

CHAIRMAN'S STATEMENT



XIAO Gang

*Chairman, Bank of China Limited,
BOC Hong Kong (Holdings)
Limited and Bank of China
(Hong Kong) Limited*

I am pleased to report that for the year ended 31 December 2004, the Group's profit attributable to shareholders was HK\$11,963 million, up 50.23%, which was assisted by a net provision write-back of HK\$1,628 million and a property revaluation gain of HK\$1,862 million. Operating income for the period was HK\$15,857 million, down 8.09% due to a 13.06% decline in net interest income, which was partially offset by an increase in net fees and commission income. Earnings per share were HK\$1.1315, compared to HK\$0.7532 for 2003.

The Board is recommending a final dividend of HK\$0.395 per share at the Annual General Meeting on 26 May 2005. That, together with the interim dividend payout of HK\$0.320 per share, will result in a total dividend for the full year of HK\$0.715 per share. (Total dividend for 2003: HK\$0.515 per share). In view of the Group's financial strength and healthy financial position, we are able to maintain our dividend payout ratio at a high level, that is, 63.19% of the profit attributable to shareholders.

The upturn of the Hong Kong economy that became increasingly evident in the first two quarters extended into the second half of 2004, as reflected in the strong GDP growth in real terms. The return of consumer confidence was more pronounced as employment figures improved and as deflation officially came to an end in the third quarter of the year. External trade continued to flourish while the local investment and property markets in general became more active than a year ago.

While the banking sector also experienced some spillover effect of the general improvement of market sentiments, the challenges that local banks had to face remained significant. Most notably, competition remained intense, and the downward pressure on net interest margin persisted, making it difficult for banks to grow net interest income in a meaningful way.

Notwithstanding these challenges, we continued to pursue with success our goal of sustaining growth and maximising shareholder value through a focused business development strategy and enhanced corporate governance while keeping operating costs under control. We also embarked on major corporate reforms in the past year, paving the way for healthy development in the long term.

Our retail banking and treasury businesses continued to perform satisfactorily as a result of an expanded wealth management clientele, increase in quality customers and higher demand for our innovative and customised services. On the corporate banking front, I am pleased to report that much progress has been made to de-risk our corporate lending portfolio, improve our loan mix and reduce the NPL ratio. We also performed our role impeccably as the clearing bank for personal RMB banking services in Hong Kong and remained the market leader in offering those services.

The Group's other major task during the year was to implement corporate reforms to further enhance the management structure and develop a more efficient and committed workforce. All these will enhance the Group's competitiveness and capabilities that are essential for sustaining business growth and achieving breakthroughs in the longer term.

During the year, the Board has approved the Group's Vision, Mission and Core Values. With this initiative, we have officially embarked on building a coherent and bank-wide corporate culture and spirit that will motivate us and move us forward in the 21st century.

The Group's management structure has been substantially strengthened with the appointment of Mr. Raymond Lee as Chief Financial Officer, who will also continue to oversee key parts of the Group's operation; Mr. Gao Yingxin as Deputy Chief Executive responsible for corporate banking; and Mr. Alex Cheung as Chief Risk Officer. At the same time, we have appointed Mr. Peter Liu as Chief Information Officer, a newly created position that reflects the increasing importance of information technology in our operation. The new appointees are all highly experienced and versatile in their respective fields of expertise and have been appointed through an open, competitive and global recruitment process. Led by

Chief Executive He Guangbei, the Group now has a much stronger management and operational structure that is in line with international best practices and that can ensure a higher degree of corporate governance and accountability to stakeholders. In this connection, I must thank the Search Committee headed by Dr. Victor Fung and comprising Vice Chairman Sun Changji, all the other Independent Non-executive Directors and Chief Executive He Guangbei for their devotion and relentless effort in the past several months.

With the Board's blessing, the Group rolled out a bank-wide human resources reform project that ensures that our remuneration and placement system is fair, reasonable and merit-based and is in line with market practices and trends. This system allows us to recruit, develop and retain the best staff we need to grow our business and achieve our corporate goals. Of equal, if not greater, importance is that under the new human resources policy and system, staff will be properly incentivised, i.e., those who perform or excel will be duly rewarded and enjoy brighter career prospects with the Group.

The Group remains committed to maintaining high standards of corporate governance and transparency. Timely disclosure of corporate information was carried out throughout the year.

During the year, the Board set up an independent board committee comprising all Independent Non-executive Directors and chaired by Mr. Tung Chee Chen to review and approve continuing connected transactions between the Group and BOC. For this purpose, NM Rothschild & Sons (Hong Kong) Limited was retained as independent financial adviser, though it was not mandatory under the Listing Rules. The committee was satisfied that the continuing connected transactions had been entered into in the ordinary and usual course of the Group's business on normal commercial terms.

The Board also set up a Budget Committee, comprising Mr. Zhou Zaiqun, a Non-executive Director and Mdm. Linda Tsao Yang, an Independent Non-executive Director, to oversee the Group's budgeting and business planning process for 2005. The Committee proactively engaged the Management in reviewing the Group's budget and business plan, which turned out to be highly useful and effective.

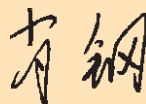
Looking ahead, the Hong Kong economy is on track to sustain its growth momentum. In the Mainland, the macroeconomic control measures have succeeded in ensuring healthy GDP growth. We, therefore, have reasons to believe that more business sectors would benefit from a broader-based economic recovery in 2005, creating greater demand for credit, wealth management and other banking services.

For the Group, we are well prepared for this anticipated economic upturn. The corporate reforms we have carried out will ensure that we can take advantage of new opportunities that emerge. In the coming year, we will continue to implement our market-driven and customer-oriented business strategies to diversify our earnings base and improve our asset quality. We will also strive to grow our customer base and business volume in the Mainland.

The Board has recently formed a Strategy Development Group to work with the Management to recommend a forward-looking strategy and market position that will map out a clear direction for the Group in the longer term, having regard to maximising shareholder value and safeguarding stakeholder interests. We consider ourselves an important part of the financial community in Hong Kong and firmly believe that we can contribute more to maintaining Hong Kong as an important financial centre for the benefit of market reforms in the Mainland and in turn, benefiting from them.

Our goal is to pursue growth by maintaining a sharp competitive edge and by ensuring that we are relentless in our quest for excellence.

Finally, I wish to thank the Board of Directors and the Special Adviser for their valuable advice and guidance in the past year. I also wish to thank our shareholders and customers for their trust and unwavering support. Last but not least, I must extend my heartfelt appreciation to the staff for their commitment and hard work. I have no doubt that I can count on them for the Group's continued success.



XIAO Gang
Chairman

Hong Kong, 23 March 2005



Uphold
Growth
MOMENTUM