

Committed  
 to Building  
**a Better Tomorrow**  
*Achieving Growth, Quality and Excellence*



Summary Financial Report  
**2006**

This Summary Financial Report only gives a summary of the information and particulars contained in the "2006 Annual Report" ("Annual Report") of the Company from which this Summary Financial Report is derived. Both the Annual Report and this Summary Financial Report are available (in English and Chinese) 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). You may obtain, free of charge, a copy of the Annual Report (English or Chinese or both) from the Company's Share Registrar, Computershare Hong Kong Investor Services Limited, details of which are set out in the "Shareholder Information" section of this Summary Financial Report.

Stock Code: 2388

**OUR VISION**

To be your premier bank

Combining the initials of mission and core values, we have

**BOC SPIRIT**

**OUR MISSION**

**Build**  
customer satisfaction and provide quality and professional service

**Offer**  
rewarding career opportunities and cultivate staff commitment

**Create**  
values and deliver superior returns to shareholders

**OUR CORE VALUES**

**Social Responsibility**  
We care for and contribute to our communities

**Performance**  
We measure results and reward achievement

**Integrity**  
We uphold trustworthiness and business ethics

**Respect**  
We cherish every individual

**Innovation**  
We encourage creativity

**Teamwork**  
We work together to succeed



1917

1937

1957

1977

1997

2007



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### Theme

The Group forged ahead with the implementation of the Group's 2006-2011 Strategic Plan and once again delivered impressive results in both financial performance and business development in 2006.

2007 witnesses the 90th anniversary of our service in Hong Kong. Over this long period of time, the Group has developed along with Hong Kong. We have been through the ups and downs and shared the fruitful results. The photographs on the cover page present the three main buildings of Bank of China in Hong Kong in different historical periods, as a reflection of the continuous development of the Group's business here throughout the decades.

Looking forward, we are committed to building a better tomorrow for Hong Kong. We will continue to carry out vigorously the various strategic initiatives to make use of new opportunities, drive higher growth, and create higher value and returns for our shareholders, customers and staff.



**BOC Hong Kong (Holdings) Limited** ("the Company") was incorporated in Hong Kong on 12 September 2001 to hold the entire equity interest in Bank of China (Hong Kong) Limited ("BOCHK"), its principal operating subsidiary. Bank of China Limited holds a substantial part of its interests in the shares of the Company through BOC Hong Kong (BVI) Limited, an indirect wholly owned subsidiary of Bank of China Limited.

BOCHK is a leading commercial banking group in Hong Kong. With over 280 branches and 440 ATMs and other delivery channels in Hong Kong, it offers a comprehensive range of financial products and services to retail and corporate customers. BOCHK is one of the three note issuing banks in Hong Kong. In addition, BOCHK has 14 branches and sub-branches in the Mainland of China to provide cross-border banking services to customers in Hong Kong and the Mainland. BOCHK is appointed by the People's Bank of China as the Clearing Bank for Renminbi (RMB) business in Hong Kong.

The Company began trading on the main board of the Stock Exchange of Hong Kong on 25 July 2002, with stock code "2388", ADR OTC Symbol: "BHKLY".

*Shareholders may elect in writing to receive Annual Report or Summary Financial Report (as the case may be) for all future financial years by applying to the Company's Share Registrar, Computershare Hong Kong Investor Services Limited, details of which are set out in the "Shareholder Information" of this Summary Financial Report.*

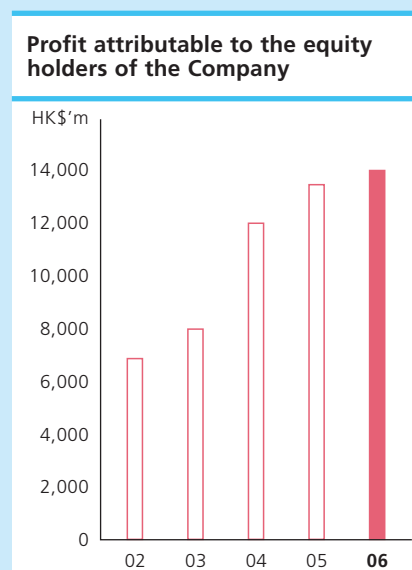
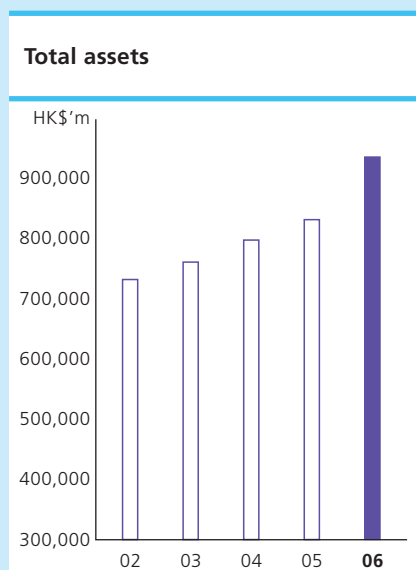
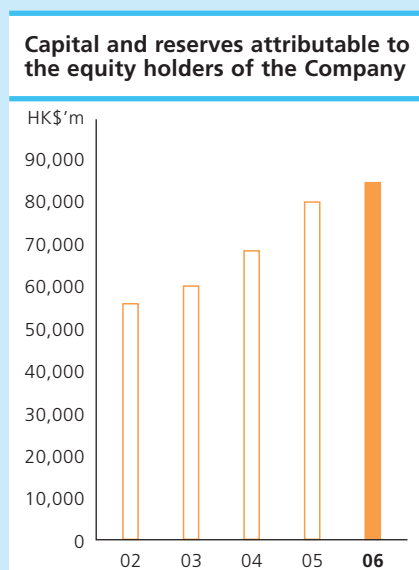
*This Summary Financial Report is available in both English and Chinese. A copy prepared in the language different from that in which you have received is available by writing to the Company's Share Registrar.*

*If you have any queries about how to obtain copies of the Company's Annual Report or Summary Financial Report or how to access those documents on the Company's website, please call the Company's hotline at (852) 2846 2700.*

# FINANCIAL HIGHLIGHTS

	2006 HK\$'m	Restated 2005 HK\$'m	Change +/(-)%
<b>For the year</b>			
Net operating income before loan impairment allowances	21,309	18,174	17.25
Operating profit	16,541	15,048	9.92
Profit before taxation	17,139	16,502	3.86
Profit for the year	14,284	13,856	3.09
Profit attributable to the equity holders of the Company	14,007	13,596	3.02
<b>Per share</b>	HK\$	HK\$	+/(-)%
Earnings per share	1.3248	1.2859	3.03
Dividend per share	0.8480	0.8080	4.95
<b>At year-end</b>	HK\$'m	HK\$'m	+/(-)%
Capital and reserves attributable to the equity holders of the Company	84,655	79,935	5.90
Issued and fully paid share capital	52,864	52,864	–
Total assets	928,953	831,002	11.79
<b>Financial ratios</b>	%	%	
Return on average total assets <sup>1</sup>	1.56	1.67	
Return on average capital and reserves attributable to the equity holders of the Company <sup>2</sup>	17.02	18.27	
Cost to income ratio	30.78	31.75	
Gross impaired advances to customers as a percentage of gross advances to customers	0.26	0.56	
Gross classified advances to customers as a percentage of gross advances to customers	0.57	1.28	
Loan to deposit ratio <sup>3</sup>	49.32	52.27	
Average liquidity ratio <sup>4</sup>	50.46	42.02	
Capital adequacy ratio <sup>5</sup>	13.99	15.37	

- Return on average total assets =  $\frac{\text{Profit for the year}}{\text{Daily average balance of total assets}}$
- Return on average capital and reserves attributable to the equity holders of the Company =  $\frac{\text{Profit attributable to the equity holders of the Company}}{\text{Average of the beginning and ending balance of capital and reserves attributable to the equity holders of the Company}}$
- Loan to deposit ratio is calculated as at year end. Loan represents gross advances to customers. Deposit also includes structured deposits reported as "Trading liabilities and other financial instruments at fair value through profit or loss".
- Average liquidity ratio is calculated as the simple average of each calendar month's average liquidity ratio of BOCHK for the year.
- Capital adequacy ratio 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.
- In June 2006, the Group acquired a 51% shareholding of an under common control entity, BOC Life. The financial statements have been prepared in accordance with the principles of merger accounting as set out in Accounting Guideline 5 "Merger accounting for common control combinations" issued by the HKICPA. The comparative amounts for the year 2005 have been restated in accordance with the principles for merger accounting to present the result and assets of the Group as if BOC Life had been combined with the Group during the year.

