



| A Close Watch |

CORPORATE GOVERNANCE

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We have established a sound corporate governance framework with reference to the international “Best Practices” and applicable guidelines and rules of HKMA and the Stock Exchange, following the guiding principles that we are accountable to all shareholders and are committed to maximising shareholder value and enhancing information transparency. With the Board playing a pivotal role, the framework leverages on the supervisory functions of the Independent Non-executive Directors and combines the collective decision making of the Board and the personal liabilities of individual directors to create the most appropriate form of corporate governance.

Board of Directors and the Management

The Board is responsible for formulating the Company’s overall strategies and targets with a view to enhancing shareholder value and to monitoring and providing guidance to our Management. Of the thirteen members on the Board, four are Independent Non-executive Directors whose primary function is to provide independent scrutiny and to ensure the protection of minority shareholders’ interests. The remaining members comprise eight Non-executive Directors and one Executive Director who also serves as the Chief Executive. In addition, we have engaged a senior advisor who is very experienced and knowledgeable in regulatory matters and capital market operations. He sits in on Board meetings and gives his opinion on matters discussed there. The CFO and the CRO also attend Board meetings to advise on matters relating to accounting, finance and risk management.

The positions of the Chairman and the Chief Executive are held by separate individuals and their roles are distinct. The Board, under the leadership of the Chairman, is responsible for the appointment and dismissal of the Chief Executive and other principal senior executives. The appointment and dismissal of other senior executives require the Board’s endorsement. Although the Chief Executive is authorised by the Board to manage the day-to-day business operations of the Company in accordance

with risk management and other internal control policies and procedures approved by the Board, major transactions, acquisitions, disposals of assets and investments have to be reviewed and approved by the Board. Both the Board and the Management have clearly defined authorities and responsibilities under various internal control and check and balance mechanisms. At the instruction of the Board, the Management has implemented appropriate measures and internal control procedures to ensure that we operate within applicable legal and regulatory requirements with prudence and a high level of integrity. To ensure effective discharge of the Board's responsibilities, the Management submits reports on the Company's operations to the Board on a regular basis.

The Board is responsible for setting and closely monitoring the Company's overall long term development strategies, medium term business development plans and short term implementation steps. If necessary, it also adjusts the same with a view to enhancing shareholder value. The Management, under the leadership of the Chief Executive, is responsible for implementing the aforesaid strategies, plans and steps and for reporting the progress to the

Board on a regular basis. The Board reviews and approves the Company's annual budget and business plan, which serve as important yardsticks in assessing the performance of the Management.

The Board has established the Audit Committee, the Risk Management Committee and the Remuneration Committee to focus and report to the Board on specific issues in relation to the Company's management and operation. During adjournment of the Board, these Committees monitor the Management's performance on behalf of the Board. The Audit Committee has set up a Compliance Committee while the RMC has set up a Risk Control Committee, both of which comprise experts and professionals in the relevant field to assist the Audit Committee and the RMC in the discharge of their respective responsibilities.

The Management has set up various committees to assist it in decision making and to act as check and balance. These committees include the Management Committee, Asset and Liability Management Committee, Credit Committee, Anti-money Laundering Committee and Information Technology Committee.

Audit Committee and Compliance Committee

The Audit Committee consists of seven Non-executive Directors, four of whom, including the chairman, are Independent Non-executive Directors. The members of the Audit Committee are: Mr. Shan Weijian (Chairman), Mr. Chia Pei-Yuan, Dr. Fung Victor Kwok King, Mr. Tung Chee Chen, Mr. Ping Yue, Mr. He Guangbei and Mr. Zhou Zaiqun. In addition to assisting the Board in fulfilling its oversight responsibilities, the functions of the Audit Committee also include reviewing significant accounting policies and supervising the Company's financial reporting process; monitoring the performance of both the internal and external auditors; reviewing and examining the effectiveness of the Company's financial reporting procedures and internal control; ensuring compliance with applicable statutory accounting and reporting requirements, legal and regulatory requirements, and internal rules and procedures approved by the Board. The Head of the Internal Audit Department reports directly to the Board and to the Audit Committee.

The Audit Committee has set up the Compliance Committee, which consists

of six members, all of whom are experienced professionals in the legal or accounting fields. The members of the Committee are: Ms. Tang Xinyu (Chairman), Mr. Yeung Jason Chi Wai (Vice Chairman), Ms. Liu Yanfen, Ms. Wang Qi, Mr. Chiu Ming Wah and Mr. Tang Chin Tong. The Compliance Committee is responsible for monitoring the Company's legal and compliance matters and reporting to the Audit Committee in this respect.

