

# Corporate Governance

The Company is **committed to maintaining and upholding good corporate governance** in order to protect the interests of shareholders, customers and staff. In addition to abiding strictly by the laws and regulations of the jurisdiction where it operates and observing 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, the Company also constantly reviews its corporate governance practices, with a view to conforming to international and local best practices.

Having regard to “The Code on Corporate Governance Practices” (the “Code”) contained in Appendix 14 of the Listing Rules which came into effect on 1 January 2005, the Company has since the beginning of 2005 proceeded to make further refinements that were deemed necessary. In this connection, the responsibilities at both the Board and the Management levels were delineated and the detailed timetable for follow-up work and completion was also clearly marked out. The Company is pleased to report that it is **in full compliance with all the code provisions** and that it also **complies with nearly all the recommended best practices** set out in the Code.

## Corporate Governance Framework

The **Board is at the core of the Company’s corporate governance framework**, and there is **clear division of responsibilities between the Board and the Management**. The Board is responsible for providing high-level guidance and effective oversight of the Management. Generally, the Board is responsible for:

- formulating the Group’s long term strategy and monitoring the implementation thereof;

- reviewing and approving the annual business plan and financial budget;
- approving the annual and interim reports;
- reviewing and monitoring risk management and internal control;
- ensuring good corporate governance and compliance; and
- monitoring the performance of the Management.

The Board authorises the Management to carry out the strategies that have been approved. The Management reports to the Board and is responsible for the day-to-day operation of the Group. The Board has formulated clear written guidelines, which stipulate the circumstances under which the Management should report to and obtain prior approval from the Board before making decisions or entering into any commitments on behalf of the Group. The Board will regularly review these guidelines.

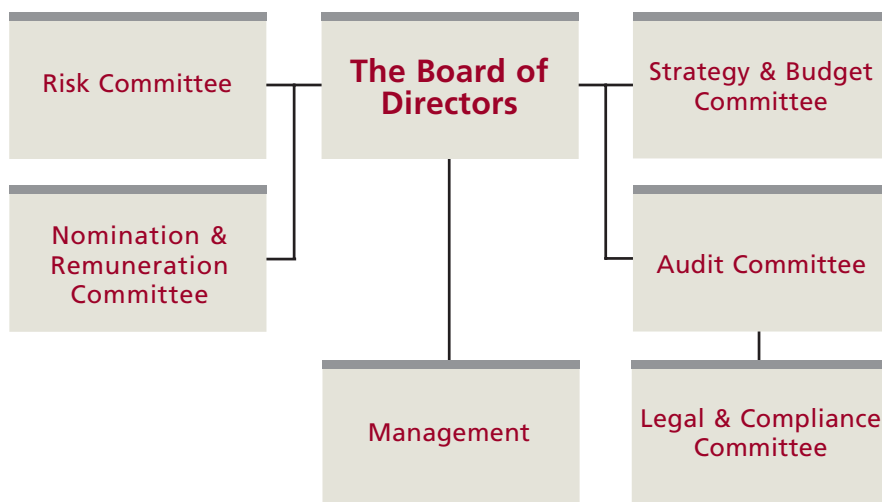
To avoid the concentration of power in any one individual, the **positions of the Chairman and the Chief Executive are held by two different individuals**. Their roles are distinct and are clearly established and stipulated in the Board’s Mandate. In short, the Chairman is responsible for ensuring that the Board properly discharges its responsibilities and conforms to good corporate governance practices and procedures. As the Chairman of the Board, he is also responsible for making sure that all Directors are properly briefed on issues arising at the board meetings, and that all Directors receive accurate, timely and clear information. The Chief Executive is responsible for providing leadership for the whole Management and implementing the important policies and development strategies approved by the Board.

Taking into consideration market practices and international best practices in corporate governance, **the Board has established four standing Board Committees** to assist it in carrying out its responsibilities. They are the Audit Committee, Nomination and Remuneration Committee, Risk Committee, and Strategy and Budget Committee. The Audit Committee has also set up the Legal and Compliance Committee as a sub-committee to assist it in discharging its responsibility for monitoring the Group’s compliance with applicable laws and regulations. In addition, the Board will, as necessary, authorise an independent board committee comprising all the independent non-executive Directors to review, approve and monitor connected transactions (including the continuing connected transactions) that should be approved by the Board. During the year, three ad hoc committees were set up to assist the Board in undertaking special assignments and to report back to the Board or a relevant Board Committee.