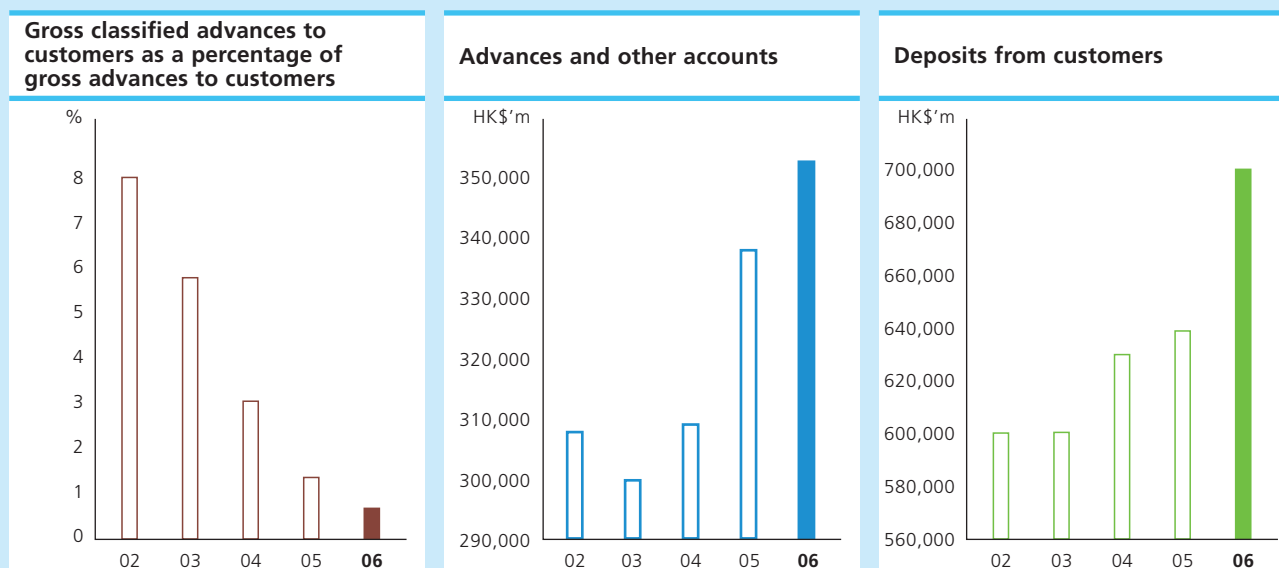


## FIVE-YEAR FINANCIAL SUMMARY

The financial information of the Group for the last five years commencing 1 January 2002 is summarised below:

For the year	2006 HK\$'m	Restated 2005 HK\$'m	2004 <sup>5</sup> HK\$'m	2003 <sup>5</sup> HK\$'m	2002 <sup>5</sup> HK\$'m
Net operating income before loan impairment allowances	<b>21,309</b>	18,174	10,352	11,595	12,089
Operating profit	<b>16,541</b>	15,048	11,980	9,924	9,234
Profit before taxation	<b>17,139</b>	16,502	14,252	8,691	8,068
Profit for the year	<b>14,284</b>	13,856	12,121	8,102	6,914
Profit attributable to the equity holders of the Company	<b>14,007</b>	13,596	11,963	7,963	6,787
<b>Per share</b>	<b>HK\$</b>	<b>HK\$</b>	<b>HK\$</b>	<b>HK\$</b>	<b>HK\$</b>
Earnings per share	<b>1.3248</b>	1.2859	1.1315	0.7532	0.6419
<b>At year-end</b>	<b>HK\$'m</b>	<b>HK\$'m</b>	<b>HK\$'m</b>	<b>HK\$'m</b>	<b>HK\$'m</b>
Advances and other accounts	<b>352,858</b>	338,403	309,211	300,094	308,332
Total assets	<b>928,953</b>	831,002	796,776	762,587	735,536
Daily average balance of total assets	<b>915,900</b>	831,789	776,792	752,058	737,779
Deposits from customers <sup>2</sup>	<b>703,776</b>	639,031	631,330	600,642	600,977
Total liabilities	<b>842,313</b>	749,289	727,016	701,170	677,751
Issued and fully paid share capital	<b>52,864</b>	52,864	52,864	52,864	52,864
Capital and reserves attributable to the equity holders of the Company	<b>84,655</b>	79,935	68,521	60,261	56,671
<b>Financial ratios</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>
Return on average total assets	<b>1.56</b>	1.67	1.56	1.08	0.94
Cost to income ratio	<b>30.78</b>	31.75	34.72	32.79	33.26
Gross impaired advances to customers as a percentage of gross advances to customers	<b>0.26</b>	0.56	–	–	–
Gross classified advances to customers as a percentage of gross advances to customers <sup>1</sup>	<b>0.57</b>	1.28	2.95	5.82	7.98
Loan to deposit ratio <sup>2</sup>	<b>49.32</b>	52.27	49.61	51.38	53.42

1. The "Gross classified advances to customers as a percentage of gross advances to customers" for the years ended 2002, 2003 and 2004 are calculated using the same basis as the years ended 2005 and 2006, except for the inclusion of the effect of "repossessed assets" under HKFRS 5.
2. Since 2005, deposits from customers also include structured deposits reported as "Trading liabilities and other financial instruments at fair value through profit or loss".
3. On 1 January 2005, a number of new and revised HKFRSs and HKASs came into effect. The resulting changes in accounting treatment and presentation of various income statement and balance sheet items may render certain comparative figures for the years 2002, 2003 and 2004 not strictly comparable.
4. In June 2006, the Group acquired a 51% shareholding of an under common control entity, BOC Life. The financial statements have been prepared in accordance with the principles of merger accounting as set out in Accounting Guideline 5 "Merger accounting for common control combinations" issued by the HKICPA. The comparative amounts for the year 2005 have been restated in accordance with the principles for merger accounting to present the result and assets of the Group as if BOC Life had been combined with the Group during the year.
5. The financial information prior to 2005 had not been restated to reflect the adoption of merger accounting upon the acquisition of BOC Life as the difference before and after restatement is insignificant.



## 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 authorised 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

**Last year we forged ahead with implementing the Group's 2006-2011 Strategic Plan approved by the Board a year ago. The results were gratifying and I am quite sure that 2006 will go down in the Group's history as a year of new records and significant achievements in our operation.**

Our outstanding results were shaped by two main factors. First, the overall operating environment was favourable on account of the continuing growth of the Hong Kong economy, the pace of which was even more pronounced in the latter half of the year. Business sentiments remained basically upbeat among nearly all major sectors. In terms of overall performance, the financial sector stood out from the rest due to an exceptionally robust stock market and rising demand for credit and related services. Of equal, if not greater, importance, by capitalising on the strong foundations and impetus built up in recent years through systematic corporate reforms, last year we were in a better position than ever to move ahead full steam to grow our business on all fronts. As a result, considerable progress was made in executing our strategic initiatives as approved by the Board, particularly those aimed at generating higher organic growth and enhancing service capabilities.

I am proud of our success in bringing the Group's profit attributable to shareholders, dividend payout, operating income and pre-provision profit to new peaks since the Group's restructuring and merger in 2001 and public listing in Hong Kong in 2002. The growth rates of our pre-provision profit and net interest margin were amongst the highest in the market. Our improvement in both asset quality and cost-to-income ratio was also remarkable.

### **Performance Highlights**

Our broad-based business growth and good financial performance amply reflected our firm commitment to the goals set down in our Strategic Plan and the positive results of our key strategic initiatives.

In 2006, the Group's profit attributable to shareholders reached HK\$14,007 million, up 3.0% from a year ago. This represented the fourth consecutive year of growth since our IPO in 2002 and also the highest level for the Group so far. Earnings per share were HK\$1.3248, also up 3.0%. Following a very strong growth of 17.5% last year, the Group's operating profit before loan impairment allowances surged by an even higher 18.9% to HK\$14,751 million. The Group's asset quality improved further. Our classified loan ratio and impaired loan ratio dropped to 0.57% and 0.26% respectively, outperforming most of our peers. Our cost-to-income ratio of 30.78% was also better than the market average.

The Group's return on average total assets was 1.56%, versus 1.67% in 2005. Return on total shareholders funds stood at 17.02%, versus







18.27% in 2005. The decreases were due mainly to lower loan impairment write-back and revaluation gain on investment properties, if not for which we would have recorded increases instead.

Our capital adequacy ratio remained at the healthy level of 13.99% while liquidity ratio was 50.46%.

We adhered to the principle of prudent cost management, having regard to the need to drive income and profit growth as well as to invest in the future. Operating expenses last year amounted to HK\$6,558 million, up 13.6%, due mainly to higher staff costs. Regardless of that, the Group's cost efficiency improved because the growth of operating income outpaced that of expenses by a wide margin. Cost-to-income ratio improved by 0.97 percentage point to 30.78%.

### Significant Achievements

Last year we registered considerable growth by focusing on business segments with higher profit margin. Net operating income before loan impairment allowances grew strongly by 17.2% year-on-year to HK\$21,309 million, of which net interest income was up 20.7% to HK\$15,835 million. This substantial rise in net interest income owed primarily to the 9.8% increase in average interest-earning assets to HK\$835,493 million and also to the widening of the net interest margin to 1.90%, versus 1.72% a year ago.

The Group's vigor in driving broad-based organic growth was demonstrated in the performance of its key business segments, including corporate banking, retail banking, treasury and China business.

Our large corporate lending, SME lending and trade financing increased by 6.1%, 10.5% and 4.9% respectively. Our wealth management client base expanded substantially by 45.9% while the amount of assets under management grew by 42.9%. Fees and commissions income soared by 24.4%, which was the direct result of both Hong Kong's stock market boom that boosted securities brokerage income and the rise in asset management income. The fee income from stock brokerage shot up by 93.7% to HK\$1,383 million while

that from asset management was up 56.2% to HK\$317 million. We also recorded a hefty increase of over 60% in total investment and insurance fee income due mainly to higher investment and insurance fee income as well as BOC Life's insurance income. Our treasury registered a strong growth of 45.8% in operating income and a corresponding rise in operating profit. In the Mainland, our lending business continued to expand, with a healthy growth of 22.7% in total advances to customers.

