.

The Group launched "VISA BOC Olympic Games Card" in 2006. With a strong competitive edge in the credit card market, the Group continued to extend appealing merchant offer programmes to customers through a comprehensive merchant network covering Hong Kong, Macau and the Mainland. In the area of merchant acquiring, the Group launched the Dynamic Currency Conversion Service to support real-time currency conversion value-added services to both merchants and credit cardholders.

The Group was the first EMV certificate acquirer in Hong Kong, and had the widest coverage of EMV standard chip-enabled terminals in the local market at end-2006.

The Group's performance and service quality in credit card business were recognised by the industry. During the year, the Group won a total of 22 awards from MasterCard International, Visa International, China UnionPay, Hong Kong Trade Development Council (HKTDC) and International Licensing Industry Merchandisers' Association (LIMA) respectively.

Leading Hong Kong's RMB banking business

The Group continued to be the local market leader in Renminbi (RMB) banking business with a comprehensive range of relevant services. By end-2006, RMB deposits increased by 1.8% from a year ago. The Group also maintained its leading position in the RMB credit card issuing and merchant acquiring business. RMB merchant acquiring volume and RMB card cardholder spending volume registered strong growths of 91.9% and 46.9% respectively. The number of RMB credit cards issued grew by 22.7%. During the year, the Group upgraded the features of its RMB card. Customers can choose their own account withdrawal limit for security purpose and make use of the RMB POS functions in the Mainland to suit their diverse financial needs. At end-2006, the number of ATMs providing RMB withdrawal service reached 230.

In March 2006, the Group launched Renminbi Settlement System (RSS) to provide clearing services for expanded RMB business in Hong Kong. RSS serves as a quality clearing platform and provides a solid foundation for the further expansion of RMB business. At the same time, Personal RMB Cheque Service was launched to enable customers to make payment in Guangdong Province by cheque.

Branch rationalisation and e-Channel Development

The Group continued to optimise its branch network in 2006. During the year, the Group opened 3 new branches, renovated 54 existing branches and revamped 14 wealth management centres. By the end of 2006, the number of branches in Hong Kong was 287 and the number of ATM machines was 445.

To offer more convenient and reliable e-service to customers, the Group upgraded its internet banking services. Apart from enhanced investment functions and new e-banking products, the Group's website was revamped to strengthen online sales and promotion. Over the year, the number of e-banking customers and transactions increased by 15.2% and 62.6% respectively.

Corporate Banking

Results

Corporate Banking reported a profit before taxation of HK$5,804 million in 2006, up HK$520 million or 9.8% as compared to 2005. Operating profit before loan impairment allowances increased by 11.0% to HK$3,990 million. Net interest income and other operating income grew by 13.4% and 8.6% respectively, while the release of loan impairment allowances grew by 7.6%.

The rise in net interest income was driven by the widened loan spread and deposit spread while the growth of other operating income was due to increased net fees and commission income from loans and remittance. Operating expenses were up 16.0% to HK$1,500 million on account of the rise in staff costs.

Net loan impairment releases were HK$1,817 million, up 7.6%, mainly due to recoveries of certain large accounts.

Advances and other accounts increased by 6.5% to HK$221,552 million. Customer deposits registered a robust growth of 46.6% to HK$145,781 million.

Leading in loan syndication

The Group maintained its leading position in the syndication loan market covering Hong Kong, Macau and the Mainland. According to *Basis Point*, a leading Asian capital market magazine, the Group was the number one mandated arranger in the Mainland-Hong Kong-Macau syndicated loan market in 2006.

Phenomenal growth of IPO financing

Riding on the active stock market, the Group expanded its IPO financing business significantly. It provided more than HK$200 billion worth of financing to corporate and retail customers in connection with the IPO of 28 companies in Hong Kong. The Group's IPO financing business in 2006 recorded a tenfold growth versus 2005.

Expanding SME lending and customer base

In 2006, the Group focused on adjusting its business and customer structures and devoted much effort in developing its SME business. The Group's 5-year SME business plan focuses on the enhancement of the SME business model, optimising credit approval procedures for SME loans, streamlining the existing workflow, and raising the efficiency of customer service. These growth initiatives were beginning to bear fruit as evidenced by the double-digit growth in SME loans. To better serve these customers, the Group successfully launched and refined several products, including Equipment Link, Professional Firms Link, and Trade Peak Season Link.

Reinforcing cash management business and e-banking platform

With a view to growing its cash management business, the Group actively reinforced its service platform and coverage, its connection with BOC's overseas branches, and the service plans for large corporations. At the same time, *BOC Wealth Master,* a standardised cash management product, was launched to better serve SME customers by providing a one-stop, multi-channel and multi-account platform for them to do their financial management more efficiently. During the year, a Cash Management Services Centre was established to enhance the Group's competitiveness in the cash management business.

The Group continued to strengthen its e-banking functions and promote CBS Online services. The number of CBS Online customers increased significantly. By end-2006, the number of CBS Online customers increased by 98% from a year ago.

Growing and strengthening trade finance business

To achieve greater flexibility and to optimise credit limit utilisation, the Group refined the trade finance credit limit structure and simplified the procedure for arranging and using trade finance credit limits. The Group also launched several new trade finance products and promotion plans, including Pre-shipment Financing, Bill Service and Trade Finance Promotion Scheme. As a result of these initiatives, bills and settlement volume increased by 16.5% in 2006.

Optimising business model

In 2006, the Group refined its business model, organisation structure, management process and business workflow for Corporate Banking to align with the Relationship-Product-Channel (RPC) Model. For instance, steps were taken to review and enhance the business authorisation system, implement the *Two-step Credit Approval Scheme*, and simplify the credit renewal and review procedures. The Group also implemented the *Enhanced Relationship Manager Mechanism* and *Product Manager Mechanism* to strengthen the relationship and product professional teams. Under this refined business model, the Group is in a better position to manage its customer relations and product development by taking into consideration individual clients' industry, geographical location and sectoral characteristics and developing tailor-made products to suit their specific needs.

Growing Mainland business steadily

The Group's Mainland branches regained its growth momentum and delivered strong results in 2006, notwithstanding a relatively slow first half. Profit before loan impairment allowances increased by HK$64 million, or 20.6% due mainly to the increase in advances to customers. Total advances to customers rose by 22.7% to HK$18.6 billion. Customer deposits increased by 67.4% to HK$3.9 billion. Asset quality continued to improve with the classified loan ratio falling by 0.34 percentage point to 0.23%.

The business scope of the Group's Mainland branches and sub-branches expanded further during the year. By the end of 2006, the Group had a total of 11 Mainland branches and sub-branches permitted to participate in RMB business. The Qingdao branch submitted its application for running RMB business. All the 14 branches and sub-branches are now licensed to conduct derivatives business and provide insurance agency services. The coverage of the Group's wealth management products was extended to the Mainland in 2006. In view of the high demand for investment products, the Group launched commodity-linked deposits in 2006 as an extension of the currency-linked deposits offered since 2005. After the approval by China Banking Regulatory Commission to conduct QDII business in October, the Group applied for the RMB exchange limit of foreign exchange trade with State Administration of Foreign Exchange. In November, following the announcement by the Commission of the new Regulations on Administration of Foreign-funded Banks, the Group resolved to incorporate the local operation of the Group's wholly-owned subsidiary, Nanyang Commercial Bank, in the Mainland to offer comprehensive banking services with the focus on retail banking whereas BOCHK would maintain its foreign-funded bank status to concentrate on corporate and foreign exchange businesses.

Treasury

Results

In 2006, Treasury reported remarkable growth in profit before taxation by HK$1,428 million, or 45.5%, as net interest income rose sharply. Other operating income decreased by HK$278 million or 27.2%. Operating expenses increased by HK$150 million or 48.7% to HK$458 million.

Net interest income increased substantially by HK$1,858 million or 76.5%. The increase was mainly driven by higher contribution of net free fund due to the rise in market rates and better return on debt securities portfolio as a result of the Group's effective balance sheet management.

Other operating income decreased by HK$278 million or 27.2%, resulting from a reduction of net trading income of foreign exchange swap contracts for funding purpose.

Enhancing yield by diversifying investment portfolio and vastly expanding IPO business

In 2006, Treasury's structure and portfolio management strategy were refined to focus more on balance sheet management and structural risk management. In order to improve return, three specialised portfolio management teams on interest rate, credit and securitised products were set up respectively to provide professional analysis and information on different markets and products. During the year, the Group actively managed its investment portfolio by diversifying into mortgage-backed securities, covered bonds and corporate bonds to maximise the return on residual funds. This diversification also helped create a more balanced portfolio and reduce concentration risks. As a result of these initiatives, investment return exceeded the Group's target despite the flattening yield curve. Moreover, as a receiving bank for 23 IPOs in Hong Kong in 2006, the Group handled a total amount of IPO funds of over HK$1,000 billion – a record high.

Enhancing product offerings and marketing in Hong Kong and Mainland

In 2006, market volatility in interest rates, foreign exchange, and commodity and equity trading meant more opportunities for the development of treasury products. In view of the growing popularity of structured investment products, the Group introduced a series of structured deposits linked with interest rates, foreign exchange rates and bullion prices. During the year, the Group launched a large number of structured deposits in Hong Kong and the Mainland respectively. To further enhance cross-selling activities with retail and corporate customers, a special treasury marketing unit providing customised services to local and Mainland customers was set up in late 2005. The team also provided training and consulting support to other marketing teams. This not only enhanced the marketing capability of different business units for treasury products, but also helped broaden the Group's treasury client base. In 2006, the number of treasury customers increased by 42.3%.

Insurance

Results

The Group's Insurance segment recorded a profit before taxation of HK$174 million, up HK$32 million or 22.5% as compared to 2005. This was mainly driven by an increase in net interest income.

Net interest income rose by 48.7% to HK$473 million. This was mainly attributable to an increase in the investments of debt securities on the back of significant growth of premium income arising from the successful launch of several new insurance products. Other operating income rose by 98.8% to HK$6,421 million with the growth of premium income and an increase in the fair value of interest rate instruments and structured notes. In line with the growth of premium income, net insurance benefits and claims increased by 97.9% to HK$6,655 million.

Assets in the Insurance segment grew by 69.2% because of the increase in investments of interest rate instruments and structured notes. Liabilities rose by 75.1%, which was mainly the result of increased insurance contract liabilities.

Successful acquisition of controlling stake in BOC Life

The Group acquired from its parent the BOC Group a 51% controlling stake in BOC Life in June 2006. Life insurance policies, investment products linked with life insurance policies and retirement scheme management plans are offered through the Group's extensive distribution network. This will help the Group to enhance its wealth management platform, solidify its client base and increase its non-interest income.

Broadening product range and stepping up sales training

Following the combination with BOC Life, the Group started offering a more diversified range of insurance products to meet customers' needs. In 2006, a series of new insurance products were introduced and customers' response was very encouraging. Premium from new business increased by 77% in 2006. To equip frontline staff with deeper professional knowledge and better sales techniques, the Group established an in-house academy, the BOCG Life Bancassurance Academy, to provide systematic professional training to the Group's sales staff. Such training would focus on selling long-term insurance products. By end-2006, more than 110 of the Group's employees had participated in the training.