**Each of the Board Committees has a well-defined mandate**. The Board Committees make recommendations to the Board on relevant matters within their terms of reference, or make decisions under appropriate circumstances within the power delegated by the Board. Apart from the aforesaid, respective secretarial departments are assigned to all the Board Committees to ensure that each has adequate resources to discharge its responsibilities properly and effectively. According to their mandates, **the Board and the Board Committees will review and evaluate their respective work process and effectiveness on an annual basis**.



The following chart sets out the Company's corporate governance framework.



The Company's corporate website ([www.bochk.com](http://www.bochk.com)) contains detailed information on the Company's corporate governance principles and framework, the composition of the Board and Board Committees and a summary of their respective terms of reference, shareholders' rights and the Company's Fair Disclosure Policy.

### Board of Directors

The majority of the Board is made up of non-executive Directors and independent non-executive Directors, and the Board was assisted by a Senior Adviser. This structure ensures the independence and objectivity of the Board's decision-making process as well as the thoroughness and impartiality of the Board's oversight of the Management. The Board acts honestly and in good faith. Its decisions are made objectively and in the best interests of the Group, with a view to maximising long-term shareholder value and fulfilling its corporate responsibility to other stakeholders of the Group.

The Board currently has 13 members, comprising six independent non-executive Directors, six non-executive Directors and one executive Director. Mr. Tung Savio Wai-Hok and Mr. Koh Beng Seng were appointed independent non-executive Directors of

the Board with effect from 1 December 2005 and 23 March 2006 respectively. The Senior Adviser to the Board, Mr. Neoh Anthony Francis, who is also an independent non-executive director of BOC, the controlling shareholder of the Company, has resigned from the Board with effect from 1 January 2006 in order to avoid any possible conflict of interest. The Board thanks Mr. Neoh for his outstanding contribution during his tenure. Save as disclosed above, there were no other changes to the composition of the Board up to the date of this report.

All Directors possess extensive experience in banking and management, and nearly half of them are independent non-executive Directors, of whom several are in possession of financial management expertise. During the year, the Board approved the **"Policy on Independence of Directors"**, some provisions of which are even more stringent than Rule 3.13 of the Listing Rules. The Company has received from each of the independent non-executive Directors an annual confirmation of his/her independence by reference to the Policy. On the basis of these confirmations and information available to it, the Company still considers all of them to be independent. Biographical details of the Directors are set out in

the "Board of Directors and Senior Management" section of this Annual Report and the Company's website at [www.bochk.com](http://www.bochk.com).

All the existing **non-executive Directors and independent non-executive Directors** of the Company have been **appointed for a fixed term, with formal letters of appointment** setting out the key terms and conditions of their appointment. Pursuant to the Articles of Association, all Directors, including the Chairman, Vice Chairmen and Chief Executive, shall retire by rotation at least once every three years at annual general meetings and be eligible for re-election. All Directors appointed by the Board are subject to election by shareholders at the first general meeting following their appointment. In 2005, the Board authorised the Nomination and Remuneration Committee to establish a process for the appointment of independent non-executive Directors to ensure that the appointment procedures are standardised and transparent.

There is **no relationship (including financial, business, family or other material/relevant relationship(s)) among the Board members**. Messrs. Xiao Gang, Hua Qingshan and Li Zaohang are directors of BOC. Mr. Zhou Zaiqun and Mdm. Zhang Yanling are members of the senior management of BOC. Messrs. Sun Changji, He Guangbei and Zhou Zaiqun and Mdm. Zhang Yanling were directors of BOC prior to its re-organisation in August 2004. It is expressly provided in the Board's Mandate that, unless permissible under applicable laws or regulations, if a substantial shareholder or Director has a conflict of interest in the matter to be considered by the Board, a Board meeting attended by independent non-executive Directors who have no material interest in the matter shall be held to deliberate on the same.

The Company has arranged for appropriate **Directors' Liability Insurance Policy** to indemnify the Directors for liabilities arising out of corporate activities. The coverage and the sum insured under the policy are reviewed on an annual basis.