In addition to driving business growth, we keep our eyes open to other expansion opportunities, with a view to enhancing our service capabilities. In mid-2006, we completed the acquisition from our parent BOC of a 51% controlling stake in BOC Life. The synergy arising from this acquisition was already evident in the closer cooperation between the Group and BOC Life. In 2006, operating profit of BOC Life was HK\$174 million, up 33.8% from the year before.

Last year, we were also proactively preparing ourselves to meet emerging needs by establishing a new business platform. These new business needs include the introduction by China of the systems of Qualified Domestic Investment Institutions (QDII) and Qualified Foreign Investment Institutions (QFII), cash management, asset management, bank assurance and stock brokerage. Approval of the China Banking Regulatory Commission was obtained for the Group to operate as a QDII.

We continued to work closely with BOC for mutual benefits last year. For instance, together with our parent we launched a new service that enabled our wealth management customers to enjoy our banking services at BOC's branch network in the whole Asia Pacific region. In the area of corporate banking, active business referrals between BOCHK and BOC contributed to business growth for both. At the same time, we started launching some well-developed treasury products at BOC's regional branches and subsidiaries. This was a significant step that would eventually help us develop a strategic presence in the region. Through such close cooperation with our parent, we succeeded in expanding our customer base and strengthening our Mainland business.



VISA BOC Olympic Games Card five-ring-five-colour series is designed specially for sports enthusiasts and Beijing Olympic aficionados

We remained the local leader in personal RMB banking. With our superiority in this area we continued to contribute to the long-term development of RMB banking business in Hong Kong. We were once again authorised by the People's Bank of China (PBC) to be the local RMB clearing bank. More recently PBC announced the approval of yuan-denominated bonds to be issued in Hong Kong in the near future. We welcome this as the issuance of yuan bonds would be highly important for Hong Kong to reinforce its status as a regional financial centre. In March 2006, in cooperation with Hong Kong Interbank Clearing Limited we launched the RMB Settlement System that provides a safe and efficient electronic platform for RMB transactions in Hong Kong.

As recommended by the Board, the development of the Group's China business would take a two-pronged approach whereby our wholly-owned subsidiary Nanyang

Commercial Bank (Nanyang) has applied for local incorporation in the Mainland and BOCHK would remain a foreign-funded bank in China. Chiyu, another of our subsidiary banks, would also remain a foreign-funded bank. This, we believe, would be the best approach for us to fully capitalise on the unique merits of the BOCHK Group to enter into the newly opened retail banking sector and better focus on the faster growing and more profitable corporate banking sector, thus enabling us to build a stronger presence in the Mainland market as a whole.

A new Relationship-Product-Channel (RPC) business model is introduced to enhance customer relationship management, centralise and professionalise product development, and optimise our channels and workflow to drive sales and marketing more effectively at our branches, electronic channels and call centres. After months of preparation, this model was fully formulated, approved by the Board and rolled out

in March this year. This model will enable us to significantly improve the Group's overall operation and workflow, and achieve higher productivity, lower operational risk, better delegation of authority, and optimised staffing.

Our credit ratings continued to improve. In June 2006, Fitch Ratings upgraded BOCHK's individual rating to "B". In July, Moody's Investors Service upgraded our rating outlook from "stable" to "positive". As a further proof of our business and credit outlook, in mid-February 2007, Standard & Poor's Ratings Services raised our counterparty credit ratings to "A-/A-2" from "BBB+/A-2". It also upgraded our fundamental strength rating to "B" from "C+".

### Business Review

In 2006 we succeeded in growing our business on all major fronts.

Loans and advances continued to grow with market demand. Following a relatively slow first half caused

chiefly by our conscious effort to pursue higher net interest margin and ensure better asset and liability management, our lending business picked up its growth momentum again in the second half of the year after we had adjusted our growth strategy in accordance with market conditions. Total loans to customers increased to HK\$347,090 million, up 3.9%. Loans for use outside Hong Kong, particularly in the Mainland, surged by 27.3% while loans for use in Hong Kong increased marginally. Trade finance increased by 4.9% as external trade continued to flourish.

The Group's retail banking business sustained its high growth momentum last year. Total operating income was up 14.3%, of which net interest income and other operating income were up 7.2% and 34.3% respectively. The substantial growth in other operating income owed mainly to higher income from fees and commissions which grew by 38.8% on the back of robust stock trading and IPO activities in Hong Kong. Residential mortgage lending dropped by nearly 5% in the first half due to fierce competition on mortgage rates but rebounded strongly in the second half after the launching of a range of new mortgage products. New mortgage loans shot up by over 90% and we regained our market lead toward the end of the third quarter in 2006.

Our investment and insurance business maintained its strong growth momentum last year. Stock brokerage volume recorded a hefty increase of 112% while the sales of open-end funds soared by 90%. Taking advantage of the IPO boom in Hong Kong, we aggressively expanded our IPO receiving bank services and IPO financing business by acting as the major receiving bank for the IPO of several leading companies. During the year, the Group's IPO financing provided to corporate and retail customers amounted to over HK\$200 billion, representing an increase of over 10

folds versus 2005. We responded to market needs by launching eIPO financing services. That, coupled with our effective marketing and execution, resulted in record high numbers of IPO subscriptions received and processed.

As mentioned above, wealth management remained a major business focus. Through proactive sales and marketing as well as service enhancement and customisation, the number of wealth management customers and the amount of assets under management increased by 45.9% and 42.9% respectively.

The Group's card business continued to grow in terms of card issuance (+4.1%), card advances (+17.6%), cardholder spending (+13.7%) and merchant acquiring volume (+22.5%).

On the personal RMB banking front, the Group continued to be the local market leader with the largest deposit base and offering a wide range of related services. We also maintained our lead in RMB card issuance and merchant acquiring, which increased by 22.7% and 91.9% respectively last year. Cardholder spending was up 46.9%.

The Group's corporate banking business saw substantial growth last year, especially in the second half. Total operating income grew by 12.3%, of which net interest income was up 13.4% and other operating income 8.6%. The rise in net interest income was the result of our effort in widening the loan spread. We also consistently maintained our lead in loan syndication in the Hong Kong, Macau and Mainland market as a whole.

At the same time, we continued to drive the expansion of our SME business through service innovation and enhancement. The amount of SME loans increased by more than 10%. Again, through service enhancement and workflow improvement, we

strengthened our trade finance segment and increased our bills volume by a solid 16.5%.

Our Mainland business picked up its growth momentum again in the second half of 2006 after a relatively slow first half. Total advances to customers rose by 22.7% to HK\$18,600 million while deposits increased by 67.4% to HK\$3,900 million. Our asset quality in the Mainland continued to improve. Classified loan ratio dropped to 0.23%. Meanwhile our business scope in China kept expanding. All our 14 branches and sub-branches are now licensed to conduct derivatives business and provide insurance agency service. Our wealth management products were also extended to the Mainland market.

The Group's treasury business continued to perform well last year under a refined structure and a more rational portfolio management strategy. Operating income rose by 45.8%. During the year, the Group actively managed its investment portfolio to maximise the return on residual funds, create a more balanced portfolio and reduce concentration risks. On the product side, market conditions last year facilitated the development and launching of structured deposit products which turned out to be very much in demand.

The performance of the Group's insurance segment was outstanding last year. Total operating income almost doubled to HK\$6,894 million, of which net interest income and other operating income were up 48.7% and 98.8% respectively. Following the acquisition of a controlling stake in BOC Life, the Group started offering a more diversified range of insurance products to meet the needs of customers. In 2006, a series of new insurance products were introduced and customers' response was very encouraging. Premium from new business increased by 77%.



Our Telford Garden Branch was granted for the second year in a row the *Total Quality Service Regime – Top Performer 2006* – under the *Category of Service and Entertainment* organised by the MTR Corp

## Outlook

Looking ahead, we are basically optimistic about the growth potential of the local economy as investment and internal consumption continue to increase. This potential would be underpinned by the levelling off or possible reduction of US interest rates. For the banking sector, new business opportunities are on the horizon as China proceeds to expand the scope of RMB banking services in Hong Kong and fulfill her WTO obligations by further liberalising her financial services. That said, we are also mindful that competition is likely to intensify both domestically and offshore, and that the movement of interest rates must be watched closely and managed proactively. At the same time, though inflationary pressure is still not a major issue, rising costs should be a concern for banks, and there are signs that the international financial market is likely to become more volatile in the foreseeable future.

Our record-breaking financial performance and business growth last year speak forcefully for the solid foundations and capabilities we have built up in recent years as well as our effective execution of the Group's strategic initiatives. However, as a banking group with a vision, we are constantly seeking improvement. Going forward, we will follow closely and measure our progress against the goals and priorities laid down in the Group's 2006-2011 Strategic Plan so that we can excel in what we pursue, lead the market and enhance our capabilities.

In 2007 and beyond, we will drive organic growth by enhancing our business structure through diversification. In particular, we will focus on high-margin segments, notably wealth management and insurance. We have already attained certain synergy with BOC Life upon becoming its major shareholder. We

will deepen that synergy through closer cooperation.

For the purpose of enhancing business capabilities, we will explore new opportunities locally and beyond. Our main focus will be on asset management, stock brokerage and insurance.