Building up BOC Life as a brand

To strengthen BOC Life's branding in Hong Kong, the Group organised a series of large-scale promotional activities under the theme "BOC(HK) Insurance, We Care More". A series of promotional campaigns were also launched to support this branding exercise.

Implementation of Relationship-Product-Channel (RPC) Model

The Group strongly believes that a customer-centric management and business model is crucial for sustaining business and profit growth, thus maximising shareholder return. In accordance with the Group's 2006-2011 Strategic Plan, the Group started implementing in early 2007 the RPC (Relationship, Product and Channel Management) Model. As reported in 2006, the objectives of the model are to build teams of dedicated and professional managers to develop and expand the range of products and services that are tailored to the needs of different customer segments, and to optimise channels and workflow to facilitate sales and marketing. Under this Model, the Group will reinforce its capabilities in customer relationship management (R), product management (P), as well as channel management (C). To ensure success, the Group established a Steering Committee and Implementation Task Force to formulate an implementation plan, and to monitor and provide guidance in the implementation process. Besides, five dedicated groups with representatives from different business units responsible for job evaluation and staff placements, premises assignment, communication, training and finance have been set up to organise, execute and closely monitor progress.

Corporate development, technology and operations

Human resources

During the year, the Group continued to invest in human resources development to support business growth and help realise its corporate vision of becoming customers' premier bank. Medium-term initiatives were taken to enhance staff commitment, improve productivity and optimise the allocation of resources. In addition, relevant strategies and action plans to support the implementation of the RPC Model were developed and rolled out.

An employee performance management system was introduced in 2006. It emphasises ongoing evaluation of staff performance throughout the year and the formulation of staff training and development plans. This system is meant to enhance the Group's overall performance and help develop a performance-driven corporate culture.

In 2006, more than 1,500 training courses with over 91,000 attendants were organised. Such courses included workshops and seminars on wealth management, financial planning, risk management, corporate governance and corporate culture. Other training channels were also made available to the staff. For instance, an e-learning platform was set up to provide online interactive training; a self-learning programme integrating distance learning was offered; and small group tutorials and tests were launched. Moreover, to support the Group's long-term business expansion, a one-year Officer Trainees Programme was introduced to provide on-the-job training for newly recruited university graduates. A three-year intensive and systematic programme tailor-made for Management Trainees recruited from local and overseas universities also commenced in 2006.

Technology and operations

To support business growth and the RPC model, the Group continued to enhance its information technology infrastructure and implement its 5-year IT development strategy. The processing capacity of the Securities Management System was significantly expanded to cater for the increased volume of stock transactions. The Group's eIPO services that came on stream in March 2006 also helped capture business opportunities arising from the booming stock market. In October 2006, an eIPO service which enables customers to subscribe IPO shares using white forms online was successfully launched. The Group's internet banking functions, such as stock and futures trading services, foreign exchange margin trading and accounts management, were also enhanced. Meanwhile, new web pages were introduced to provide more financial and non-financial information. The Customer Relationship Management System (CRM), which provides an integrated view of customers, was established in 2006 to help frontlines perform better customer analysis and segmentation, as well as facilitate the formulation of marketing strategies.

As part of the Group's IT strategy, the Group kick-started the implementation of the Financial and Financial Risk Management System (FRMS) in 2006. It is a project aiming to revamp the existing computer systems for different finance functions, including financial accounting, management accounting, multi-dimension profitability management, and capital management. It will also help enhance the Group's asset & liability management (ALM). The project is being rolled out in phases. During the year, the Group started the roadmap and general ledger design and implementation of ALM system. It is expected that the system will help increase automation, improve operational efficiency and provide value-added information and analytics for management decisions.

To streamline operating workflows and enhance work efficiency, in January 2006, the Business Optimisation Centre was established to expedite business operations reform and take charge of project management, such as the implementation of RPC model, develop optimal project plans and initiates and undertakes business process re-engineering.

Regulatory Development

Basel II Capital Accord

Following the release of the new international capital adequacy framework, "International Convergence of Capital Measurement and Capital Standards: A Revised Framework" (known as "Basel II"), by Basel Committee on Banking Supervision in June 2004, Hong Kong was among the first batch of major international financial centres to introduce Basel II in January 2007. The new capital adequacy framework, which comprises three Pillars, is more risk sensitive than the 1988 Accord. Pillar One aligns regulatory capital requirements more closely with inherent risks and introduces new capital charge on operational risk. Pillar Two stipulates a framework for the supervisory review of capital adequacy by the regulatory authority while Pillar Three requires a greater scope of disclosure on capital adequacy and risk management.

The Group has deployed substantial resources to the implementation of Basel II with significant progress. The adoption of Basel II has had the full support of the senior management. Chaired by the Chief Executive, a steering committee, Basel II Implementation Steering Committee, was established to enhance and monitor Basel II implementation. Reporting to the Chief Risk Officer, the Basel II Implementation Office was set up to co-ordinate and ensure proper implementation.

In relation to Pillar One, all the preparatory works, including system and reporting enhancements, have been completed and the Group will adopt the Standardised Approach to calculate the minimum capital requirement on credit risk, market risk and operational risk. It also undertook parallel runs with prevailing capital requirements on the calculation of capital adequacy ratio.

Under Pillar Two, Authorised Institutions are encouraged to develop their systems for conducting the capital adequacy assessment process (CAAP). The Group is currently in the process of planning for Pillar Two implementation. Pillar Three, which is expected to be fully implemented by June 2007, focuses on the disclosure requirements and policies prescribed by the Banking (Disclosure) Rules. The Group expects that substantial investment will be required to fully implement Basel II and considers that continuous monitoring of the process and policies is important. The Group also believes that the new framework will further strengthen its risk management and facilitate its capital planning and management practices.

Credit Ratings

During the year, the credit ratings of BOCHK were revised by the leading rating agencies.

On 19 June 2006, Fitch Ratings upgraded the individual rating of BOCHK to B from B/C. As at 31 December 2006, BOCHK's long-term and short-term foreign currency issuer default ratings were A and F1 respectively while the support rating was 2.

On 7 July 2006, Moody's Investors Service upgraded its rating outlook on BOCHK from stable to positive and on 11 August 2006, the financial strength rating was under Moody's review for possible upgrade. As at 31 December 2006, BOCHK's long-term and short-term foreign currency bank deposit ratings as assigned by Moody's were A2 and P-1 respectively.

As at 31 December 2006, the long-term and short-term counterparty credit ratings assigned by Standard & Poor's to BOCHK were BBB+ and A-2 respectively. On 16 February 2007, Standard & Poor's raised the long-term counterparty credit rating to 'A-' and affirmed 'A-2' short-term counterparty credit rating on BOCHK.

Risk Management

Banking Group

Overview

The Group believes that sound risk management is crucial to the success of any organisation. In its daily operation, the Group attaches a high degree of importance to risk management and emphasises that a balance must be struck between risk control and business growth and development. The principal types of risk inherent in the Group's businesses are reputation risk, legal and compliance risk, strategic risk, credit risk, market risk, interest rate risk, liquidity risk and operational risk. The Group's risk management objective is to enhance shareholder value by maintaining risk exposures within acceptable limits.

Risk Management Governance Structure

The Group's risk management governance structure is designed to cover the whole process of all businesses and ensure various risks are properly managed and controlled in the course of conducting business. The Group has a sound risk management organisational structure. It implements a comprehensive set of policies and procedures to identify, measure, monitor and control various risks that may arise. These risk management policies and procedures are regularly reviewed and modified to reflect changes in markets and business strategies. Various groups of risk takers assume their respective responsibilities for risk management.

The Board of Directors, representing the interests of shareholders, is the highest decision making authority of the Group and has the ultimate responsibility for risk management. The Board, with the assistance of its committees, has the primary responsibility for the formulation of risk management strategies and for ensuring that the Group has an effective risk management system to implement these strategies. The Risk Committee ("RC"), a standing committee established by the Board of Directors, is responsible for overseeing the Group's various types of risks, reviewing and approving high-level risk-related policies and overseeing their implementation, reviewing significant or high risk exposures or transactions and exercising its power of veto if it considers that any transaction should not proceed. The Audit Committee assists the Board in fulfilling its role in overseeing the internal control system.

The Chief Executive's ("CE") is responsible for managing the Group's various types of risks, approving detailed risk management policies, and approving material risk exposures or transactions within his authority delegated by the Board of Directors. The Chief Risk Officer ("CRO") assists the CE in fulfilling his responsibilities for the day-to-day management of risks. The CRO is responsible for initiating new risk management strategies, projects and measures that will enable the Group to better monitor and manage new risk issues or areas that may arise from time to time from new businesses, products and changes in the operating environment. He may also take appropriate initiatives in response to regulatory changes. The CRO is also responsible for reviewing material risk exposures or transactions within his delegated authority and exercising his power of veto if he believes that any transaction should not proceed.

Various departments of the Group have their respective risk management responsibilities. Business units act as the first line of defense while risk management units, which are independent from the business units, are responsible for the day-to-day management of different kinds of risks. Risk management units have the primary responsibilities for drafting, reviewing and updating various risk management policies and procedures.

The Group's principal banking subsidiaries, Nanyang and Chiyu, are subject to risk policies that are consistent with those of the Group. These subsidiaries execute their risk management strategies independently and report to the Group's management on a regular basis.

Reputation Risk Management

Reputation risk is the risk that negative publicity regarding the Group's business practices, whether genuine or not, might cause a potential decline in the Group's customer base or lead to costly litigation or revenue erosion. Reputation risk is inherent in every aspect of business operation and covers a wide spectrum of issues.

In order to mitigate reputation risk, the Group has formulated its Reputation Risk Management Policy that is diligently implemented. This policy provides guidance to prevent and manage reputation risk proactively at an early stage. It requires constant monitoring of external reputation risk incidents and published failures of risk incidents in the financial industry.

Legal and Compliance Risk Management

Legal risk is the risk that unenforceable contracts, lawsuits or adverse judgments may disrupt or otherwise negatively affect the operation or financial condition of the Group. Compliance risk is the risk of penalty arising from any failure to comply with relevant regulations governing the conduct of businesses in specific countries. By establishing and maintaining appropriate policies and guidelines, the CRO, working through the Legal and Compliance Department, is responsible for proactively identifying and managing these risks.

Strategic Risk Management

Strategic risk generally refers to the risks that may induce immediate or future negative impact on the financial and market positions of the Group because of poor strategic decisions, improper implementation of strategies and lack of response to the market. The Group has developed a Strategic Risk Management Policy that provides clear guidance for the management and oversight of such risks.

Credit Risk Management

Credit risk is the risk that a customer or counterparty will be unable to or unwilling to meet a commitment it has entered into with the Group. The Risk Management Department (RMD), under the supervision of the CRO, provides centralised management of credit risk within the Group. Different credit approval and control procedures are adopted according to the level of risk associated with the customer or transaction. Corporate credit applications are independently reviewed and objectively assessed by risk management units. A credit scoring system is used to process retail credit transactions, including residential mortgage loans, personal loans and credit cards. The Credit Risk Assessment Committee comprising experts from credit and other functions of the Group is responsible for making an independent assessment of all credit facilities which require the approval of Deputy Chief Executives or above.