To ensure that the newly appointed Directors have adequate understanding of the Company's business and operation, and to enable current Directors to update their skills and knowledge on a regular basis so that they can continually make relevant contribution to the Board with comprehensive information, the Board has set up a system for the **initial induction and ongoing professional development of the Directors**. In 2005, in view of the increasing importance of risk management to a financial institution, the Board invited a distinguished speaker with extensive experience in risk management to introduce the concept and model of "Enterprise Risk Management" to the Board members so as to enhance their knowledge and skills in this respect.

**Six Board meetings were held during the year with an average attendance rate of 93%.** The meeting schedule had been prepared and approved by the Board in the preceding year. In general, Board agenda and meeting materials are despatched to all Board members for review at least seven days before the meetings. Board agenda is approved by the Chairman following consultation with other Board members and the Management. Beginning from 2005, the Chairman will meet all non-executive Directors (including independent non-executive Directors) in the absence of executive Directors and the Management at least once in a year. This practice has been incorporated in the amended Working Rules of the Board. Individual attendance records of the relevant Directors in 2005 are set out as follows:

Director	Number of Board meetings attended	Attendance rate
<i>Non-executive Directors</i>		
Mr. XIAO Gang (Chairman)	5 out of 6	83%
Mr. SUN Changji (Vice Chairman)	6 out of 6	100%
Mr. HUA Qingshan	5 out of 6	83%
Mr. LI Zaohang	5 out of 6	83%
Mr. ZHOU Zaiqun	5 out of 6	83%
Mdm. ZHANG Yanling	6 out of 6	100%
<i>Independent Non-executive Directors</i>		
Dr. FUNG Victor Kwok King	6 out of 6	100%
Mr. SHAN Weijian	6 out of 6	100%
Mr. TUNG Chee Chen	5 out of 6	83%
Mr. TUNG Savio Wai-Hok (Note)	N/A	N/A
Mdm. YANG Linda Tsao	6 out of 6	100%
<i>Executive Director</i>		
Mr. HE Guangbei (Vice Chairman and Chief Executive)	6 out of 6	100%

Note: Mr. Savio Tung was appointed independent non-executive director on 1 December 2005, and no Board meeting was held in 2005 thereafter.

### Audit Committee

As at the end of 2005, the Audit Committee had six members comprising one non-executive Director and five independent non-executive Directors. With the appointment of Mr. Koh Beng Seng as independent non-executive Director and member of the Audit Committee, which was approved by the Board on 23 March 2006, the Audit Committee now has seven members, six of whom are independent non-executive Directors (representing 86% thereof). The Committee is chaired by Mr. Shan Weijian, an independent non-executive Director.

The Committee assists the Board in fulfilling its oversight role over the Company and its subsidiaries in, among others, the following areas:

- integrity of accounts and financial reporting process;
- internal control systems;
- effectiveness of internal audit function and performance appraisal of the head of internal audit;
- appointment of external auditors and assessment of their qualifications, independence and performance and, with authorisation of the Board, determination of their remuneration;
- periodic review and annual audit of the Company's and the Group's accounts;
- compliance with applicable accounting standards as well as legal and regulatory requirements on financial disclosures;
- review and handle major risk event; and
- corporate governance framework of the Group and implementation thereof.



The work performed by the Audit Committee in 2005 included the review and, where applicable, approval of:

- the Company's Directors' Report and financial statements for the year ended 31 December 2004 and the annual results announcement that were recommended to the Board for approval;
- the Company's interim financial statements for the six months ended 30 June 2005 and the interim results announcement that were recommended to the Board for approval;
- the audit report and report on internal control recommendations submitted by the external auditors, and the on-site examination report issued by regulators;
- the re-appointment of external auditors, the audit fees payable to external auditors for the annual audit and interim review;
- the Group's internal audit plan for 2005 and key areas identified;
- the deployment of human resources and pay level of the Internal Audit, and the Department's budget for 2005; and
- the performance appraisal of the Head of Internal Audit.

During this year, the Audit Committee and the Board approved the "**Policy on Staff Reporting of Irregularities**" of the Group. Under the policy, employees of the Group can report any significant potential issues concerning the Group's business or other areas through appropriate channels without fear of unfair treatment. To enhance and ensure the independence of external auditors, the Audit Committee and the Board approved the "**Policy**

**on External Auditors**", which ensures that the Committee can effectively discharge its monitoring responsibility in respect of the recruitment, qualifications, independence and performance appraisal of external auditors.