As mentioned above, the Group's China business strategy is two-pronged. Nanyang will actively develop full banking services in the Mainland with an emphasis on retail banking. BOCHK, on the other hand, will continue to operate as a foreign-funded bank in China and focus on corporate banking and foreign exchange businesses. This, we believe, is the best business model that will allow us to develop retail and wholesale banking simultaneously in the vast Mainland market. It will enable us to capitalise on Nanyang's unique brand awareness and expertise



Our sponsorship of *Growth Leadership Forum* was well-received by SME clients which could share their experience in business



in RMB retail banking, wealth management and SME banking services. It will also maintain BOCHK's superior market position in servicing large corporate clients and conducting foreign exchange business in China. To support this business model and to drive business growth in the Mainland, we will expand our branch network by focusing on major cities in the Pearl River Delta, Yangzi River Delta and the coastal region, including Dongguan, Suzhou and Hangzhou. We aim to more than double the number of outlets in China by 2009 with a corresponding increase in workforce. It follows that we will allocate adequate financial and other resources for the running of this expanded branch network, service enhancement, business development and brand building in the Mainland.

We will continue to work closely with our parent BOC for mutual gains, particularly in corporate business

referral and the development of high-yield segments like wealth management and cross-border services.

Internally we will vigorously implement the RPC model to further enhance operational efficiency and drive long-term business growth. We will ensure high standards of corporate governance, risk management and internal control. Meanwhile we will continue to deepen the Group's new corporate culture and enforce human resources reforms so that we can build up and retain a stronger work team.

This year we enter the 90th year of Bank of China's operation in Hong Kong. For nearly a century, we have witnessed and contributed to the rise of Hong Kong as a leading economic player in the Asia Pacific region. Like Hong Kong, we have been through ups and downs but, again, like Hong Kong, we have always emerged

stronger than before. It is with this resilience, I am convinced, that the Group will continue to grow with and play a positive part in the Hong Kong economy and society.

In concluding, I wish to express my heartfelt gratitude to both the Board and the staff for a great year once again. Together we will move on to better ourselves and create higher value for our shareholders and customers.

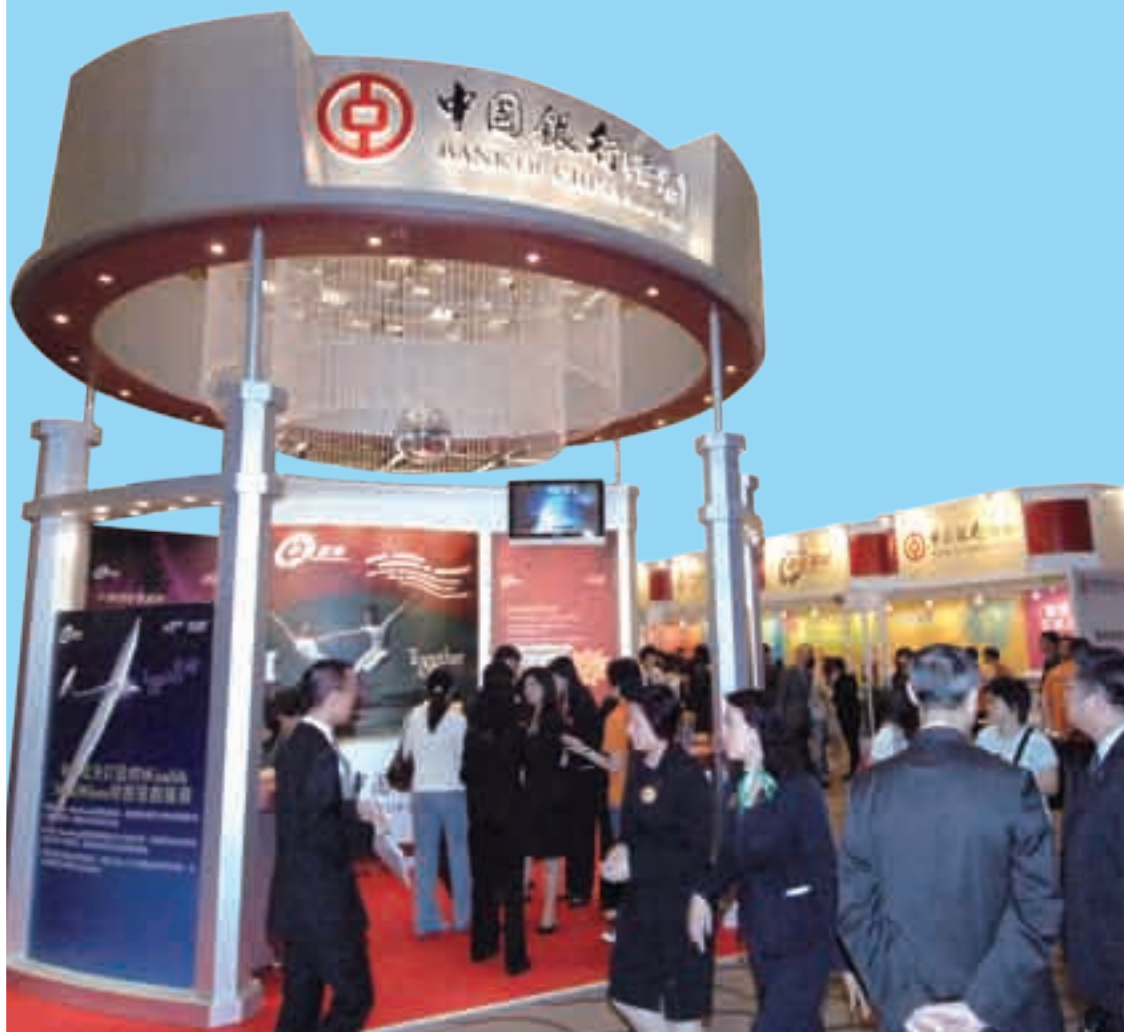
**HE Guangbei**  
*Vice Chairman and Chief Executive*

Hong Kong, 22 March 2007



Build

customer  
satisfaction and  
provide quality  
and professional  
service



Through the *BOCHK Wealth Management Investment Seminar*, customers could have a better understanding of our financial and investment products

# 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 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.

## PERFORMANCE MEASUREMENT

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. The following table summarises the Group's overall performance in 2006.

Financial Indicators	Performance	Result Highlights
ROE <sup>1</sup> and ROA <sup>2</sup>	<ul style="list-style-type: none"> <li>Operating profit before loan impairment allowances increased by 18.9% to HK\$14,751 million.</li> <li>Profit attributable to shareholders increased by 3.0% to HK\$14,007 million.</li> <li>ROE and ROA were 17.02% and 1.56% respectively.</li> <li>ROE and ROA before loan impairment allowances rose by 1.25 percentage points and 0.12 percentage point respectively to 17.92% and 1.61% respectively.</li> </ul>	<ul style="list-style-type: none"> <li>Operating profit before loan impairment allowances increased by 18.9% and profit attributable to shareholders rose by 3.0%</li> <li>ROE: 17.02%</li> <li>ROA: 1.56%</li> </ul>
Dividend payout ratio	The proposed final dividend plus interim dividend represent a total payout ratio of 64.01%, which is within the range set out in the Group's dividend policy.	<ul style="list-style-type: none"> <li>Dividend payout ratio: 64.01%</li> </ul>
Interest margin and non-interest income <sup>3</sup>	<ul style="list-style-type: none"> <li>Net interest margin rose from 1.72% in 2005 to 1.90% in 2006 mainly due to the rise in contribution from net free fund.</li> <li>Non-interest income increased by 8.4%, primarily driven by investment-related agency fee income. Non-interest income to total operating income ratio decreased by 2.10 percentage points to 25.69% due to a larger increase in net interest income relative to non-interest income.</li> </ul>	<ul style="list-style-type: none"> <li>Net interest margin: 1.90%</li> <li>Non-interest income to total operating income ratio: 25.69%</li> </ul>
Cost efficiency	Cost-to-income ratio was further lowered by 0.97 percentage point to 30.78% mainly due to a faster increase in operating income than operating expenses. Total income increased by 17.2% while operating expenses increased by 13.6%.	<ul style="list-style-type: none"> <li>Cost-to-income ratio: 30.78%</li> </ul>
Asset quality	<ul style="list-style-type: none"> <li>Formation of new classified loans<sup>4</sup> remained at a low level of 0.3% of total loans. Classified loan ratio fell significantly by 0.71 percentage point from 1.28% in 2005 to 0.57% in 2006.</li> <li>Impaired loan<sup>5</sup> ratio declined by 0.30 percentage point to 0.26% at end-2006.</li> </ul>	<ul style="list-style-type: none"> <li>Classified loan ratio: 0.57%</li> <li>Impaired loan ratio: 0.26%</li> </ul>
Capital strength and liquidity	Capital adequacy ratio and liquidity ratio remained strong.	<ul style="list-style-type: none"> <li>Capital adequacy ratio: 13.99%</li> <li>Liquidity ratio: 50.46%</li> </ul>

(1) ROE represents return on average capital and reserves attributable to the equity holders of the Company.

(2) ROA represents return on average total assets and is defined in "Financial Highlights".