The Group adopts an eight-grade facility grading structure according to HKMA's loan classification requirement. RMD provides regular credit management information reports and ad hoc reports to the Management Committee, RC, AC and Board of Directors.

Market Risk Management

Market risk is the risk of loss that results from movements in market rates and prices. The Group's market risk arises from customer-related business and proprietary trading. Trading positions are subject to daily marked-to-market valuation. Market risk is managed within the risk limits approved by RC. The overall risk limits are divided into sub-limits by reference to different risk factors, including interest rate, foreign exchange rate, commodity price and equity price.

RMD is responsible for the oversight of the Group's market risk to ensure that overall and individual market risks are within the Group's risk tolerance. Risk exposures are monitored on a day-to-day basis to ensure that they are within established risk limits.

VAR is a statistical technique which estimates the potential losses that could occur on risk positions taken over a specified time horizon within a given level of confidence. The Group uses historical movements in market rates and prices, a 99% confidence level and a 1-day holding period to calculate portfolio and individual VAR.

For the year ended 31 December 2006, the average daily revenue of BOCHK earned from market risk-related trading activities was HK$2.5 million (2005: HK$2.0 million). The standard deviation of these daily trading revenues was HK$1.5 million (2005: HK$1.8 million).

Interest Rate Risk Management

The Group's interest rate risk exposures are mainly structural. The major types of interest rate risk from structural positions are:

repricing risk – mismatches in the maturity or repricing periods of assets and liabilities
basis risk – different pricing basis for different transactions so that yield on assets and cost of liabilities may change by different amounts within the same repricing period

The Group's Asset and Liability Management Committee ("ALCO") maintains oversight of interest rate risk and RC sanctions the interest rate risk management policies formulated by ALCO. The interest rate risk is identified and measured on a daily basis. The Treasury Department manages the interest rate risk according to the established policies. The Finance Department closely monitors the related risks and the results are reported to RC and ALCO regularly.

Gap analysis is one of the tools used to measure the Group's exposure to repricing risk. This provides the Group with a static view of the maturity and repricing characteristics of its balance sheet positions. The Group uses interest rate derivatives to hedge its interest rate exposures and in most cases, plain vanilla interest rate swaps are used.

Sensitivities of earnings and economic value to interest rate changes (Earnings at Risk and Economic Value at Risk) are assessed through a hypothetical interest rate shock of 200 basis points across the yield curve on both sides. Earnings at Risk and Economic Value at Risk are controlled respectively within an approved percentage of the projected net interest income for the year and the latest capital base as sanctioned by RC. The results are reported to ALCO and RC on a regular basis.

The impact of basis risk is gauged by the projected change in net interest income under scenarios of imperfect correlation in the adjustment of the rates earned and paid on different instruments. Ratios of assets to liabilities with similar pricing basis are established to monitor such risk.

Liquidity Risk Management

The aim of liquidity management is to enable the Group to meet, even under adverse market conditions, all its maturing repayment obligations on time, and to fund all its asset growth and strategic opportunities without forced liquidation of its assets at short notice.

The Group funds its operations principally by accepting deposits from retail and corporate depositors. In addition, the Group may issue certificates of deposit to secure long-term funds. Funding may also be secured through adjusting the asset mix in the Group's investment portfolio. The Group uses the majority of funds raised to extend loans, to purchase debt securities or to conduct interbank placements.

The Group monitors the liquidity risks using cash flow analysis and by examining deposit stability, concentration risk, mismatch ratios, loan-to-deposit ratio and liquidity profile of the investment portfolio. The primary objective of the Group's asset and liability management strategy is to achieve optimal returns while ensuring adequate levels of liquidity and capital within an effective risk control framework and ALCO is responsible for establishing these policy directives (including the liquidity contingency plan), and RC sanctions the liquidity management policies. The Treasury Department manages the liquidity risk according to the established policies. The Finance Department monitors the Group's liquidity risks and reports to the management and ALCO regularly.

Operational Risk Management

Operational risk relates to the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. RMD oversees the entire operational risk management framework of BOCHK.

The Group has put in place an effective internal control process which requires the establishment of detailed policies and control procedures for all the key activities. Proper segregation of duties and independent authorisation are the fundamental principles followed by the Group. The management of respective business lines is responsible for managing and reporting operational risks specific to their business units by identifying, assessing and controlling the risks inherent in their business processes, activities and products. These are followed by periodic monitoring and ongoing review of changes by RMD. RMD formulates corporate-level policies and procedures concerning operational risk management which are approved by RC. RMD evaluates the operational risk profile, records operational risk data and reports operational risk issues to RC and senior management.

Business continuity plans are in place to support business operations in the event of emergency or disaster. Adequate backup facilities are maintained and periodic drills are conducted. The Group also arranges insurance cover to reduce potential losses in respect of operational risk.

Capital Management

The major objective of capital management is to maximise total shareholders' return while maintaining a capital adequacy position in relation to the Group's overall risk profile. The Group periodically reviews its capital structure and adjusts the capital mix where appropriate to achieve the lowest overall cost of capital. ALCO monitors the Group's capital adequacy. The Group has complied with all the statutory capital standards for all the periods presented in the report.

Stress Testing

The Group supplements the analysis of various types of risks with stress testing. Stress testing is a risk management tool for estimating the Group's risk exposures under stressed conditions arising from extreme but plausible market or macroeconomic movements. These tests are conducted on a regular basis and ALCO monitors the results against limits approved by RC. Stress test results are also reported to the Board and RC regularly.

Insurance Group

The principal activity of the Group's insurance business is the underwriting of long-term insurance business in life and annuity, linked long-term business and retirement scheme management in Hong Kong. Major types of risks inherent in the Group's insurance business include insurance risk, interest rate risk and credit risk. BOC Life manages these risks independently and reports to the Group's management on a regular basis. The key risks of its insurance business and related risk control process are as follows:

Insurance Risk Management

BOC Life is in the business of insuring against the risk of mortality, morbidity, disability, critical illness, accidents and related risks. BOC Life manages these risks through the application of its underwriting policies and reinsurance arrangement.

The underwriting strategy is intended to set premium pricing at an appropriate level that corresponds with the underlying exposure of the risks underwritten. Screening processes, such as the review of health condition and family medical history, are also included in BOC Life's underwriting procedures.

Within the insurance process, concentrations of risk may arise where a particular event or series of events could impact heavily upon BOC Life's liabilities. Such concentrations may arise from a single insurance contract or through a small number of related contracts, and relate to circumstances where significant liabilities could arise.

For the in-force insurance contracts, most of the underlying insurance liabilities are related to endowment and unit-linked insurance products. For most of the insurance policies issued by it, BOC Life has a retention limit of HK$400,000 on any single life insured. BOC Life reinsures the excess of the insured benefit over HK$400,000 for standard risks (from a medical point of view) under an excess of loss reinsurance arrangement. BOC Life does not have in place any reinsurance for contracts that insure survival risk.

Uncertainty in the estimation of future benefit payments and premium receipts for long-term insurance contracts arises from the unpredictability of long-term changes in overall levels of mortality. In order to assess the uncertainty due to the mortality assumption and lapse assumption, BOC Life conducts mortality study and lapse study in order to determine the appropriate assumptions. In these studies, consistent results are reflected in both assumptions with appropriate margins.

Interest Rate Risk Management

The main risk that BOC Life faces due to the nature of its investment and liabilities is interest rate risk. BOC Life manages these positions within an asset liability management "(ALM)" framework that has been developed to achieve long-term investment returns in excess of its obligations under insurance contracts. For each distinct category of liabilities, a separate portfolio of assets is maintained. The principal technique of ALM is to match assets to the liabilities arising from insurance contracts by reference to the type of benefits payable to contracts holders.

Credit Risk Management

BOC Life has exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. Key areas where BOC Life's insurance business is exposed to credit risk are:

- counterparty risk with respect to structured products transactions and debt securities
- reinsurers' share of insurance unpaid liabilities
- amounts due from re-insurers in respect of claims already paid
- amount due from insurance contract holders
- amount due from insurance intermediaries

BOC Life structures the levels of credit risk it accepts by placing limits on its exposure to a single investment counterparty, or groups of counterparties. Such risks are subject to an annual or more frequent review. Limits on the level of credit risk by category are reviewed and approved regularly by the management.

The directors of the Company are pleased to announce the audited consolidated results of the Group for the year ended 31 December 2006 as follows:

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December

	Notes	2006	Restated 2005
		HK$'m	*HK$'m*
Interest income		**40,271**	26,177
Interest expense		**(24,436)**	(13,053)
Net interest income	2	**15,835**	13,124
Fees and commission income		**4,985**	4,006
Fees and commission expenses		**(1,268)**	(1,061)
Net fees and commission income	3	**3,717**	2,945
Net trading income	4	**1,888**	1,446
Net loss on investments in securities		**(5)**	(96)
Net insurance premium income		**6,195**	3,630
Other operating income	5	**334**	487
Total operating income		**27,964**	21,536
Net insurance benefits and claims		**(6,655)**	(3,362)
Net operating income before loan impairment allowances		**21,309**	18,174
Reversal of loan impairment allowances	6	**1,790**	2,645
Net operating income		**23,099**	20,819
Operating expenses	7	**(6,558)**	(5,771)
Operating profit		**16,541**	15,048
Net (loss)/gain from disposal/revaluation of properties, plant and equipment		**(12)**	50
Net gain from disposal of/fair value adjustments on investment properties		**605**	1,400
Share of profits less losses of associates		**5**	4
Profit before taxation		**17,139**	16,502
Taxation	8	**(2,855)**	(2,646)
Profit for the year		**14,284**	13,856
Attributable to:			
Equity holders of the Company		**14,007**	13,596
Minority interests		**277**	260
		14,284	13,856
Dividends	9	**8,966**	8,543
		HK$	*HK$*
Earnings per share for profit attributable to the equity holders of the Company	10	**1.3248**	1.2859

CONSOLIDATED BALANCE SHEET

As at 31 December

	Notes	2006	Restated 2005
		HK$'m	*HK$'m*
ASSETS			
Cash and balances with banks and other financial institutions		**30,973**	30,704
Placements with banks and other financial institutions		**130,636**	125,862
Trading securities and other financial instruments at fair value through profit or loss		**28,294**	20,365
Derivative financial instruments	11	**7,393**	5,184
Hong Kong SAR Government certificates of indebtedness		**34,750**	32,630
Advances and other accounts	12	**352,858**	338,403
Investment in securities			
– Available-for-sale securities		**100,389**	52,243
– Held-to-maturity securities		**165,588**	178,521
– Loans and receivables		**36,114**	13,080
Interests in associates		**60**	61
Properties, plant and equipment		**19,740**	18,491
Investment properties		**7,481**	7,626
Deferred tax assets	14	**69**	68
Other assets		**14,608**	7,764
Total assets		**928,953**	831,002
LIABILITIES			
Hong Kong SAR currency notes in circulation		**34,750**	32,630
Deposits and balances of banks and other financial institutions		**49,034**	40,655
Trading liabilities and other financial instruments at fair value through profit or loss		**12,629**	7,924
Derivative financial instruments	11	**4,052**	4,193
Deposits from customers		**694,691**	632,658
Certificates of deposit issued			
– at fair value through profit or loss		**2,498**	3,829
– at amortised cost		**-**	136
Insurance contract liabilities		**14,239**	7,968
Current tax liabilities		**1,128**	889
Deferred tax liabilities	14	**3,391**	3,055
Other accounts and provisions		**25,901**	15,352
Total liabilities		**842,313**	749,289
EQUITY			
Share capital		**52,864**	52,864
Reserves		**31,791**	27,071
Capital and reserves attributable to the equity holders of the Company		**84,655**	79,935
Minority interests		**1,985**	1,778
Total equity		**86,640**	81,713
Total liabilities and equity		**928,953**	831,002