In addition, pursuant to paragraph C.2 of the Code, the Audit Committee conducted an annual review of the effectiveness of the internal control systems of the Group in 2005. This review covered all material controls, including financial, operational and compliance controls as well as risk management. Upon completion of the review, **the Audit Committee considered that the key areas of the Group's internal control systems are reasonably implemented**, which provide prevention of material misstatement or loss, safeguard the Group's assets, maintain appropriate accounting records, ensure compliance with applicable laws and regulations, as well as fulfill the requirements of the Code regarding internal control systems in general. For detailed information on this topic, please refer to the "Internal Control" section below.

**Six Audit Committee meetings were held during the year with an average attendance rate of 90%.** Individual attendance records of the relevant Directors are set out as follows:

Director	Number of committee meetings attended	Attendance rate
Mr. SHAN Weijian (Chairman)	6 out of 6	100%
Mr. ZHOU Zaiqun	4 out of 6	67%
Dr. FUNG Victor Kwok King	6 out of 6	100%
Mr. TUNG Chee Chen	5 out of 6	83%
Mdm. YANG Linda Tsao	6 out of 6	100%
Mr. TUNG Savio Wai-Hok (Note)	N/A	N/A

Note: Mr. Savio Tung was appointed a member of the Audit Committee on 1 December 2005 and no meeting was held in 2005 thereafter.

## Nomination and Remuneration Committee

The Nomination and Remuneration Committee currently has six members comprising two non-executive Directors and four independent non-executive Directors. The independent non-executive Directors represent two-thirds of the committee members. The Committee is chaired by Mr. Sun Changji, Vice-chairman of the Board.

The Committee assists the Board in fulfilling its oversight role over the Company and its subsidiaries in, among others, the following areas:

- overall human resources and remuneration strategies of the Group;
- selection and nomination of Directors, Board Committee members and certain senior management members as specified by the Board from time to time;
- structure, size and composition (including skills, experience and knowledge) of Directors and Board Committee members;
- remuneration of Directors, Board Committee members and senior management; and
- effectiveness of the Board and Board Committees.



The work performed by the Committee in 2005 included the review and, where applicable, approval of:

- performance appraisal of the executive Director and senior management for year 2004;
- the proposal on staff bonus for year 2004 and salary adjustment for year 2005 for the Group, including the senior management;
- the key performance indicators of the Group and its senior management for year 2005;
- the medium-term human resources strategies of the Group;
- the “Policy on Independence of Directors”, “Procedures for the Nomination and Appointment of Independent Non-executive Directors”, “Policy on Directors’ Remuneration”, “Policy and Procedures on the Reimbursement of Board Members’ Expenses” and other important policy documents;
- the policies on performance appraisal of staff (including senior management), annual bonus policy and annual salary adjustment;
- the “Policy for the Employment of Employees of BOC Group”;
- the self-evaluation reports of the Board and Board Committees, which were organised and analysed by the Committee. The Committee also made recommendations to the Board regarding the results of the self-evaluation, with a view to further enhancing the role and effectiveness of the Board and Board Committees; and
- matters relating to the appointment of independent non-executive Directors to the Board.

Based on the successful experience in the recruitment of Directors and senior management, the Committee prepared and approved the “**Procedures for Nomination and Appointment of Independent Non-executive Directors**”, thus further formalising the procedures for the nomination and appointment of independent non-executive Directors and enhancing the transparency of the same. Pursuant to the aforesaid, before the commencement of the nomination procedures, the Board will first consider and determine the need to establish an ad hoc Search Committee which is chaired by an independent non-executive Director with independent non-executive Directors forming the majority of its members, to undertake the assignment concerned and make recommendations to the Nomination and Remuneration Committee and the Board. The Search Committee will first take into account the existing skills, knowledge and experience of the Board and the business requirements of the Group in order to determine the key requirements for the new independent non-executive Director and objective criteria for selection. Such criteria will include relevant expertise, integrity, industry experience and independence. Committee members will recommend potential candidates to the Search Committee in accordance with those criteria. After discussion and selection, and subject to the potential candidate’s agreement in principle to join the Board, the Nomination and Remuneration Committee will review the recommendation for appointment and submit the same to the Board for final approval.