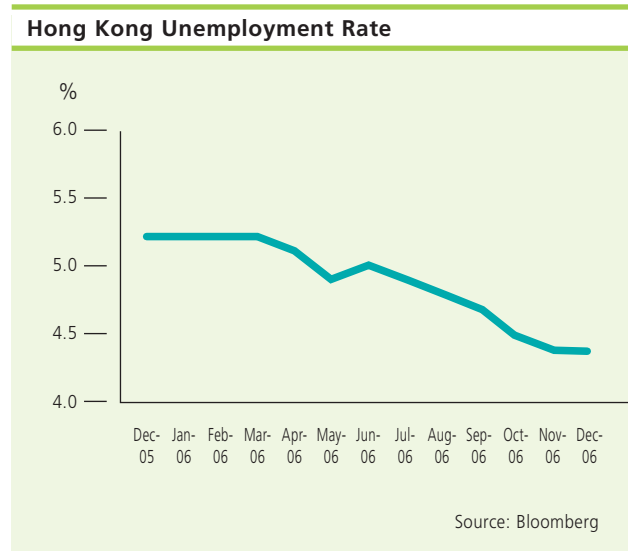
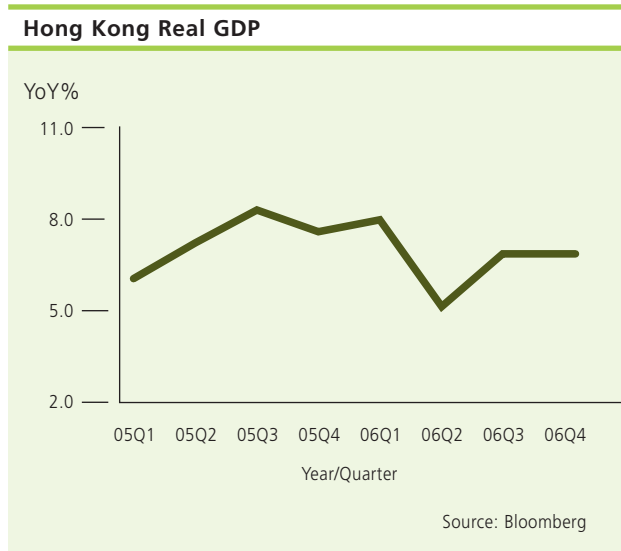
(3) Non-interest income represents net fees and commission income, net trading income, net loss on investments in securities, net insurance premium, other operating income and net insurance benefits and claims.

(4) Classified loans are advances to customers which have been classified as "substandard", "doubtful" and "loss" under the Group's classification of loan quality.

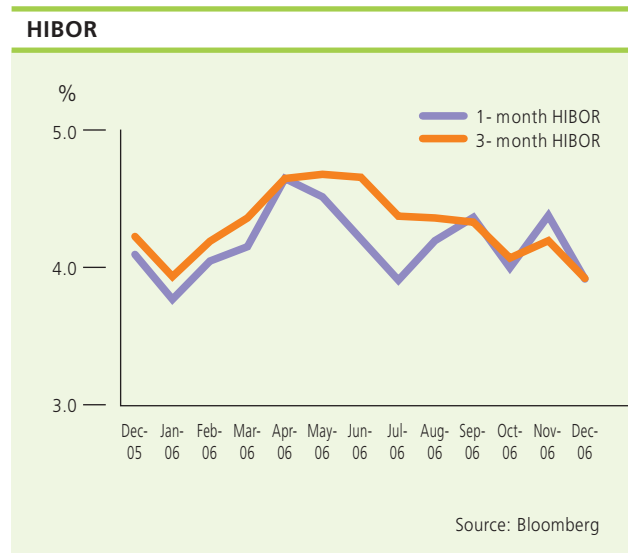
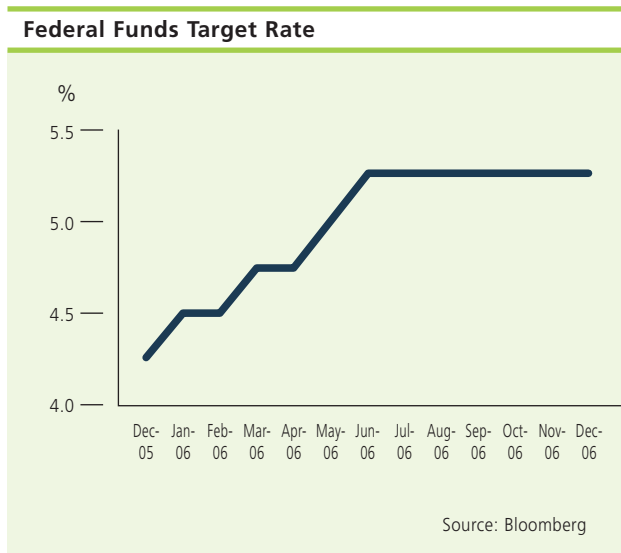
(5) Impaired loans are advances where objective evidence exists that full repayment of principal or interest is considered unlikely.



**BUSINESS ENVIRONMENT**



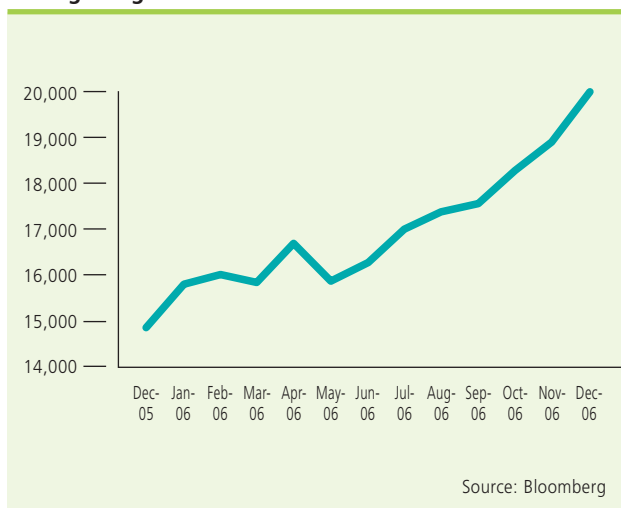
In 2006, the operating environment remained largely positive. Bolstered by active investment, strong domestic consumption and robust external trade, the Hong Kong economy registered above-the-trend growth for the third consecutive year. Hong Kong's real GDP growth reached 6.8%. Inflation remained mild 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.

### Hang Seng Index



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.

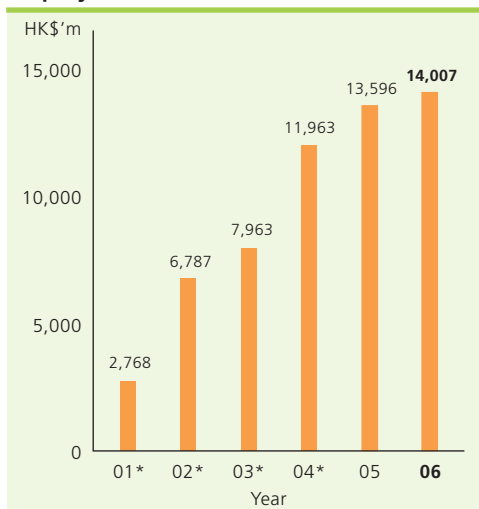
After a relatively quiet first half, the local property market regained some growth momentum in the second half of 2006. The number of transactions increased as US interest rates appeared to have peaked in the latter half of 2006. Intensified market competition, however, meant greater downward pressure 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.

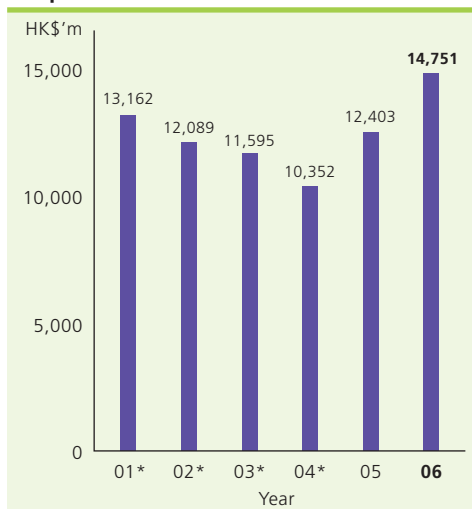
## CONSOLIDATED FINANCIAL REVIEW

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.

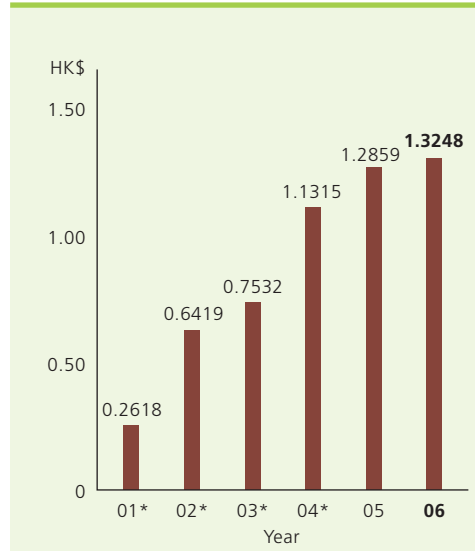
### Profit attributable to equity holders



### Operating profit before loan impairment allowances



\* Excluding BOC Life

**Dividend per share****Earnings per share**

\* Excluding BOC Life

**Financial Highlights**

HK\$m, except percentage amounts	2006	Restated 2005
Operating income	<b>21,309</b>	18,174
Operating expenses	<b>(6,558)</b>	(5,771)
Operating profit before loan impairment allowances	<b>14,751</b>	12,403
Reversal of loan impairment allowances	<b>1,790</b>	2,645
Others	<b>598</b>	1,454
Profit before taxation	<b>17,139</b>	16,502
Profit attributable to equity holders of the Company	<b>14,007</b>	13,596
Earnings per share (HK\$)	<b>1.3248</b>	1.2859
Return on average total assets	<b>1.56%</b>	1.67%
Return on average shareholders' funds*	<b>17.02%</b>	18.27%
Return on average total assets before loan impairment allowances	<b>1.61%</b>	1.49%
Return on average shareholders' funds before loan impairment allowances*	<b>17.92%</b>	16.67%
Net interest margin	<b>1.90%</b>	1.72%
Non-interest income ratio	<b>25.69%</b>	27.79%
Cost-to-income ratio	<b>30.78%</b>	31.75%

\* Shareholders' funds represent capital and reserves attributable to the equity holders of the Company.