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to equity holders of the Company									
	Share capital	Premises revaluation reserve	Reserve for fair value changes of available-for-sale securities	Regulatory reserve*	Merger reserve**	Translation reserve	Retained earnings	Total	Minority interests	Total equity
	HK$'m	*HK$'m*	*HK$'m*	*HK$'m*	*HK$'m*	*HK$'m*	*HK$'m*	*HK$'m*	*HK$'m*	*HK$'m*
At 1 January 2005										
As previously reported	52,864	2,498	–	3,410	–	(5)	12,315	71,082	1,276	72,358
Effect of merger of a commonly controlled entity	–	13	–	–	443	–	(62)	394	380	774
At 1 January 2005, restated	52,864	2,511	–	3,410	443	(5)	12,253	71,476	1,656	73,132
Net profit for the year	–	–	–	–	–	–	13,596	13,596	260	13,856
Currency translation difference	–	–	–	–	–	1	–	1	–	1
2004 dividend paid	–	–	–	–	–	–	(4,176)	(4,176)	(55)	(4,231)
2005 interim dividend paid	–	–	–	–	–	–	(3,468)	(3,468)	(111)	(3,579)
Revaluation of premises	–	3,325	–	–	–	–	–	3,325	33	3,358
Release upon disposal of premises	–	(269)	–	–	–	–	269	–	–	–
Change in fair value of available-for-sale securities taken to equity	–	–	(293)	–	–	–	–	(293)	–	(293)
Amortisation with respect to available-for-sale securities transferred to held-to-maturity securities	–	–	5	–	–	–	(33)	(28)	–	(28)
Release of reserve upon derecognition of available-for-sale securities	–	–	–	–	–	–	(34)	(34)	–	(34)
Release (to)/from deferred tax liabilities	–	(507)	43	–	–	–	–	(464)	(5)	(469)
Transfer from retained earnings	–	–	–	116	–	–	(116)	–	–	–
At 31 December 2005	52,864	5,060	(245)	3,526	443	(4)	18,291	79,935	1,778	81,713
Company and subsidiaries	52,864	5,060	(245)	3,526	443	(4)	18,320	79,964		
Associates	–	–	–	–	–	–	(29)	(29)		
	52,864	5,060	(245)	3,526	443	(4)	18,291	79,935		
At 1 January 2006										
As previously reported	**52,864**	**5,043**	**(245)**	**3,526**	**–**	**(4)**	**18,251**	**79,435**	**1,298**	**80,733**
Effect of merger of a commonly controlled entity	**–**	**17**	**–**	**–**	**443**	**–**	**40**	**500**	**480**	**980**
At 1 January 2006, restated	**52,864**	**5,060**	**(245)**	**3,526**	**443**	**(4)**	**18,291**	**79,935**	**1,778**	**81,713**
Net profit for the year	**–**	**–**	**–**	**–**	**–**	**–**	**14,007**	**14,007**	**277**	**14,284**
Currency translation difference	**–**	**–**	**–**	**–**	**–**	**4**	**–**	**4**	**–**	**4**
2005 final dividend paid	**–**	**–**	**–**	**–**	**–**	**–**	**(5,075)**	**(5,075)**	**–**	**(5,075)**
2006 interim dividend paid	**–**	**–**	**–**	**–**	**–**	**–**	**(4,240)**	**(4,240)**	**(70)**	**(4,310)**
Revaluation of premises	**–**	**1,209**	**–**	**–**	**–**	**–**	**–**	**1,209**	**–**	**1,209**
Release upon disposal of premises	**–**	**(64)**	**–**	**–**	**–**	**–**	**64**	**–**	**–**	**–**
Change in fair value of available-for-sale securities taken to equity	**–**	**–**	**99**	**–**	**–**	**–**	**–**	**99**	**–**	**99**
Amortisation with respect to available-for-sale securities transferred to held-to-maturity securities	**–**	**–**	**50**	**–**	**–**	**–**	**(247)**	**(197)**	**–**	**(197)**
Release of reserve upon derecognition of available-for-sale securities	**–**	**–**	**(1)**	**–**	**–**	**–**	**(3)**	**(4)**	**–**	**(4)**
Distribution of cash	**–**	**–**	**–**	**–**	**(900)**	**–**	**–**	**(900)**	**–**	**(900)**
Release to deferred tax liabilities	**–**	**(165)**	**(18)**	**–**	**–**	**–**	**–**	**(183)**	**–**	**(183)**
Transfer from retained earnings	**–**	**–**	**–**	**95**	**457**	**–**	**(552)**	**–**	**–**	**–**
At 31 December 2006	**52,864**	**6,040**	**(115)**	**3,621**	**–**	**–**	**22,245**	**84,655**	**1,985**	**86,640**
Company and subsidiaries	**52,864**	**6,040**	**(115)**	**3,621**	**–**	**–**	**22,229**	**84,639**		
Associates	**–**	**–**	**–**	**–**	**–**	**–**	**16**	**16**		
	52,864	**6,040**	**(115)**	**3,621**	**–**	**–**	**22,245**	**84,655**		
Representing:										
2006 final dividend proposed (Note 9)							**4,726**			
Others							**17,519**			
Retained earnings as at 31 December 2006							**22,245**			

* In accordance with the requirements of the HKMA, the amounts are set aside for general banking risks, including future losses or other unforeseeable risks, in addition to the loan impairment allowances recognised under HKAS 39.

** Merger reserve arising on the acquisition of BOC Life. On 1 June 2006, the Group acquired a 51% shareholding of BOC Life with a total consideration of HK$900 million.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December

	2006	Restated 2005
	HK$'m	*HK$'m*
Cash flows from operating activities		
Operating cash inflow before taxation	**12,877**	30,015
Hong Kong profits tax paid	**(2,409)**	(2,342)
Overseas profits tax paid	**(55)**	(32)
Net cash inflow from operating activities	**10,413**	27,641
Cash flows from investing activities		
Purchases of properties, plant and equipment	**(736)**	(569)
Proceeds from disposal of properties, plant and equipment	**203**	505
Proceeds from disposal of investment properties	**560**	270
Proceeds from disposal of subsidiaries	**-**	61
Proceeds from disposal/dissolution of associates	**2**	6
Dividends received from associates	**4**	3
Net cash inflow from investing activities	**33**	276
Cash flows from financing activities		
Acquisition of a subsidiary	**(900)**	-
Dividends paid to equity holders of the Company	**(9,315)**	(7,644)
Dividends paid to minority shareholders	**(70)**	(166)
Net cash outflow from financing activities	**(10,285)**	(7,810)
Increase in cash and cash equivalents	**161**	20,107
Cash and cash equivalents at 1 January	**83,015**	62,908
Cash and cash equivalents at 31 December	**83,176**	83,015

NOTES

1. Basis of preparation and accounting policies

Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with Hong Kong Financial Reporting Standards (HKFRSs is a collective term which includes all applicable individual Hong Kong Financial Reporting Standards, HKASs and Interpretations) issued by the HKICPA, accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the requirements set out in the guideline on "Financial Disclosure by Locally Incorporated Authorized Institutions" under the Supervisory Policy Manual issued by the HKMA and the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange.

The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale securities, financial assets and financial liabilities (including derivative financial instruments) at fair value through profit or loss, investment properties which are carried at open market value and premises which are carried at open market value or revalued amount less accumulated depreciation and accumulated impairment losses.

The accounting policies and methods of computation used in the preparation of the audited report are consistent with those used in the Group's financial statements for the year ended 31 December 2005 except for the adoption of the HKAS 39 (amendments) issued by the HKICPA which is effective for accounting periods beginning on or after 1 January 2006 and the adoption of HKFRS 4 "Insurance Contracts" subsequent to the purchase of the 51% equity interest in a fellow subsidiary BOC Life which is a life insurance company. Merger accounting is used to account for this common control combination.

Newly adopted HKFRSs

In 2006, the Group adopted the revised HKFRSs as set out below, which are relevant to its operations.

- HKAS 39 (Amendment) Financial Guarantee Contracts
- HKAS 39 (Amendment) The Fair Value Option

The adoption of the above revised standards did not result in substantial changes to the Group's accounting policies and have no significant impact on its results of operations and financial position. No restatement of comparative figures was made as the amounts were immaterial.

The adoption of HKFRS 4 "Insurance Contracts"

The standard is adopted due to the purchase of an insurance subsidiary during the year. No revenue, expenses, assets and liabilities related to insurance contracts was recognised in last year's financial statements. As merger accounting is adopted to account for the common control combination, comparative figures are prepared as if HKFRS 4 has been adopted in the previous periods.

2. Net interest income

	2006	2005
	HK$'m	*HK$'m*
Interest income		
Cash and due from banks and other financial institutions	**6,915**	3,963
Advances to customers	**18,871**	13,177
Listed investments	**2,463**	2,044
Unlisted investments	**11,449**	6,354
Others	**573**	639
	40,271	26,177
Interest expense		
Due to banks, customers and other financial institutions	**(23,256)**	(12,298)
Debt securities in issue	**(112)**	(112)
Others	**(1,068)**	(643)
	(24,436)	(13,053)
Net interest income	**15,835**	13,124

Included within interest income is HK$88 million (2005: HK$128 million) of interest with respect to income recognised on advances classified as impaired for the year ended 31 December 2006.

Included within interest income and interest expense are HK$39,167 million (2005: HK$25,806 million) and HK$23,646 million (2005: HK$12,763 million) for financial assets and financial liabilities that are not recognised at fair value through profit or loss respectively.

3. Net fees and commission income

	2006	2005
	HK$'m	*HK$'m*
Fees and commission income		
Securities brokerage	**1,488**	834
Credit cards	**807**	737
Bills commissions	**537**	532
Loan commissions	**273**	263
Payment services	**418**	381
Insurance	**142**	205
Asset management	**317**	203
Trust services	**118**	107
Guarantees	**44**	43
Others		
– safe deposit box	**181**	169
– currency exchange	**117**	102
– low deposit balance accounts	**42**	45
– BOC cards	**29**	32
– dormant accounts	**24**	25
– agency services	**14**	12
– postage and telegrams	**28**	27
– information search	**39**	37
– correspondent banking	**31**	19
– RMB business	**77**	43
– sundries	**259**	190
	4,985	4,006
Fees and commission expenses	**(1,268)**	(1,061)
Net fees and commission income	**3,717**	2,945

4. Net trading income

	2006	2005
	HK$'m	*HK$'m*
Net gain/(loss) from:		
– foreign exchange and foreign exchange products	**1,114**	1,414
– interest rate instruments	**563**	(40)
– equity instruments	**133**	20
– commodities	**78**	52
	1,888	1,446

Foreign exchange net trading income includes gains and losses from forward and futures contracts, options, swaps and translation of foreign currency assets and liabilities.