During the year, to ensure that the Board of Directors are reasonably compensated for their time and efforts dedicated to the Group and to institutionalise the process of reimbursing Directors for expenses incurred in connection with discharging their duties, the Committee approved policy documents like the “**Policy on**

**Directors’ Remuneration**” and “**Policy and Procedures on the Reimbursement of Board Members’ Expenses**”. In recommending the remuneration of Directors, the Committee makes reference to companies of comparable business type or scale, and the nature and quantity of work at both Board and Board Committee levels (including frequency of meetings and nature of agenda items) in order to compensate Directors reasonably for their time and efforts spent. The Committee will regularly review, deliberate and recommend the remuneration of Directors to the Board. Following the review by the Board, the proposed remuneration will be put to shareholders for final approval at general meetings. **No individual Director is allowed to participate in the procedures for deciding his/her individual remuneration package.**

The **Nomination and Remuneration Committee** also has the delegated responsibility to **determine the specific remuneration package of executive Directors and senior management**, including share options, benefits in kind, pension rights, etc. Currently the principal components of the Company’s remuneration package for executive Directors and senior management include basic salary, discretionary bonus and other benefits in kind. A significant portion of the executive Director’s or senior management’s discretionary bonus is based on the Group’s and the individual’s performance during the year. The Committee reviews and approves the annual and long-term performance targets for senior management by reference to corporate goals and objectives approved by the Board from time to time. The Committee also reviews the performance of the senior management against the targets set on an ongoing basis, and reviews and approves the specific performance-based remuneration of the senior management.



**Five Nomination and Remuneration Committee meetings were held during the year with an average attendance rate of 92%.** Individual attendance records of the relevant Directors are set out as follows:

Director	Number of committee meetings attended	Attendance rate
Mr. SUN Changji (Chairman)	5 out of 5	100%
Mr. LI Zaohang	4 out of 5	80%
Dr. FUNG Victor Kwok King	5 out of 5	100%
Mr. SHAN Weijian	4 out of 5	80%
Mr. TUNG Chee Chen	5 out of 5	100%
Mdm. YANG Linda Tsao (Note)	N/A	N/A

Note: Mdm. Yang became a member of the Committee on 1 December 2005 and no meeting was held in 2005 thereafter.

### Risk Committee

The Risk Committee has four members. In 2005, three of the members were non-executive Directors and one was an independent non-executive Director. The Committee was chaired by Mr. Xiao Gang, the Chairman of the Board. To be in line with the best corporate governance practices, the Board agreed in March 2006 that Mr. Koh Beng Seng, the newly appointed independent non-executive Director, should replace Mr. Xiao Gang as the Chairman of the Risk Committee. Mr. Anthony Neoh, the former Senior Adviser to the Board, attended the Committee's meetings as an adviser. Mr. Neoh resigned from this position with effect from 1 January 2006.

The Committee assists the Board in fulfilling its oversight role over the Company and its subsidiaries in, among others, the following areas:

- the establishment of the risk appetite and risk management strategy of the Group, and the determination of the Group's risk profile;

- the identification, assessment and management of material risks faced by the various business units of the Group;
- the review and assessment of the adequacy of the Group's risk management process, system and internal control; and
- the review and monitoring of the Group's compliance with the risk management process, system and internal control, including the Group's compliance with requirements of prudence and laws and regulations in business development.

Based on the approved Risk Management Policies Segmentation, the Risk Committee considered and approved a range of risk management policies in 2005, covering credit risk, market risk, operational risk, interest rate risk and liquidity risk. The Group's credit risk appetite was reviewed by the Risk Committee and submitted to the Board for approval. The Risk Committee also reviewed some relevant policies which had been previously approved. Furthermore, with the Board's authorisation, the Risk Committee approved a number of major transactions within its approval authority.

**Five Risk Committee meetings were held during the year with an average attendance rate of 87%.** Individual attendance records of the relevant Directors are set out as follows:

Director	Number of committee meetings attended	Attendance rate
Mr. XIAO Gang (Chairman)	5 out of 5	100%
Mr. HUA Qingshan	5 out of 5	100%
Mdm. ZHANG Yanling	3 out of 5	60%
Mr. TUNG Savio Wai-Hok (Note)	N/A	N/A

Note: Mr. Savio Tung was appointed a member of the Risk Committee on 1 December 2005 and no Committee meeting was held in 2005 thereafter.