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

<b>Net Interest Income and Margin</b>		
HK\$m, except percentage amounts	<b>2006</b>	2005
Interest income	<b>40,271</b>	26,177
Interest expense	<b>(24,436)</b>	(13,053)
Net interest income	<b>15,835</b>	13,124
Average interest-earning assets	<b>835,493</b>	760,914
Net interest spread	<b>1.47%</b>	1.47%
Net interest margin	<b>1.90%</b>	1.72%

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.

The summary below shows the average balances and average interest rates of individual assets and liabilities:

<b>ASSETS</b>				
	<b>Year ended 31 December 2006</b>		Restated Year ended 31 December 2005	
	<b>Average balance HK\$'m</b>	<b>Average yield %</b>	Average balance HK\$'m	Average yield %
Loans to banks	<b>177,465</b>	<b>3.90</b>	166,224	2.38
Debt securities investments	<b>302,349</b>	<b>4.60</b>	251,424	3.34
Loans and advances to customers	<b>333,901</b>	<b>5.65</b>	323,359	4.08
Other interest-earning assets	<b>21,778</b>	<b>2.63</b>	19,907	3.21
Total interest-earning assets	<b>835,493</b>	<b>4.82</b>	760,914	3.44
Non interest-earning assets	<b>80,407</b>	–	70,875	–
Total assets	<b>915,900</b>	<b>4.40</b>	831,789	3.15

<b>LIABILITIES</b>				
	<b>Year ended 31 December 2006</b>		Restated Year ended 31 December 2005	
	<b>Average balance HK\$'m</b>	<b>Average rate %</b>	Average balance HK\$'m	Average rate %
Deposits and balances of banks and other financial institutions	<b>44,859</b>	<b>2.99</b>	33,865	2.21
Current, savings and fixed deposits	<b>653,237</b>	<b>3.35</b>	597,279	1.93
Certificate of deposits issued	<b>3,484</b>	<b>3.22</b>	3,800	2.94
Other interest-bearing liabilities	<b>28,232</b>	<b>3.78</b>	27,374	2.35
Total interest-bearing liabilities	<b>729,812</b>	<b>3.35</b>	662,318	1.97
Non interest-bearing deposits	<b>32,807</b>	–	33,911	–
Shareholders' funds* and non interest-bearing liabilities	<b>153,281</b>	–	135,560	–
Total liabilities	<b>915,900</b>	<b>2.67</b>	831,789	1.57

\* Shareholders' funds represent capital and reserves attributable to the equity holders of the Company.

*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 one-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.

<b>Net Fees and Commission Income</b>		
HK\$'m	2006	2005
Bills commissions	537	532
Loan commissions	273	263
Investment and insurance fee income	1,851	1,139
Securities brokerage (Stockbroking)	1,383	714
Securities brokerage (Bonds)	105	120
Asset management	317	203
Life insurance	46	102
General insurance	96	103
Trust services	118	107
Payment services	418	381
Credit cards	807	737
Account services	304	298
Guarantees	44	43
Currency exchange	117	102
RMB business	77	43
Correspondent banking	31	19
IPO-related business	60	12
Others	252	227
Fees and commission income	4,985	4,006
Fees and commission expenses	(1,268)	(1,061)
Net fees and commission income	3,717	2,945

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.

<b>Investment and Insurance Business</b>		
HK\$m	2006	2005
Investment and insurance fee income		
Securities brokerage (Stockbroking)	<b>1,383</b>	714
Securities brokerage (Bonds)	<b>105</b>	120
Asset management	<b>317</b>	183
Life insurance	<b>46</b>	102
	<b>1,851</b>	1,119
Insurance and investment income of BOC Life		
Net insurance premium income	<b>6,195</b>	3,630
Interest income	<b>473</b>	318
Net trading income	<b>420</b>	(305)
Fee income – asset management	–	20
Others	<b>6</b>	3
Gross insurance and investment income of BOC Life*	<b>7,094</b>	3,666
Less: net insurance benefits and claims	<b>(6,655)</b>	(3,362)
	<b>439</b>	304
Total investment and insurance income	<b>2,290</b>	1,423

\* Before commission expenses.

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%.

<b>Net Trading Income</b>		
HK\$'m	2006	2005
Net trading income of the banking business		
Foreign exchange and foreign exchange products	<b>1,113</b>	1,414
Interest rate instruments	<b>204</b>	277
Equity instruments	<b>73</b>	8
Commodities	<b>78</b>	52
	<b>1,468</b>	1,751
Net trading income of BOC Life		
Foreign exchange and foreign exchange products	<b>1</b>	–
Interest rate instruments	<b>359</b>	(317)
Equity instruments	<b>60</b>	12
Commodities	<b>–</b>	–
	<b>420</b>	(305)
Total net trading income	<b>1,888</b>	1,446

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.

<b>Net Insurance Premium Income</b>		
HK\$'m	2006	2005
Life and Annuity	<b>5,855</b>	3,216
Linked Long Term	<b>348</b>	419
Retirement Scheme	<b>–</b>	1
	<b>6,203</b>	3,636
Reinsurers' share of gross earned premiums	<b>(8)</b>	(6)
Net insurance premium income	<b>6,195</b>	3,630

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.



<b>Net Insurance Benefits and Claims</b>		
HK\$m	2006	2005
Life and Annuity	<b>6,309</b>	2,965
Linked Long Term	<b>344</b>	397
Retirement Scheme	<b>3</b>	1
	<b>6,656</b>	3,363
Reinsurers' share of claims, benefits and surrenders paid and movement in liabilities	<b>(1)</b>	(1)
Net insurance benefits and claims	<b>6,655</b>	3,362

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.

<b>Operating Expenses</b>		
HK\$m, except percentage amounts	2006	2005
Staff costs	<b>4,004</b>	3,493
Premises and equipment expenses (excluding depreciation)	<b>868</b>	740
Depreciation on owned fixed assets	<b>671</b>	568
Other operating expenses	<b>1,015</b>	970
Operating expenses	<b>6,558</b>	5,771
Cost to income ratio	<b>30.78%</b>	31.75%

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.

<b>Reversal of Loan Impairment Allowances on Advances</b>		
HK\$'m	2006	2005
Reversal of/(Charge for) loan impairment allowances		
Individual assessment		
– new allowances	<b>(647)</b>	(1,304)
– releases	<b>313</b>	1,042
– recoveries	<b>2,053</b>	1,639
Collective assessment		
– new allowances	<b>(194)</b>	(11)
– releases	<b>203</b>	1,279
– recoveries	<b>62</b>	–
Net credit to Income Statement	<b>1,790</b>	2,645

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<sup>#</sup> and further deterioration of existing impaired accounts.

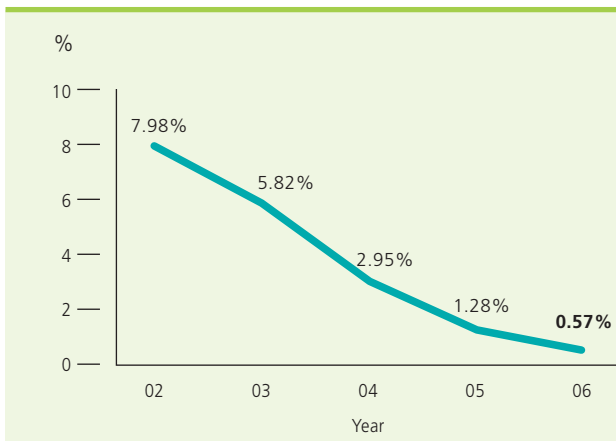
Net release of collective impairment allowances declined substantially by HK\$1,259 million. The reduction reflected a natural slowdown in the improvement in the bad debt migration rate after the Group's significant improvement in asset quality last year on the back of improved economic conditions and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

<sup>#</sup> Impaired loans are advances where objective evidence exists that full repayment of principal or interest is considered unlikely.

**Classified loan ratio**

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.

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

**Property Revaluation**

HK\$m	2006	2005
Net (loss)/gain on revaluation of premises	(1)	63
Net gain on fair value adjustments on investment properties	574	1,386
Deferred tax	(55)	(339)
Net gain on fair value adjustments on investment properties, after tax	519	1,047

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*

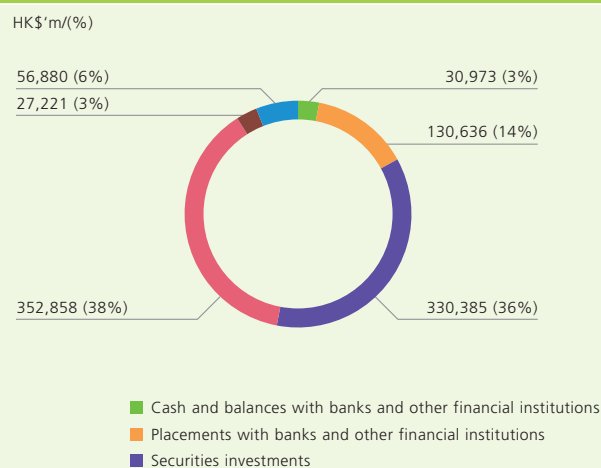
Compared to the first half of 2006, net gain from revaluation of investment properties fell by HK\$391 million in the second half, which was in line with the movement of local property prices.