5. Other operating income

	2006	2005
	HK$'m	*HK$'m*
Dividend income from investments in securities		
– unlisted investments	**21**	14
Gross rental income from investment properties	**213**	196
Less: Outgoings in respect of investment properties	**(56)**	(62)
Reversal of impairment losses on interests in associates	**–**	4
Write-back of restructuring provisions	**–**	209
Net loss on disposal of subsidiaries	**–**	(10)
Others	**156**	136
	334	487

Included in the "Outgoings in respect of investment properties" is HK$9 million (2005: HK$18 million) of direct operating expenses related to investment properties that were not let during the year.

6. Reversal of loan impairment allowances

	2006	2005
	HK$'m	*HK$'m*
Net reversal of loan impairment allowances		
– Individually assessed	**1,719**	1,377
– Collectively assessed	**71**	1,268
	1,790	2,645
Of which		
– new allowances	**(841)**	(1,315)
– releases	**516**	2,321
– recoveries (Note 13)	**2,115**	1,639
Net credit to income statement (Note 13)	**1,790**	2,645

7. Operating expenses

	2006	2005
	HK$'m	*HK$'m*
Staff costs (including directors' emoluments)		
– salaries and other costs	**3,714**	3,239
– termination benefit	**15**	1
– pension cost	**275**	253
	4,004	3,493
Premises and equipment expenses (excluding depreciation)		
– rental of premises	**308**	252
– information technology	**344**	283
– others	**216**	205
	868	740
Depreciation	**671**	568
Auditors' remuneration		
– audit services	**29**	27
– non-audit services	**8**	8
Other operating expenses	**978**	935
	6,558	5,771

8. Taxation

Taxation in the income statement represents:

	2006	2005
	HK$'m	*HK$'m*
Hong Kong profits tax		
– current year taxation	**2,632**	2,282
– under/(over)-provision in prior years	**3**	(34)
Deferred tax charge	**152**	359
	2,787	2,607
Attributable share of estimated Hong Kong profits tax losses arising from investments in partnerships	**–**	(3)
	2,787	2,604
Investments in partnerships written off	**–**	3
Hong Kong profits tax	**2,787**	2,607
Overseas taxation	**68**	39
	2,855	2,646

Hong Kong profits tax has been provided at the rate of 17.5% (2005: 17.5%) on the estimated assessable profits arising in Hong Kong during the year. Taxation on overseas profits has been calculated on the estimated assessable profits for the year at the rates of taxation prevailing in the countries in which the Group operates.

The Group has no outstanding investments in aircraft leasing and coupon strip transactions involving special purpose partnerships as at 31 December 2006 (2005: HK$165 million).

The total assets and liabilities of the aforementioned partnerships are as follows:

	2006	2005
	HK$'m	*HK$'m*
Assets	**–**	589
Liabilities	**–**	433

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

	2006	2005
	HK$'m	*HK$'m*
Profit before taxation	**17,139**	16,502
Calculated at a taxation rate of 17.5% (2005: 17.5%)	**2,999**	2,888
Effect of different taxation rates in other countries	**(10)**	(19)
Income not subject to taxation	**(223)**	(184)
Expenses not deductible for taxation purposes	**92**	83
Tax losses not recognised	**1**	10
Utilisation of previously unrecognised tax losses	**(7)**	(98)
Under/(Over)-provision in prior years	**3**	(34)
Taxation charge	**2,855**	2,646
Effective tax rate	**16.7%**	16.0%

9. Dividends

	2006		2005	
	Per share	**Total**	Per share	Total
	HK$	***HK$'m***	*HK$*	*HK$'m*
Interim dividend paid	**0.401**	**4,240**	0.328	3,468
Proposed final dividend	**0.447**	**4,726**	0.480	5,075
	0.848	**8,966**	0.808	8,543

At a meeting held on 29 August 2006, the Board declared an interim dividend of HK$0.401 per ordinary share for the first half of 2006 amounting to approximately HK$4,240 million.

At a meeting held on 22 March 2007, the Board proposed to declare a final dividend of HK$0.447 per ordinary share for the year ended 31 December 2006 amounting to approximately HK$4,726 million. This declared final dividend is not reflected as a dividend payable in these financial statements, but will be reflected as an appropriation of retained earnings for the year ending 31 December 2007.

10. Earnings per share for profit attributable to the equity holders of the Company

The calculation of basic earnings per share is based on the consolidated profit attributable to the equity holders of the Company for the year ended 31 December 2006 of approximately HK$14,007 million (2005: HK$13,596 million) and on the ordinary shares in issue of 10,572,780,266 shares (2005: 10,572,780,266 ordinary shares).

There was no dilution of earnings per share as no potential ordinary shares were in issue for the year ended 31 December 2006 (2005: Nil).

11. Derivative financial instruments

The Group enters into the following equity, foreign exchange, interest rate and precious metal related derivative financial instruments for trading and risk management purposes:

Currency forwards represent commitments to purchase and sell foreign currency on a future date. Interest rate futures are contractual obligations to receive or pay a net amount based on changes in interest rates or buy or sell interest rate financial instruments on a future date at an agreed price in the financial market under the administration of the stock exchange. Forward rate agreements are individually negotiated interest rate futures that call for a cash settlement at a future date for the difference between a contracted rate of interest and the current market rate, based on a notional principal amount.

Currency, interest rate and precious metal swaps are commitments to exchange one set of cash flows or commodity for another. Swaps result in an exchange of currencies, interest rates (for example, fixed rate for floating rate), or precious metals (for example, silver swaps) or a combination of all these (i.e. cross-currency interest rate swaps). Except for certain currency swap contracts, no exchange of principal takes place.

Foreign currency, interest rate, equity and precious metal options are contractual agreements under which the seller (writer) grants the purchaser (holder) the right, but not the obligation, either to buy (a call option) or sell (a put option) at or by a set date or during a set period, a specific amount of the financial instrument at a predetermined price. In consideration for the assumption of foreign exchange and interest rate risk, the seller receives a premium from the purchaser. Options are negotiated over-the-counter ("OTC") between the Group and its counterparty or traded through the stock exchange (for example, exchange-traded stock option).

The contract/notional amounts and fair values of derivative financial instruments held by the Group are set out in the following tables. The contract/notional amounts of these instruments indicate the volume of transactions outstanding at the balance sheet dates and certain of them provide a basis for comparison with fair value instruments recognised on the consolidated balance sheet. However, they do not necessarily indicate the amounts of future cash flows involved or the current fair values of the instruments and, therefore, do not indicate the Group's exposure to credit or market risks. The derivative financial instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market interest rates, foreign exchange rates or equity and metal prices relative to their terms. The aggregate fair values of derivative financial instruments assets and liabilities can fluctuate significantly from time to time.

The following is a summary of the contract/notional amounts of each significant type of derivative financial instrument:

	2006			2005		
	Trading	**Hedging**	**Total**	Trading	Hedging	Total
	HK$'m	***HK$'m***	***HK$'m***	*HK$'m*	*HK$'m*	*HK$'m*
Exchange rate contracts						
Spot and forward	**143,859**	**–**	**143,859**	113,672	–	113,672
Swaps	**170,792**	**–**	**170,792**	177,871	–	177,871
Foreign currency option contracts						
– Options purchased	**1,479**	**–**	**1,479**	2,227	–	2,227
– Options written	**3,102**	**–**	**3,102**	1,315	–	1,315
	319,232	**–**	**319,232**	295,085	–	295,085
Interest rate contracts						
Futures	**89**	**–**	**89**	194	–	194
Swaps	**33,362**	**544**	**33,906**	29,310	194	29,504
Interest rate option contracts						
– Swaptions written	**31**	**–**	**31**	1,153	–	1,153
Other contracts						
– Bond options written	**311**	**–**	**311**	465	–	465
	33,793	**544**	**34,337**	31,122	194	31,316
Bullion contracts	**7,330**	**–**	**7,330**	17,808	–	17,808
Equity contracts	**954**	**–**	**954**	567	–	567
Total	**361,309**	**544**	**361,853**	344,582	194	344,776

Note: All derivatives held for hedging are designated as fair value hedges.

The following table summarises the fair values of each class of derivative financial instrument as at 31 December:

	2006			2005		
	Trading	**Hedging**	**Total**	Trading	Hedging	Total
	HK$'m	***HK$'m***	***HK$'m***	*HK$'m*	*HK$'m*	*HK$'m*
Fair value assets						
Exchange rate contracts	**6,806**	**–**	**6,806**	4,167	–	4,167
Interest rate contracts	**357**	**7**	**364**	138	3	141
Bullion contracts	**219**	**–**	**219**	873	–	873
Equity contracts	**4**	**–**	**4**	3	–	3
	7,386	**7**	**7,393**	5,181	3	5,184
Fair value liabilities						
Exchange rate contracts	**2,809**	**–**	**2,809**	2,329	–	2,329
Interest rate contracts	**795**	**8**	**803**	1,028	1	1,029
Bullion contracts	**438**	**–**	**438**	833	–	833
Equity contracts	**2**	**–**	**2**	2	–	2
	4,044	**8**	**4,052**	4,192	1	4,193

The replacement costs and credit risk weighted amounts of the above derivative financial instruments, which do not take into account the effects of bilateral netting arrangements are as follows:

	2006	2005	**2006**	2005
	Credit risk weighted amount		Replacement cost	
	HK$'m	*HK$'m*	***HK$'m***	*HK$'m*
Exchange rate contracts	**525**	415	**789**	246
Interest rate contracts	**47**	49	**91**	85
Bullion contracts	**19**	11	**219**	873
Equity contracts	**16**	9	**4**	3
	607	484	**1,103**	1,207

The credit risk weighted amounts are the amounts that have been calculated in accordance with the Third Schedule of the Banking Ordinance and guidelines issued by the HKMA. The amounts calculated are dependent upon the status of the counterparty and the maturity characteristics of each type of contract.

Replacement cost is the cost of replacing all contracts that have a positive value when marked to market (should the counterparty default on its obligations) and is obtained by marking contracts to market. Replacement cost is a close approximation of the credit risk for these contracts at the balance sheet dates and is calculated in accordance with the guidelines issued by the HKMA. Accrued interest has been excluded in the calculation.

Approximately 61% (2005: 65%) of the Group's transactions in derivative financial instruments contracts are conducted with other financial institutions.