Risk Management Committee and Risk Control Committee

In order to streamline the operations of the RMC, membership of the Committee has been reduced from thirteen members to eight. These members comprise four Non-executive Directors (including an Independent Non-executive Director), our Chief Executive, our CRO, and two other persons experienced in risk management. The members of the Committee are: Mr. Liu Mingkang (Chairman), Dr. Liu Jinbao, Mr. Chia Pei-Yuan, Mr. Hua Qingshan, Ms. Zhang Yanling, Mr. Chen Siqing, Mr. Dong Jianyue and Mr. Mao Xiaowei. The Committee provides independent support to the Board in formulating and monitoring compliance with the Company's risk management policies,

procedures and their implementation. The CRO reports directly to the Board and to the RMC.

The Risk Management Committee has set up the RCC, which consists of nine members who are experienced in the areas of risk management, management of NPLs, retail and corporate banking business. The members of the Committee are: Ms. Zhang Yanling (Chairman), Mr. Chen Siqing, Mr. Zhu Xinqiang, Mr. Gao Yingxin, Mr. Dong Jianyue, Mr. Zhang Weidong, Ms. Zheng Xiaomin, Mr. Or Man Ah and Mr. Mao Xiaowei. The Committee advises the RMC on the Company's risk management policies and procedures and monitors their implementation.

Remuneration Committee

The Remuneration Committee consists of five Non-executive Directors, three of whom are Independent Non-executive Directors. The functions of the Committee include reviewing human resources management policies, examining remuneration strategies, determining the compensation of senior executives and managers, setting annual as well as long term performance targets for key management positions, and reviewing and monitoring the implementation of all executive





compensation and benefits plans, in order to ensure that our remuneration packages are in line with our culture, strategies and regulatory requirements. The members of the Remuneration Committee are: Mr. Sun Changji (Chairman), Dr. Fung Victor Kwok King, Mr. Tung Chee Chen, Mr. Shan Weijian and Mr. Li Zaohang.

Connected Transactions

We are committed to ensuring compliance with regulatory requirements under the Listing Rules and applicable laws and regulations in

handling connected transactions. Accordingly, we have implemented various internal control mechanisms to capture and monitor connected transactions, including nature of the transaction, categories of connected persons, and approval authorities and procedures, in order to ensure that connected transactions are approved by Independent Non-executive Directors, conducted on normal commercial terms or on terms that are fair and reasonable and properly disclosed and (if necessary) approved by independent shareholders in

accordance with the Listing Rules. Details of the connected transactions during the year are set out on pages 132 to 137 of this Report.

Disclosure and Dissemination of Information

Ordinary shares of the Company are listed on the Stock Exchange (stock code: 2388). In addition, we have established Rule 144A and Regulation S American Depositary Receipt Programmes in the United States of America.

We disclose details of our major activities, price sensitive information and connected transactions in accordance with the requirements of applicable laws and the Listing Rules. In addition, we have set up systems and procedures to ensure accurate and timely reporting to regulatory authorities in Hong Kong. It has been recognised by reputable international rating agencies that the level of our disclosure in our prospectus and interim report exceeded the regulatory requirements. In addition, we have obtained various awards in

connection with our public offering as a result of the efforts we have made to ensure full information disclosure.

We have made use of various channels to ensure effective disclosure of information relating to the Company. These include dissemination of material through press announcements, our website at <http://www.bochkholdings.com>, and meetings with analysts and rating agencies. We have also established a specific division, the Investor Relations Division, to deal with investor related issues and matters. As the most direct means of disseminating information about the Company, our website provides important information about the Company: such as our corporate profile, financial information, share price performance, major events and press releases. Apart from the aforesaid, since we have established American Depositary Receipt Programmes in the United States, all information published and filed with regulatory authorities in Hong Kong is also made available to the

Securities and Exchange Commission of the United States in order to ensure that all shareholders are treated equally.

Internal Audit

We have implemented appropriate policies and procedures for all our major operations. Our internal audit is responsible for monitoring compliance with such policies and procedures. The primary objective of our internal audit is to assist the Board and the Management in the areas of risk management, and in monitoring compliance with applicable regulatory requirements and guidelines with a view to enhancing the effectiveness of our internal control mechanisms. All audit missions set out in the 2002 Audit Plan have been accomplished. The recommendations made by our internal audit in connection with such audit missions have been widely accepted and rectification measures have been put in place. Our internal audit also actively participates in the review and enhancement of our internal policies and procedures on a continuous basis.

Incentive Scheme and Corporate Culture

Through the establishment of a performance charter for our senior executives, appropriate appraisal mechanisms, and the Share Option Scheme and Sharesave Plan, we have been able to align the interests of our Management and entire staff with the growth and performance of the Company. We have done this with a view to providing appropriate incentives to our Management and staff and to attracting and retaining key executives. We pay particular attention to the establishment of an optimal corporate culture. With the full support of the Management, we will identify, design and implement a corporate culture that is in compliance with regulatory requirements applicable to listed banks and that is considered appropriate for the special circumstances of our Company, thereby ensuring that good corporate governance is maintained at all levels within the Company.