<b>Financial Position</b>		
HK\$m, except percentage amounts	<b>At 31 December 2006</b>	Restated At 31 December 2005
Cash and balances with banks and other financial institutions	<b>30,973</b>	30,704
Placements with banks and other financial institutions	<b>130,636</b>	125,862
Hong Kong SAR Government certificates of indebtedness	<b>34,750</b>	32,630
Securities investments*	<b>330,385</b>	264,209
Advances and other accounts	<b>352,858</b>	338,403
Fixed assets and investment properties	<b>27,221</b>	26,117
Other assets **	<b>22,130</b>	13,077
<b>Total assets</b>	<b>928,953</b>	831,002
Hong Kong SAR currency notes in circulation	<b>34,750</b>	32,630
Deposits and balances of banks and other financial institutions	<b>49,034</b>	40,655
Deposits from customers	<b>694,691</b>	632,658
Certificates of deposit issued	<b>2,498</b>	3,965
Insurance contract liabilities	<b>14,239</b>	7,968
Other accounts and provisions	<b>47,101</b>	31,413
<b>Total liabilities</b>	<b>842,313</b>	749,289
Minority interests	<b>1,985</b>	1,778
Capital and reserves attributable to the equity holders of the Company	<b>84,655</b>	79,935
<b>Total liabilities and equity</b>	<b>928,953</b>	831,002
Loan-to-deposit ratio	<b>49.32%</b>	52.27%

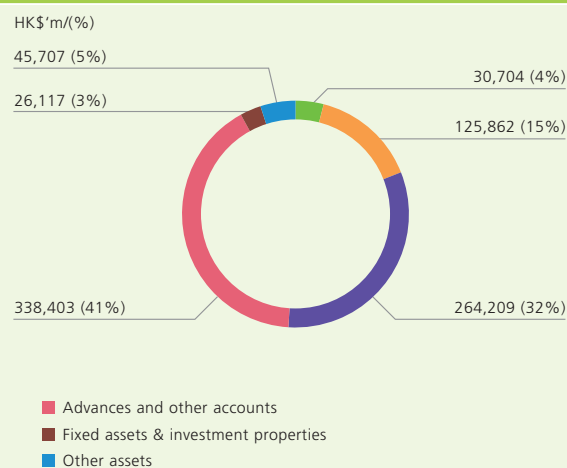
\* Securities investments comprise investment in securities, trading securities and other financial instruments at fair value through profit or loss.

\*\* Investments in associates and derivative financial instruments are included in other assets.

#### Balance Sheet Mix as at 31 December 2006



#### Balance Sheet Mix as at 31 December 2005



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.

<b>Advances to Customers</b>				
HK\$m, except percentage amounts	At 31 December 2006	%	At 31 December 2005	%
Loans for use in Hong Kong	<b>274,290</b>	<b>79.0</b>	274,002	82.0
Industrial, commercial and financial	<b>148,780</b>	<b>42.9</b>	146,100	43.7
Individual	<b>125,510</b>	<b>36.1</b>	127,902	38.3
Trade finance	<b>16,865</b>	<b>4.9</b>	16,079	4.8
Loans for use outside Hong Kong	<b>55,935</b>	<b>16.1</b>	43,942	13.2
Total advances to customers	<b>347,090</b>	<b>100.0</b>	334,023	100.0

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.

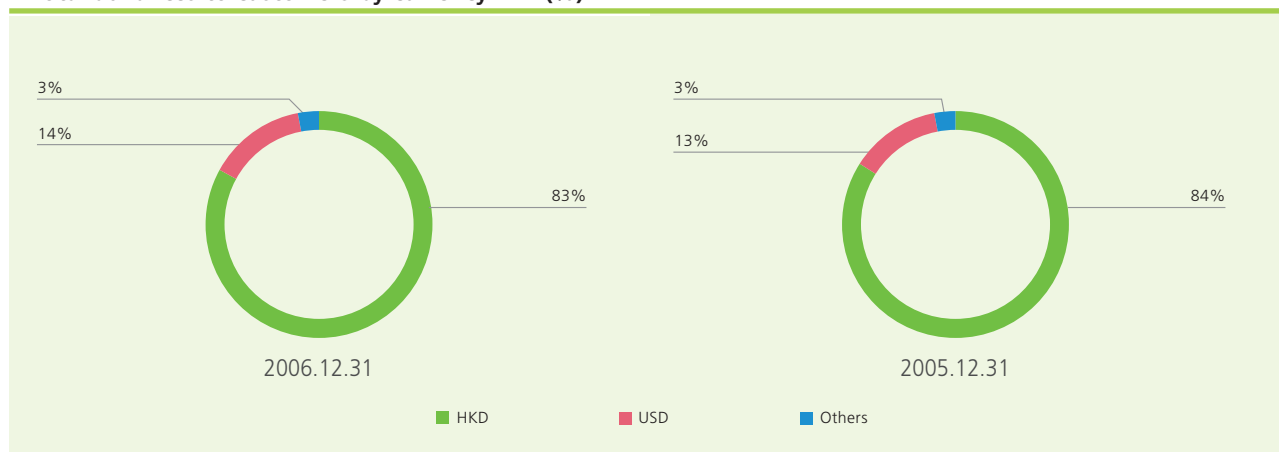
Loans for use in Hong Kong increased slightly by 0.1%:

- 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%.

**Total advances to customers by currency mix (%)**

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.

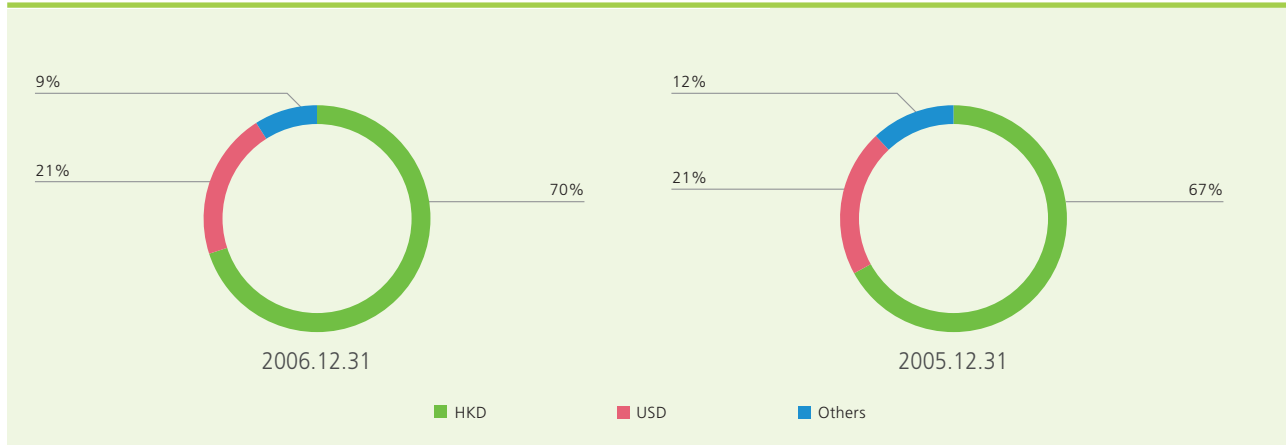
**Deposits from Customers**

HK\$m, except percentage amounts	At 31 December 2006	%	At 31 December 2005	%
Demand deposits and current accounts	30,979	4.4	28,948	4.5
Savings deposits	256,653	36.5	216,540	33.9
Time, call and notice deposits	407,059	57.8	387,170	60.6
Total deposits from customers	694,691	98.7	632,658	99.0
Structured deposits	9,085	1.3	6,373	1.0
Adjusted total deposits from customers	703,776	100.0	639,031	100.0

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%.

**Adjusted total deposits from customers by currency mix (%)**

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**

HK\$m, except percentage amounts	At 31 December 2006	At 31 December 2005
Advances to customers	<b>347,090</b>	334,023
Classified loan ratio <sup>&amp;</sup>	<b>0.57%</b>	1.28%
Impairment allowances	<b>1,103</b>	1,714
Regulatory reserve for general banking risks	<b>3,621</b>	3,526
Total allowances and regulatory reserve	<b>4,724</b>	5,240
Total allowances as a percentage of advances to customers	<b>0.32%</b>	0.51%
Total allowances and regulatory reserve as a percentage of advances to customers	<b>1.36%</b>	1.57%
Impairment allowances on classified loan ratio <sup>##</sup>	<b>28.62%</b>	29.77%
Total coverage (including collateral values) <sup>##</sup>	<b>106.74%</b>	99.88%
Residential mortgage loans* – delinquency and rescheduled loan ratio <sup>**</sup>	<b>0.21%</b>	0.30%
Card advances – delinquency ratio <sup>**#</sup>	<b>0.25%</b>	0.32%
	<b>2006</b>	2005
Card advances – charge-off ratio <sup>#</sup>	<b>2.44%</b>	2.67%

<sup>&</sup> Classified loans represent advances which have been classified as "substandard", "doubtful" and "loss" under the Group's classification of loan quality. Repossessed assets are initially recognised at the lower of their fair value or the amortised cost of the related outstanding loans on the date of repossession. The related loans and advances are deducted from loans and advances.