12. Advances and other accounts

	2006	2005
	HK$'m	*HK$'m*
Corporate loans and advances	**220,390**	205,705
Personal loans and advances	**126,700**	128,318
Advances to customers	**347,090**	334,023
Loan impairment allowances		
– Individually assessed	**(546)**	(983)
– Collectively assessed	**(557)**	(731)
	345,987	332,309
Trade bills	**3,128**	3,039
Advances to banks and other financial institutions	**3,743**	3,055
Total	**352,858**	338,403

As at 31 December 2006, advances to customers include accrued interest on gross advances of HK$1,236 million (2005: HK$1,204 million).

Impaired advances to customers are analysed as follows:

	2006	2005
	HK$'m	*HK$'m*
Gross impaired advances to customers	**916**	1,872
Loan impairment allowances made in respect of such advances	**546**	983
Gross impaired advances to customers as a percentage of gross advances to customers	**0.26%**	0.56%

Impaired advances to customers are individually assessed loans with objective evidence of impairment. The loan impairment allowances were made after taking into account the value of collateral in respect of such advances.

As at 31 December 2005 and 31 December 2006, no impairment allowance was made in respect of trade bills and advances to banks and other financial institutions.

Classified advances to customers are analysed as follows:

	2006	2005
	HK$'m	*HK$'m*
Gross classified advances to customers	**1,988**	4,263
Gross classified advances to customers as a percentage of gross advances to customers	**0.57%**	1.28%

Classified advances to customers included "substandard", "doubtful" and "loss" under the Group's classification of loan quality.

13. Loan impairment allowances

	2006		
	Individual assessment	**Collective assessment**	**Total**
	HK$'m	***HK$'m***	***HK$'m***
At 1 January 2006	**983**	**731**	**1,714**
Credited to income statement (Note 6)	**(1,719)**	**(71)**	**(1,790)**
Loans written off during the year as uncollectible	**(706)**	**(142)**	**(848)**
Recoveries (Note 6)	**2,053**	**62**	**2,115**
Unwind of discount on allowance	**(65)**	**(23)**	**(88)**
At 31 December 2006	**546**	**557**	**1,103**

	2005		
	Individual assessment	Collective assessment	Total
	HK$'m	*HK$'m*	*HK$'m*
At 1 January 2005	1,887	2,055	3,942
Credited to income statement (Note 6)	(1,377)	(1,268)	(2,645)
Loans written off during the year as uncollectible	(1,067)	(27)	(1,094)
Recoveries (Note 6)	1,639	–	1,639
Unwind of discount on allowance	(99)	(29)	(128)
At 31 December 2005	983	731	1,714

14. Deferred taxation

Deferred tax is recognised in respect of the temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements in accordance with HKAS 12 "Income taxes".

The major components of deferred tax assets and liabilities recorded in the consolidated balance sheet, and the movements during the year are as follows:

	2006					
	Accelerated tax depreciation	**Asset revaluation**	**Losses**	**Provisions**	**Other temporary differences**	**Total**
	HK$'m	***HK$'m***	***HK$'m***	***HK$'m***	***HK$'m***	***HK$'m***
At 1 January 2006	**357**	**2,941**	**(72)**	**(127)**	**(112)**	**2,987**
Charged to income statement	**44**	**49**	**1**	**38**	**20**	**152**
Charged to equity	**–**	**165**	**–**	**–**	**18**	**183**
At 31 December 2006	**401**	**3,155**	**(71)**	**(89)**	**(74)**	**3,322**

	2005					
	Accelerated tax depreciation	Asset revaluation	Losses	Provisions	Other temporary differences	Total
	HK$'m	*HK$'m*	*HK$'m*	*HK$'m*	*HK$'m*	*HK$'m*
At 1 January 2005	315	2,215	(16)	(348)	(7)	2,159
Charged/(credited) to income statement	42	214	(56)	221	(62)	359
Charged/(credited) to equity	–	512	–	–	(43)	469
At 31 December 2005	357	2,941	(72)	(127)	(112)	2,987

Deferred tax assets and liabilities are offset on an individual entity basis when there is a legal right to set off current tax assets against current tax liabilities and when the deferred taxation relates to the same authority. The following amounts, determined after appropriate offsetting, are shown in the consolidated balance sheet:

	2006	2005
	HK$'m	*HK$'m*
Deferred tax assets	**(69)**	(68)
Deferred tax liabilities	**3,391**	3,055
	3,322	2,987

	2006	2005
	HK$'m	*HK$'m*
Deferred tax assets to be recovered after more than twelve months	**(69)**	(67)
Deferred tax liabilities to be settled after more than twelve months	**3,434**	3,128
	3,365	3,061

The deferred tax charged to equity during the year is as follows:

	2006	2005
	HK$'m	*HK$'m*
Fair value reserves in shareholders' equity:		
– premises	**165**	512
– available-for-sale securities	**18**	(43)
	183	469

15. Contingent liabilities and commitments

The following is a summary of the contractual amounts of each significant class of contingent liability and commitment and the corresponding aggregate credit risk weighted amount:

	2006	2005
	HK$'m	*HK$'m*
Direct credit substitutes	**1,285**	1,027
Transaction-related contingencies	**7,150**	5,982
Trade-related contingencies	**20,942**	18,936
Other commitments with an original maturity of		
– under one year or which are unconditionally cancellable	**113,059**	105,983
– one year and over	**45,345**	29,754
	187,781	161,682
Credit risk weighted amount	**30,076**	21,415

The calculation basis of credit risk weighted amount has been set out in Note 11.

16. Segmental reporting

The Group engages in many businesses in several regions. For segmental reporting purposes, information is solely provided in respect of business segments. Geographical segment information is not presented because over 90% of the Group's revenues, profits before tax and assets are derived from Hong Kong.

With the merger of BOC Life in the first half of 2006, the Group's business became more diversified and an additional business segment "Insurance" has been introduced in segmental reporting. The Group's business was segmented as Retail Banking, Corporate Banking, Treasury and Insurance.

Both Retail Banking and Corporate Banking segments provide general banking services. Retail Banking mainly serves individual customers and small companies. Corporate Banking mainly deals with medium to large companies. The Treasury segment is responsible for managing the capital, liquidity, and the interest rate and foreign exchange positions of the Group in addition to proprietary trades. The Insurance segment shows business relates to the Group's long-term life insurance products, including traditional and linked individual life insurance and group life insurance products. "Others" refers to those items related to the Group as a whole but independent of the other four business segments, including the Group's holdings of premises, investment properties and interests in associates.

Revenues, expenses, assets and liabilities of any business segment mainly include items directly attributable to the segment. In relation to occupation of the Group's premises, rentals are internally charged on market rates according to the areas occupied. For management overheads, allocations are made on reasonable bases. During the period, the Group has revised the allocation bases and comparative amounts have been reclassified to conform with the current year's presentation. There is no impact on the Group's income statement and balance sheet. Inter-segment funding is charged according to the internal funds transfer pricing mechanism of the Group. The charge on any such funding is mainly made by reference to the corresponding money market rate.

	2006							
	Retail	Corporate	Treasury	Insurance	Others	Subtotal	Eliminations	Consolidated
	HK$'m	*HK$'m*	*HK$'m*	*HK$'m*	*HK$'m*	*HK$'m*	*HK$'m*	*HK$'m*
Net interest income/(expenses)	7,851	4,281	4,286	473	(1,056)	15,835	–	15,835
Net fees and commission income/(expenses)	2,895	1,055	(5)	(206)	36	3,775	(58)	3,717
Net trading income	590	118	759	420	–	1,887	1	1,888
Net (loss)/gain on investments in securities	–	–	(11)	–	6	(5)	–	(5)
Net insurance premium income	–	–	–	6,198	–	6,198	(3)	6,195
Other operating income	49	36	–	9	1,416	1,510	(1,176)	334
Total operating income	11,385	5,490	5,029	6,894	402	29,200	(1,236)	27,964
Net insurance benefits and claims	–	–	–	(6,655)	–	(6,655)	–	(6,655)
Net operating income before loan impairment allowances	11,385	5,490	5,029	239	402	22,545	(1,236)	21,309
(Provision for)/Reversal of loan impairment allowances	(27)	1,817	–	–	–	1,790	–	1,790
Net operating income	11,358	7,307	5,029	239	402	24,335	(1,236)	23,099
Operating expenses	(5,033)	(1,500)	(458)	(65)	(738)	(7,794)	1,236	(6,558)
Operating profit/(loss)	6,325	5,807	4,571	174	(336)	16,541	–	16,541
Net (loss)/gain from disposal/revaluation of properties, plant and equipment	(18)	(3)	(2)	–	11	(12)	–	(12)
Net gain from disposal of/fair value adjustments on investment properties	–	–	–	–	605	605	–	605
Share of profits less losses of associates	–	–	–	–	5	5	–	5
Profit before taxation	6,307	5,804	4,569	174	285	17,139	–	17,139
Assets								
Segment assets	169,595	222,701	497,155	15,804	26,889	932,144	(3,472)	928,672
Interests in associates	–	–	–	–	60	60	–	60
Unallocated corporate assets	–	–	–	–	221	221	–	221
	169,595	222,701	497,155	15,804	27,170	932,425	(3,472)	928,953
Liabilities								
Segment liabilities	578,249	148,353	98,531	14,649	173	839,955	(3,472)	836,483
Unallocated corporate liabilities	–	–	–	–	5,830	5,830	–	5,830
	578,249	148,353	98,531	14,649	6,003	845,785	(3,472)	842,313
Other information								
Additions of properties, plant and equipment	–	–	–	–	736	736	-	736
Depreciation	189	63	38	1	380	671	-	671
Amortisation of securities	–	–	1,924	–	–	1,924	-	1,924

	2005							
	Retail	Corporate	Treasury	Insurance	Others	Subtotal	Eliminations	Consolidated
	HK$'m	*HK$'m*	*HK$'m*	*HK$'m*	*HK$'m*	*HK$'m*	*HK$'m*	*HK$'m*
Net interest income/(expenses)	7,326	3,776	2,428	318	(724)	13,124	–	13,124
Net fees and commission income/(expenses)	2,086	987	(17)	(108)	21	2,969	(24)	2,945
Net trading income/(expenses)	500	121	1,134	(305)	–	1,450	(4)	1,446
Net loss on investments in securities	–	–	(96)	–	–	(96)	–	(96)
Net insurance premium income	–	–	–	3,634	–	3,634	(4)	3,630
Other operating income	46	5	–	9	1,498	1,558	(1,071)	487
Total operating income	9,958	4,889	3,449	3,548	795	22,639	(1,103)	21,536
Net insurance benefits and claims	–	–	–	(3,362)	–	(3,362)	–	(3,362)
Net operating income before loan impairment allowances	9,958	4,889	3,449	186	795	19,277	(1,103)	18,174
Reversal of loan impairment allowances	956	1,689	–	–	–	2,645	–	2,645
Net operating income	10,914	6,578	3,449	186	795	21,922	(1,103)	20,819
Operating expenses	(4,514)	(1,293)	(308)	(56)	(703)	(6,874)	1,103	(5,771)
Operating profit	6,400	5,285	3,141	130	92	15,048	–	15,048
Net (loss)/gain from disposal/revaluation of properties, plant and equipment	(12)	(1)	–	–	63	50	–	50
Net gain from disposal of/fair value adjustments on investment properties	–	–	–	12	1,388	1,400	–	1,400
Share of profits less losses of associates	–	–	–	–	4	4	–	4
Profit before taxation	6,388	5,284	3,141	142	1,547	16,502	–	16,502
Assets								
Segment assets	158,844	211,834	426,791	9,343	25,564	832,376	(1,609)	830,767
Interests in associates	–	–	–	–	61	61	–	61
Unallocated corporate assets	–	–	–	–	174	174	–	174
	158,844	211,834	426,791	9,343	25,799	832,611	(1,609)	831,002
Liabilities								
Segment liabilities	554,244	101,719	82,381	8,365	647	747,356	(1,609)	745,747
Unallocated corporate liabilities	–	–	–	–	3,542	3,542	–	3,542
	554,244	101,719	82,381	8,365	4,189	750,898	(1,609)	749,289
Other information								
Additions of properties, plant and equipment	–	–	–	–	569	569	–	569
Depreciation	186	64	22	2	294	568	–	568
Amortisation of securities	–	–	463	–	–	463	–	463

17. Financial statements

The financial information relating to the financial year ended 31 December 2006 included in this final results announcement is only a summary extracted from the financial statements, which does not represent the full set of the financial statements, nor will it be sufficient enough to allow full understanding of the results and state of affairs of the Group. The auditors have expressed an unqualified opinion on those financial statements in their report dated 22 March 2007.