### Strategy and Budget Committee

The Board resolved to establish the Strategy and Budget Committee in December 2005. In fact, commencing from 2004, the Board had set up the Budget Committee as an ad hoc committee to review the budget and business plan for the following year. In addition, the Board had formed the Strategy Development Group in early 2005, which was responsible for developing the mid to long term strategy of the Group and making suggestions to the Board. Given the importance of the budget and business plan as well as the mid to long term strategy, the Board decided to establish a standing Board Committee, which would be responsible for monitoring the implementation of the Group's mid to long term strategy approved by the Board and reviewing the annual financial budget and business plan presented by the Management. The Strategy and Budget Committee currently comprises of five members, namely, Mdm. Linda Tsao Yang and Mr. Tung Savio Wai-Hok, independent non-executive Directors, Messrs. Hua Qingshan and Zhou Zaiqun, non-executive Directors, and Mr. He Guangbei, Vice Chairman and Chief Executive. The Committee is chaired by Mdm. Yang, who has extensive experience in the banking sector.

The Committee assists the Board in fulfilling its oversight role over the Company and its subsidiaries in, among others, the following areas:

- the review and monitoring of the Group's long term strategy;
- the review of the process for formulating the Group's long term strategy to ensure that it is

sufficiently robust to take into account the appropriate range of alternatives;

- the monitoring of the implementation of the Group's long term strategy through agreed metrics and the offering of strategic guidance to the Management;
- the making of recommendations to the Board on the major investments, capital expenditure and strategic commitments of the Group and the monitoring of the implementation of the same; and
- the review and monitoring of the Group's regular/periodic (including annual) business plan and financial budget.

### Ad Hoc Committees

Three ad hoc committees, namely, Strategy Development Group, Search Committee, and Budget Committee, were established by the Board during the year to deal with matters specified by the Board.

### Strategy Development Group

The Company decided to establish the Strategy Development Group in early 2005 for formulating and recommending to the Board the Group's mid to long term strategies for business development. Mdm. Linda Tsao Yang, independent non-executive Director, was the convenor of the Strategy Development Group with members comprising representatives of the Board, the Management and the controlling shareholder, BOC. These members included Mr. He Guangbei, Mr. Zhou Zaiqun, Dr. Fung Victor Kwok King, Mr. Tung Chee Chen, Dr. Zhu Min and Mr. Raymond Lee Wing Hung. Mr. Shan Weijian also joined as an

informal member. The Strategy Development Group met several times since its establishment. Its members were all highly devoted to their task and, after an in-depth analysis conducted by the Strategy Development Group, a forward-looking development strategy for the Group in the coming five years was mapped out. The strategy plan has been approved by the Board to be put into implementation.

### Search Committee

To further enhance the independence and composition of the Board, the Search Committee was set up for selecting one to two suitable independent non-executive Directors to be recommended to the Nomination and Remuneration Committee and the Board for final approval. The Committee was chaired by Dr. Victor Fung Kwok King, independent non-executive Director. Its members included Mr. Sun Changji, Mr. He Guangbei and three independent non-executive Directors, namely, Mr. Shan Weijian, Mr. Tung Chee Chen and Mdm. Linda Tsao Yang. After several rounds of selection by the Search Committee and with the recommendation of the Nomination and Remuneration Committee, the Board ultimately resolved to approve that Mr. Tung Savio Wai-Hok and Mr. Koh Beng Seng be appointed independent non-executive Directors of the Company with effect from 1 December 2005 and 23 March 2006 respectively.

### Budget Committee

The Budget Committee was set up in August 2005 for the purpose of overseeing the budgeting and business planning process for 2006, and making recommendations to the Board. The



Committee comprised of Mdm. Linda Tsao Yang, independent non-executive Director as convener and Messrs. Hua Qingshan and Zhou Zaiqun, non-executive Directors. Throughout the overseeing process, there was close communication between the Committee and the Management, and the heads of all major business departments and principal subsidiaries of the Group participated in discussions with the Committee. Recommendations made by the Committee were reviewed and accepted by the Board when finalising the Group's 2006 budget and business plan.

### Directors' Securities Transactions

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. 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 own Code and the said Model Code throughout year 2005.

### External Auditors

Pursuant to the "Policy on External Auditors" approved by the Board in 2005, the **Audit Committee** reviewed and monitored and **was satisfied with the independence and objectivity of PricewaterhouseCoopers**, the Group's external auditors, **and the effectiveness of their audit procedures**, based on the principles and standards set out in the policy that were in line with international best practices. Upon the recommendation of

the Audit Committee, the Board will propose that PricewaterhouseCoopers be re-appointed as auditors of the Group at the Company's 2006 annual general meeting. Subject to authorisation by the shareholders, the Board will authorise the Audit Committee to determine the remuneration of PricewaterhouseCoopers.