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

1. Capital adequacy ratio

	2006	2005
Capital adequacy ratio	**13.99%**	15.37%
Adjusted capital adequacy ratio	**13.93%**	15.33%

The CAR is computed on the consolidated basis that comprises the positions of BOCHK and certain subsidiaries specified by the HKMA for its regulatory purposes and in accordance with the Third Schedule of the Banking Ordinance.

The adjusted CAR taking into account market risk exposure as at the balance sheet date is computed in accordance with the guideline on "Maintenance of Adequate Capital Against Market Risks" under the Supervisory Policy Manual issued by the HKMA and on the same basis as for the unadjusted CAR.

2. Components of capital base after deductions

The consolidated capital base after deductions used in the calculation of the above capital adequacy ratios as at 31 December 2006 and 31 December 2005 and reported to the HKMA is analysed as follows:

	2006	2005
	HK$'m	*HK$'m*
Core capital:		
Paid up ordinary share capital	**43,043**	43,043
Reserves	**20,281**	16,096
Profit and loss account	**3,970**	4,065
Minority interests	**1,164**	1,009
	68,458	64,213
Supplementary capital:		
Reserves on revaluation of holding of securities not held for trading purposes	**(118)**	(311)
Collective loan impairment allowances	**557**	731
Regulatory reserve	**3,621**	3,571
Total capital base	**72,518**	68,204
Deduction from total capital base:		
Shareholdings in subsidiaries or holding company	**(328)**	(337)
Exposures to connected companies	**(593)**	(597)
Equity investments of 20% or more in non-subsidiary companies	**(50)**	(64)
Investments in the capital of other banks or other financial institutions	**–**	(6)
	(971)	(1,004)
Total capital base after deductions	**71,547**	67,200

3. Liquidity ratio

	2006	2005
Average liquidity ratio	**50.46%**	42.02%

The average liquidity ratio is calculated as the simple average of each calendar month's average liquidity ratio of BOCHK for the year.

The liquidity ratio is computed on the solo basis (the Hong Kong offices only) and is in accordance with the Fourth Schedule of the Banking Ordinance.

4. Currency concentrations

The following is a summary of the major foreign currency exposures arising from trading, non-trading and structural positions. The net options position is calculated based on the worst-case approach set out in the prudential return "Foreign Currency Position" issued by the HKMA.

	2006							
	Equivalent in million of HK$							
	US Dollars	**Japanese Yen**	**Euro**	**Australian Dollars**	**Pound Sterling**	**Renminbi Yuan**	**Others**	**Total**
Spot assets	**280,010**	**2,538**	**12,922**	**22,642**	**6,150**	**28,521**	**7,357**	**360,140**
Spot liabilities	**(189,454)**	**(4,346)**	**(7,485)**	**(18,126)**	**(12,217)**	**(27,729)**	**(18,185)**	**(277,542)**
Forward purchases	**126,163**	**12,131**	**15,728**	**8,009**	**26,833**	**1,173**	**39,626**	**229,663**
Forward sales	**(211,509)**	**(10,313)**	**(21,195)**	**(12,533)**	**(20,786)**	**(1,098)**	**(28,627)**	**(306,061)**
Net options position	**1,641**	**144**	**(105)**	**68**	**(8)**	**–**	**64**	**1,804**
Net long/(short) position	**6,851**	**154**	**(135)**	**60**	**(28)**	**867**	**235**	**8,004**
Net structural position	**83**	**–**	**–**	**–**	**–**	**309**	**–**	**392**

	2005							
	Equivalent in million of HK$							
	US Dollars	Japanese Yen	Euro	Australian Dollars	Pound Sterling	Renminbi Yuan	Others	Total
Spot assets	240,430	2,835	12,011	21,345	6,315	24,955	7,331	315,222
Spot liabilities	(165,815)	(6,230)	(7,417)	(25,837)	(13,472)	(24,323)	(19,543)	(262,637)
Forward purchases	123,450	11,936	15,117	13,897	18,737	2	40,459	223,598
Forward sales	(194,998)	(8,545)	(19,794)	(9,452)	(11,588)	(7)	(28,080)	(272,464)
Net options position	836	–	4	91	(13)	–	(140)	778
Net long/(short) position	3,903	(4)	(79)	44	(21)	627	27	4,497
Net structural position	109	–	–	–	–	234	–	343

5. Segmental information

(a) Sectoral analysis of gross advances to customers

The information concerning gross advances to customers has been analysed into loans used inside or outside Hong Kong by industry sectors of the borrowers as follows:

	2006	2005*
	HK$'m	*HK$'m*
Loans for use in Hong Kong		
Industrial, commercial and financial		
– Property development	**19,290**	18,536
– Property investment	**55,943**	52,490
– Financial concerns	**10,721**	11,624
– Stockbrokers	**65**	167
– Wholesale and retail trade	**13,019**	12,796
– Manufacturing	**12,417**	11,723
– Transport and transport equipment	**15,548**	11,911
– Others	**21,777**	26,853
Individuals		
– Loans for the purchase of flats in Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	**14,236**	15,983
– Loans for purchase of other residential properties	**96,953**	99,171
– Credit card advances	**5,490**	4,668
– Others	**8,831**	8,080
Total loans for use in Hong Kong	**274,290**	274,002
Trade finance	**16,865**	16,079
Loans for use outside Hong Kong	**55,935**	43,942
Gross advances to customers	**347,090**	334,023

* Certain comparative amounts have been reclassified to conform with the current year's presentation.

(b) Geographical analysis of gross advances to customers and overdue advances

The following geographical analysis of gross advances to customers and advances overdue for over three months is based on the location of the counterparties, after taking into account the transfer of risk in respect of such advances where appropriate.

(i) Gross advances to customers

	2006	2005
	HK$'m	*HK$'m*
Hong Kong	**306,911**	300,465
Mainland China	**22,984**	17,743
Others	**17,195**	15,815
	347,090	334,023

(ii) Advances overdue for over three months

	2006	2005
	HK$'m	*HK$'m*
Hong Kong	**1,259**	2,742
Mainland China	**48**	72
Others	**51**	31
	1,358	2,845

6. Overdue and rescheduled assets

(a) Gross amount of overdue loans

	2006		2005	
	Amount	**% of gross advances to customers**	Amount	% of gross advances to customers
	HK$'m		*HK$'m*	
Gross advances to customers which have been overdue for:				
- six months or less but over three months	**318**	**0.09%**	329	0.10%
- one year or less but over six months	**202**	**0.06%**	595	0.18%
- over one year	**838**	**0.24%**	1,921	0.57%
Advances overdue for over three months	**1,358**	**0.39%**	2,845	0.85%

As at 31 December 2006 and 31 December 2005, there were no advances to banks and other financial institutions that were overdue for over three months.

Advances with a specific repayment date are classified as overdue when the principal or interest is overdue and remains unpaid. Advances repayable by regular instalments are classified as overdue when an instalment payment is overdue and remains unpaid. Advances repayable on demand are classified as overdue either when a demand for repayment has been served on the borrower but repayment has not been made in accordance with the instruction or when the advances have remained continuously outside the approved limit that was advised to the borrower.

(b) Rescheduled advances to customers

	2006		2005	
	Amount	**% of gross advances to customers**	Amount	% of gross advances to customers
	HK$'m		*HK$'m*	
Rescheduled advances to customers	**216**	**0.06%**	310	0.09%

As at 31 December 2006 and 31 December 2005, there were no rescheduled advances to banks and other financial institutions.

Rescheduled advances are those advances that have been restructured or renegotiated because of deterioration in the financial position of the borrower or of the inability of the borrower to meet the original repayment schedule and for which the revised repayment terms, either of interest or of repayment period, are non-commercial. Rescheduled advances, which have been overdue for more than three months under the revised repayment terms, are included in overdue advances. Rescheduled advances are stated before deduction of loan impairment allowances.

OTHER INFORMATION

Purchase, Sale or Redemption of the Company's Shares

During the year, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's shares.

Compliance with "Code on Corporate Governance Practices"

The Company is committed to maintaining and upholding good corporate governance in order to protect the interests of shareholders, customers and staff. The Company abides strictly by the laws and regulations of the jurisdiction where it operates, and observes the guidelines and rules issued by regulatory authorities such as the Hong Kong Monetary Authority, the Hong Kong Securities and Futures Commission and the Stock Exchange of Hong Kong. It also keeps its corporate governance system under constant review to ensure that it is in line with international and local 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. A more recent development is that starting from the third quarter of 2006, the Company publishes quarterly financial and business reviews so that shareholders can be better updated of the performance, financial position and prospects of the Company.

The high standards of the Company's corporate governance practices are reflected in the public recognition it has won through the years. In 2006, the Company was named one of the top ten companies for corporate governance among the 174 locally listed companies surveyed in the Corporate Governance Scorecard Project jointly sponsored by the City University of Hong Kong and the Hong Kong Institute of Directors. 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.

The Company has adopted the "Code for Securities Transactions by Directors" to govern securities transactions by Directors. The terms of the said Code are more stringent than the mandatory standards set out in the "Model Code for Securities Transactions by Directors of Listed Issuers" contained in Appendix 10 of the Listing Rules. Further, following the listing of the Company's parent company, Bank of China Limited, in June 2006, the Code has been revised so that the requirements set out therein apply equally to the Director's dealings in the securities of BOC. In this connection, the Company had made specific enquiry of all Directors, who confirmed that they had complied with the standards set out in both the Company's Code and the said Model Code throughout year 2006.

Final Dividends and Closure of Register of Members

The Board has recommended a final dividend of HK$0.447 per share, amounting to approximately HK$4,726 million, subject to the approval of shareholders at the forthcoming Annual General Meeting to be held on Wednesday, 23 May 2007. If approved, the final dividend will be paid on Wednesday, 30 May 2007 to shareholders whose names appear on the Register of Members of the Company on Tuesday, 22 May 2007. Together with the interim dividend of HK$0.401 per share declared in August 2006, the total dividend payout for 2006 would be HK$0.848 per share.

The Register of Members of the Company will be closed, for the purpose of determining shareholders' entitlement to the final dividend, from Thursday, 17 May 2007 to Tuesday, 22 May 2007 (both days inclusive), during which period no transfer of shares will be registered. In order to rank for the final dividend, shareholders should ensure that all transfer documents, accompanied by the relevant share certificates, are lodged with the Company's Share Registrar, Computershare Hong Kong Investor Services Limited, at Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong, not later than 4:30 p.m. on Wednesday, 16 May 2007. Shares of the Company will be traded ex-dividend as from Tuesday, 15 May 2007.

Annual General Meeting

The 2007 Annual General Meeting will be held at 3:00 p.m. on Wednesday, 23 May 2007 at Meeting Room 201, Hong Kong Convention and Exhibition Centre, 1 Expo Drive, Wanchai, Hong Kong (please use Expo Drive Entrance).

Publication of the Results Announcement, Annual Report and Summary Financial Report

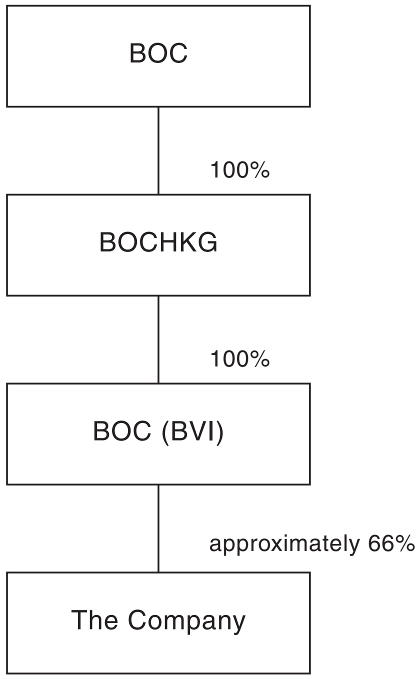
This results announcement is published on the websites of the Company at www.bochk.com and the Stock Exchange at www.hkex.com.hk. The 2006 Annual Report and 2006 Summary Financial Report will also be available at the Company's and the Stock Exchange's websites in mid-April 2007 and will be despatched to shareholders of the Company in mid-April 2007.

Reconciliation between HKFRSs vs IFRS/PRC GAAP

The Company understands that BOC, an intermediate holding company as well as controlling shareholder of the Company, will prepare and disclose consolidated financial information in accordance with IFRS and PRC GAAP for which the Company and its subsidiaries will form part of the consolidated financial statements.

The consolidated financial information of "BOC Hong Kong Group" for the periods disclosed by BOC in its consolidated financial statements is not the same as the consolidated financial information of the Group for the periods 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 its own financial disclosure) and "Group" (as adopted by the Company in preparing and presenting its consolidated financial information) are different: "BOC Hong Kong Group" refers to BOCHKG and its subsidiaries, whereas "Group" refers to the Company and its subsidiaries (see the below organisation chart). Though there is difference in definitions between "BOC Hong Kong Group" and "Group", their financial results for the periods presented are substantially the same. This is because BOCHKG and BOC (BVI) are holding companies only and have no substantive operations of their own.



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 reporting to BOC is prepared in accordance with IFRS and PRC GAAP respectively. Despite the fact that HKFRSs have converged with IFRS, there is a timing difference in the initial adoption of HKFRSs and IFRS by the Group and by BOC respectively.

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 disclosed by BOC in its financial statements on the other hand, is to present reconciliations of the profit after tax/net assets of the Group prepared under HKFRSs to the profit after tax/net assets of the Group prepared under IFRS and PRC GAAP respectively for the periods presented.

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

- loan loss allowance;
- re-measurement of carrying value of treasury products;
- restatement of carrying value of bank premises and investment properties; and
- deferred taxation impact arising from the above different measurement basis.

(a) 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 and PRC GAAP 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 income statement under HKFRSs and IFRS for 2005 were different. The provisioning approach under IFRS and PRC GAAP is basically the same.

(b) 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. Since 2005, their measurement has been aligned with IFRS and PRC GAAP with slight differences in profit and loss and net assets in 2005 mainly due to timing differences.

(ii) Due to the difference in the timing of first adoption of HKFRSs and IFRS, classification and measurement of certain investment securities under HK GAAP/HKFRSs and IFRS were different. Therefore, investment securities were reclassified and re-measured to align with the accounting policies of BOC for the relevant periods. Classification and measurement under IFRS and PRC GAAP is basically the same.

(c) Restatement of carrying value of bank premises and investment properties

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

(d) Deferred tax adjustments

These represent the deferred tax effect of the aforesaid adjustments.

(e) Merger accounting adjustments

The Group has applied merger accounting to account for the purchase of the 51% equity interest in BOC Life on 1 June 2006, as if the business combination had occurred from the beginning of the relevant periods. Comparatives under HKFRSs were restated accordingly. For the purpose of segment reporting in respect of BOCHKG in the financial statements of BOC under IFRS and PRC GAAP, comparatives were not restated.

Going forward, 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 HKFRSs and IFRS and PRC GAAP will be recurring in the future, while the timing difference related to the measurement of investment securities will be reversed gradually and eliminated in the future years. The difference in the carrying value of investment properties will be eliminated next year after the convergence of PRC GAAP with HKFRSs.

Profit after tax/Net assets reconciliation

(i) HKFRSs Vs IFRS

	Profit after tax		Net assets	
	2006	2005	**2006**	2005
	HK$'m	*HK$'m*	***HK$'m***	*HK$'m*
Profit after tax/net assets of BOC Hong Kong (Holdings) Limited prepared under HKFRSs	**14,284**	13,856	**86,640**	81,713
Add: IFRS adjustments				
Loan loss allowance	**–**	(172)	**–**	–
Re-measurement of carrying value of treasury products	**(226)**	465	**44**	70
Restatement of carrying value of bank premises	**164**	439	**(7,295)**	(6,248)
Deferred tax adjustments	**28**	(69)	**1,230**	1,027
Merger accounting adjustments	**–**	(198)	**–**	(980)
Other adjustments	**–**	68	**–**	–
Profit after tax/net assets of BOC Hong Kong (Holdings) Limited prepared under IFRS	**14,250**	14,389	**80,619**	75,582

(ii) HKFRSs Vs PRC GAAP

	Profit after tax		Net assets	
	2006	2005	**2006**	2005
	HK$'m	*HK$'m*	***HK$'m***	*HK$'m*
Profit after tax/net assets of BOC Hong Kong (Holdings) Limited prepared under HKFRSs	**14,284**	13,856	**86,640**	81,713
Add: PRC GAAP adjustments				
Loan loss allowance	**–**	(172)	**–**	–
Re-measurement of carrying value of treasury products	**(226)**	465	**44**	65
Restatement of carrying value of bank premises & investment properties	**(336)**	(1,209)	**(10,495)**	(8,949)
Deferred tax adjustments	**59**	172	**3,162**	2,920
Merger accounting adjustments	**–**	(198)	**–**	(980)
Other adjustments	**(36)**	(4)	**(108)**	(72)
Profit after tax/net assets of BOC Hong Kong (Holdings) Limited prepared under PRC GAAP	**13,745**	12,910	**79,243**	74,697

Review of Annual Results

The annual results have been reviewed by the Audit Committee of the Company.

Scope of work of PricewaterhouseCoopers

The figures in respect of the preliminary announcement of the Group's results for the year ended 31 December 2006 have been agreed by the Group's auditors, PricewaterhouseCoopers, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by PricewaterhouseCoopers in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by PricewaterhouseCoopers on the preliminary announcement.

DEFINITIONS

In this Results Announcement, unless the context otherwise requires, the following terms shall have the meanings set out below:

Terms	Meanings
"AC"	The Audit Committee
"ALCO"	The Asset and Liability Management Committee
"Associate(s)"	has the meaning ascribed to "associate(s)" in the Listing Rules
"ATM"	Automated Teller Machine
"Board" or "Board of Directors"	the Board of Directors of the Company
"BOC"	Bank of China Limited, a joint stock commercial bank with limited liability established under the laws of the PRC, the H shares and A shares of which are listed on the Hong Kong Stock Exchange and the Shanghai Stock Exchange, respectively
"BOC (BVI)"	BOC Hong Kong (BVI) Limited, a company incorporated under the laws of the British Virgin Islands and a wholly owned subsidiary of BOCHKG
"BOC Life"	BOC Group Life Assurance Company Limited, a company incorporated under the laws of Hong Kong, in which the Group and BOC Insurance hold equity interests of 51% and 49% respectively
"BOCHK"	Bank of China (Hong Kong) Limited, a company incorporated under the laws of Hong Kong and a wholly owned subsidiary of the Company
"BOCHKG"	BOC Hong Kong (Group) Limited, a company incorporated under the laws of Hong Kong and a wholly owned subsidiary of BOC
"CAR"	Capital Adequacy Ratio, computed on the consolidated basis that comprises the positions of BOCHK and certain subsidiaries specified by the HKMA for its regulatory purposes and in accordance with the Third Schedule of the Banking Ordinance
"CBS"	Corporate Banking Services
"Chiyu"	Chiyu Banking Corporation Limited, a company incorporated under the laws of Hong Kong, in which BOCHK holds an equity interest of 70.49%
"Company"	BOC Hong Kong (Holdings) Limited, a company incorporated under the laws of Hong Kong
"CRO"	Chief Risk Officer
"GDP"	Gross Domestic Product
"Group"	the Company and its subsidiaries collectively referred as the Group

"HIBOR"	Hong Kong Interbank Offered Rate
"HKAS(s)"	Hong Kong Accounting Standard(s)
"HKFRS(s)"	Hong Kong Financial Reporting Standard(s)
"HKICPA"	Hong Kong Institute of Certified Public Accountants
"HKMA"	Hong Kong Monetary Authority
"Hong Kong" or "Hong Kong SAR"	Hong Kong Special Administrative Region
"IPO"	Initial Public Offering
"IT"	Information Technology
"LIBOR"	London Interbank Offered Rate
"Listing Rules"	The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
"Mainland China"	The mainland of the PRC
"Nanyang"	Nanyang Commercial Bank, Limited, a company incorporated under the laws of Hong Kong and a wholly owned subsidiary of BOCHK
"PRC"	The People's Republic of China
"QDII"	Qualified Domestic Institutional Investor
"RC"	The Risk Committee
"RMB" or "Renminbi"	Renminbi, the lawful currency of the PRC
"RMD"	The Risk Management Department
"SME(s)"	Small and medium-sized enterprise(s)
"Stock Exchange" or "Stock Exchange of Hong Kong"	The Stock Exchange of Hong Kong Limited
"US"	the United States of America
"VAR"	Value at Risk

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

Hong Kong, 22 March 2007

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 South China Morning Post"