For 2005, the fee charged by PricewaterhouseCoopers was HK\$35 million, of which HK\$27 million were for audit services and HK\$8 million were related to other services. For 2004, the fee charged by PricewaterhouseCoopers was HK\$40 million, of which HK\$24 million were for audit services (including the review of the 2004 interim results) and HK\$16 million were related to other services.

With the Board's authorisation, the Audit Committee deliberated and approved the fee of HK\$27 million for audit services and the fee of HK\$8 million for non-audit services provided by PricewaterhouseCoopers in 2005. The Audit Committee was satisfied that the non-audit services did not affect the independence of PricewaterhouseCoopers. The non-audit services fees comprised mainly the tax related services fee of HK\$2 million, the due diligence fee of HK\$2 million and the accounting consultation fee of HK\$3 million.

### Internal Control

The Board has the responsibility to ensure that the Group maintains sound and effective internal controls to safeguard the Group's assets.

The internal control system is designed to provide reasonable, but not absolute, assurance against material

misstatement or loss; to manage rather than completely eliminate the risk of system failure; and to assist in the achievement of the Group's objectives. In addition to safeguarding the Group's assets, it also ensures the maintenance of proper accounting records and compliance with relevant laws and regulations.

Starting from 2005, the Group conducts an annual review of the effectiveness of its internal control systems covering all material controls, including financial, operational and compliance controls as well as risk management. The review is conducted by making reference to the guidelines and definitions given by the regulatory and professional bodies for the purpose of assessing five different internal control elements, namely, the control environment, risk assessment, control activities, information and communication, and monitoring. The assessment covers all the major internal controls and measures, including financial, operational and compliance controls as well as risk management functions. The annual review is coordinated by the Group's Internal Audit, which, after the Management and various business departments have performed their self-assessment, will carry out independent examination and other post-assessment work on the review process and results. The results of the 2005 review had been reported to the Audit Committee and the Board.

**The Audit Committee and the Board considered that the key areas of the Group's internal control systems are reasonably implemented**, which provide prevention of material misstatement or loss, safeguard the Group's assets, maintain appropriate accounting records, ensure compliance with applicable laws and regulations,





as well as fulfill the requirements of the Code regarding internal control systems in general.

The key procedures that the Group has essentially established and implemented to provide internal controls are summarised as follows:

- With a management that has an established organisational structure, delineation of authority and responsibility, the Group has established written policies and procedures to ensure reasonable checks and balances for all the operating units, reasonable safeguard for the Group's assets, implementation of internal controls and adherence to relevant laws and regulations and risk management in its operations.
- The Management draws up and continuously monitors the implementation of the Group's strategies, business plans and financial budgets. The accounting and management systems that are in place provide the basis for evaluating financial and operational performance.
- The Group has various risk management and human resources policies. There are specific units and personnel that are responsible for identifying, assessing and managing all the major risks. These include reputation, strategic, legal, compliance, credit, market, operation, liquidity and interest rate risks. (The Group's risk management governance structure is given on page 37 to page 40 in this Annual Report.)
- The Group has established an information technology governance structure that produces a range of reports on information systems and management, including information on the monitoring of various business units, financial information and operating performance. Such information facilitates the Management, business units and the regulatory bodies in assessing and monitoring the Group's operations and performance. Further, proper communication channels and reporting mechanisms are in place at various business units and levels to ensure exchange of information.
- Pursuant to a risk-based approach and in accordance with the internal audit plan approved by the Audit Committee, the Group's Internal Audit conducts independent reviews on areas including financial activities, various business units, various kinds of risks, operations and activities. Audit reports are submitted directly to the Audit Committee. The Internal Audit will closely follow up the items that require attention and put forward recommendations for improvement.
- The Audit Committee reviews the reports submitted by external auditors to the Group's Management in connection with the annual audit as well as the recommendations made by regulatory bodies on internal control. The Internal Audit will follow up the same on a continuous basis to ensure timely implementation of the recommendations, and will also

periodically report the status of the implementation to the Management and the Audit Committee.

### Communication with Shareholders and Shareholders' Rights

The Board attaches a high degree of importance to continuous communication with shareholders, especially the direct dialogue with them at the Company's annual general meetings. Shareholders are therefore encouraged to actively participate at such meetings.

The Chairmen of the Board, the Risk Committee and the Nomination and Remuneration Committee respectively, members of the Audit Committee and representatives of PricewaterhouseCoopers were present at the Company's 2005 annual general meeting held on 26 May 2005 at the Hong Kong Convention and Exhibition Centre to respond to questions and comments raised by shareholders. Resolutions passed at the Company's 2005 annual general meeting included: adoption of the Company's and the Group's 2004 accounts, declaration of 2004 final dividend, re-election of Directors, re-appointment of auditors and grant of a general mandate to the Board to issue and repurchase shares of the Company.

The Board is aware of investors' concern regarding the potential dilution of the shareholders' value arising from the exercise of power pursuant to the grant of a general mandate to issue shares to the Board. Given its commitment to high standards of corporate governance, the Board will announce at the 2006



annual general meeting certain **internal policies for the exercise of the powers granted to the Board under the general mandates to issue and repurchase shares** as follows:

- The Board will not exercise the mandate to issue shares for cash and unrelated to any asset acquisition in excess of 10% of the Company's issued share capital or at a discount that will result in significant dilution of shareholder value. In the exercise of such power to issue shares for cash, the Board will have regard to factors such as the Group's capital adequacy ratio, and in particular, its Tier 1 capital, cost and benefit of raising Tier 2 capital, need for cash for the Group's business development, the principle that shareholders should be treated equally and the alternative of conducting a rights issue.
- The Board has set the triggering events for the exercise of the power to repurchase shares, which include: market price of the Company's shares is lower than the fair value of the shares; the Group has surplus funds which is in excess of its short to mid term development requirements; and the Board considers it proper and appropriate to exercise the general mandate for enhancing the return on equity or net assets or earnings per share of the Company. In general, such purchases will be made on the Stock Exchange. However, if it is expected that the size of the purchases may lead to a disorderly market for the Company's shares, then the Board will consider making the purchases through a general offer, i.e. offer to all existing shareholders in proportion to their respective shareholdings. The price

at which shares are repurchased will not be higher than the fair value of the shares of the Company.

**As a good corporate governance practice, the Board of Directors has resolved that as a matter of policy, all resolutions put to shareholders at general meetings will be voted on by poll.** For such purpose, the Company has engaged Computershare Hong Kong Investor Services Limited, the Company's Share Registrar, to act as the scrutineer for such purpose. The results of the poll voting will be published in the press and on the Company's website at [www.bochk.com](http://www.bochk.com) and the Stock Exchange's website at [www.hkex.com.hk](http://www.hkex.com.hk) on the following business day.

In order that shareholders can have a better understanding of the agenda items to be discussed at the 2006 annual general meeting and to encourage their active participation so that exchange of views and communication can be further enhanced, **the Company has provided detailed information on the 2006 annual general meeting in a circular** which is dispatched together with this Annual Report to the shareholders. This includes background information to the proposed resolutions, information on the retiring Directors and information on voting and other issues relating to the 2006 annual general meeting in the form of "Frequently Asked Questions" (including how to convene an extraordinary general meeting and how to put forward a proposal for consideration by shareholders at a general meeting).

Further shareholder information is set out in the "Investor Relations" section of this Annual Report. Shareholders who wish to raise any queries with the

Board may write to the Company Secretary at 52nd Floor, Bank of China Tower, 1 Garden Road, Central, Hong Kong.

### **Directors' Responsibility Statement in relation to Accounts**

The following statement should be read in conjunction with the auditors' statement of their responsibilities as set out in the auditors' report contained in this Annual Report. The statement is made with a view to distinguishing for shareholders the respective responsibilities of the Directors and of the auditors in relation to the accounts.

The Directors are required by the Hong Kong Companies Ordinance to prepare accounts, which give a true and fair view of the state of affairs of the Company. The accounts should be prepared on a going concern basis unless it is not appropriate to do so. The Directors have responsibility for ensuring that the Company keeps accounting records which disclose with reasonable accuracy at any time the financial position of the Company and which enable them to ensure that the accounts comply with the requirements of the Hong Kong Companies Ordinance. The Directors also have general responsibilities for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

The Directors consider that in preparing the accounts contained in this Annual Report, the Company has adopted appropriate accounting policies which have been consistently applied with the support of reasonable and prudent judgements and estimates, and that all accounting standards which they consider to be applicable have been followed.