\* Residential mortgage loans exclude those under the Home Ownership Scheme and other government-sponsored home purchasing schemes.

\*\* Delinquency ratio is measured by a ratio of total amount of overdue loans (more than three months) to total outstanding loans.

# Excluding Great Wall cards and computed according to the HKMA's definition.

## Only including impairment allowances on loans classified as "substandard", "doubtful" and "loss" under the Group's classification of loan quality.

<b>Movement of Classified Advances to Customers</b>		
In HK\$ bln	2006	2005
Beginning balance	4.3	9.2
New classified loans	0.9	1.7
Upgraded classified loans	(0.3)	(1.2)
Collection	(2.0)	(3.8)
Write-off	(0.8)	(1.1)
Others	(0.1)	(0.5)
Ending balance	2.0	4.3

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.

<b>Capital and Liquidity Ratios</b>		
HK\$m, except percentage amounts	At 31 December 2006	At 31 December 2005
Tier 1 capital	68,458	64,213
Tier 2 capital	4,060	3,991
Unconsolidated investment and other deductions	(971)	(1,004)
Total capital base after deductions	71,547	67,200
Risk-weighted assets		
On-balance sheet	479,082	412,851
Off-balance sheet	39,968	30,713
Deductions	(7,741)	(6,450)
Total risk-weighted assets	511,309	437,114
Total risk-weighted assets adjusted for market risk	513,707	438,213
Capital adequacy ratios (banking group level)		
Before adjusting for market risk		
Tier 1	13.39%	14.69%
Total	13.99%	15.37%
After Adjusting for market risk		
Tier 1*	13.33%	14.65%
Total*	13.93%	15.33%
	Full-year ended 31 December 2006	Full-year ended 31 December 2005
Average liquidity ratio	50.46%	42.02%

\* Capital adequacy ratios take into account market risks and are calculated in accordance with the relevant HKMA guidelines.



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.

<b>RETAIL BANKING</b>			
HK\$m, except percentage amounts	<b>Full-year ended 31 December 2006</b>	Full-year ended 31 December 2005	Increase/ (decrease)
Net interest income	<b>7,851</b>	7,326	+7.2%
Other operating income	<b>3,534</b>	2,632	+34.3%
Operating income	<b>11,385</b>	9,958	+14.3%
Operating expenses	<b>(5,033)</b>	(4,514)	+11.5%
Operating profit before loan impairment allowances	<b>6,352</b>	5,444	+16.7%
Net release of/(charge for) loan impairment allowances	<b>(27)</b>	956	N/A
Others	<b>(18)</b>	(12)	+50.0%
Profit before taxation	<b>6,307</b>	6,388	-1.3%

	<b>At 31 December 2006</b>	At 31 December 2005	Increase/ (decrease)
Segment assets	<b>169,595</b>	158,844	+6.8%
Segment liabilities	<b>578,249</b>	554,244	+4.3%

Note: For additional segmental information, see Note 10 to the Financial Statements.

### 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.

<b>CORPORATE BANKING</b>			
	<b>Full-year ended 31 December 2006</b>	Full-year ended 31 December 2005	Increase/ (decrease)
HK\$m, except percentage amounts			
Net interest income	<b>4,281</b>	3,776	+13.4%
Other operating income	<b>1,209</b>	1,113	+8.6%
Operating income	<b>5,490</b>	4,889	+12.3%
Operating expenses	<b>(1,500)</b>	(1,293)	+16.0%
Operating profit before loan impairment allowances	<b>3,990</b>	3,596	+11.0%
Net release of loan impairment allowances	<b>1,817</b>	1,689	+7.6%
Others	<b>(3)</b>	(1)	+200.0%
Profit before taxation	<b>5,804</b>	5,284	+9.8%
	<b>At 31 December 2006</b>	At 31 December 2005	Increase/ (decrease)
Segment assets	<b>222,701</b>	211,834	+5.1%
Segment liabilities	<b>148,353</b>	101,719	+45.8%

Note: For additional segmental information, see Note 10 to the Financial Statements.

## 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

HK\$m, except percentage amounts	Full-year ended 31 December 2006	Full-year ended 31 December 2005	Increase/ (decrease)
Net interest income	4,286	2,428	+76.5%
Other operating income	743	1,021	-27.2%
Operating income	5,029	3,449	+45.8%
Operating expenses	(458)	(308)	+48.7%
Operating profit	4,571	3,141	+45.5%
Others	(2)	–	N/A
Profit before taxation	4,569	3,141	+45.5%

	At 31 December 2006	At 31 December 2005	Increase/ (decrease)
Segment assets	497,155	426,791	+16.5%
Segment liabilities	98,531	82,381	+19.6%

Note: For additional segmental information, see Note 10 to the Financial Statements.

## 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%.

<b>INSURANCE</b>			
	<b>Full-year ended 31 December 2006</b>	Full-year ended 31 December 2005	Increase/ (decrease)
HK\$m, except percentage amounts			
Net interest income	<b>473</b>	318	+48.7%
Other operating income	<b>6,421</b>	3,230	+98.8%
Operating income	<b>6,894</b>	3,548	+94.3%
Net insurance benefits and claims	<b>(6,655)</b>	(3,362)	+97.9%
Net operating income	<b>239</b>	186	+28.5%
Operating expenses	<b>(65)</b>	(56)	+16.1%
Operating profit	<b>174</b>	130	+33.8%
Others	–	12	N/A
Profit before taxation	<b>174</b>	142	+22.5%
	<b>At 31 December 2006</b>	At 31 December 2005	Increase/ (decrease)
Segment assets	<b>15,804</b>	9,343	+69.2%
Segment liabilities	<b>14,649</b>	8,365	+75.1%

Note: For additional segmental information, see Note 10 to the Financial Statements.

## 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

As at 31 December 2006	Long-term	Short-term
Fitch	A	F1
Moody's	A2	P-1
Standard & Poor's	BBB+ (Upgraded to 'A-' on 16 February 2007)	A-2

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.

## PROGRESS UPDATE OF 2006-2011 STRATEGIC PLAN

In March 2006, the Group announced its 2006-2011 Strategic Plan which would guide it in developing into a top-quality financial services group with a powerful base in Hong Kong, a solid presence in China, and a strategic foothold in Asia. During the year, the Group made good progress in achieving the key strategic focuses. The table below encapsulates the major progress achieved by the Group in 2006.

<ul style="list-style-type: none"> <li>Strengthening the Group's Leading Position in Hong Kong</li> </ul>	<p>The Group maintained its leading position in the Mainland-Hong Kong-Macau syndication loan market, local residential mortgage business, personal RMB business, RMB merchant acquiring business and RMB card issuing business respectively. In ROE lucrative segments, the Group made good progress in the following areas:</p> <ul style="list-style-type: none"> <li><b>Wealth Management:</b> The number of total wealth management customers increased by 45.9% and assets under management rose by 42.9%. Investment and insurance fee income surged by 62.5%, of which fee income from stockbroking and sales of funds rose significantly by 93.7% and 56.2% respectively.</li> <li><b>Consumer Lending:</b> Credit card advances and other consumer lending increased by 17.6% and 9.3% respectively.</li> <li><b>Cash Management:</b> A cash management team was set up to enhance the Group's cash management platform by enabling it to offer more related services and products to customers.</li> <li><b>SMEs:</b> The Group achieved double-digit growth in SME loans. The management of the SME segment has been shaped up to drive business growth. The Group's relationship management team has been proactively expanding the number of SME clients.</li> <li><b>RMB Banking Services:</b> The Group remained the market leader in Hong Kong's personal RMB banking business and was authorised by the People's Bank of China to continue serving as the RMB Clearing Bank in Hong Kong. It launched the RMB Settlement System ("RSS") together with the RMB Cheque Clearing Services during the year. In connection with the impending issuance of yuan-denominated bonds in Hong Kong, the role of BOCHK as RMB clearing bank could be expanded to cover yuan bonds as well.</li> </ul>
<ul style="list-style-type: none"> <li>Developing New Capabilities in Product Manufacturing/Distribution</li> </ul>	<ul style="list-style-type: none"> <li>The Group proactively sought out and carefully examined a number of M&amp;A opportunities in Hong Kong.</li> <li>The Group acquired 51% controlling stake in BOC Life, leading to substantial growth in insurance and investment income, profit and assets.</li> <li>The Group's insurance product portfolio also expanded significantly. In 2006, a series of new products were introduced and were well received by customers.</li> <li>The Group embarked on aggressively building up its sales strengths in insurance. It established an in-house insurance academy aiming at providing systematic training for sales staff selling long-term insurance products. In 2006, more than 110 employees were trained by this academy.</li> </ul>
<ul style="list-style-type: none"> <li>Building a Stronger Presence in China</li> </ul>	<ul style="list-style-type: none"> <li>Total advances to customers and customer deposits of the Group's Mainland branches increased by 22.7% and 67.4% respectively in 2006.</li> <li>The Group submitted its application for the local incorporation of Nanyang Commercial Bank, its wholly-owned subsidiary, in the Mainland to offer comprehensive banking services with the focus on retail banking.</li> </ul>
<ul style="list-style-type: none"> <li>Seeking Regional Expansion</li> </ul>	<p>The Group has been actively seeking out M&amp;A opportunities in the region, with a view to identifying really suitable potential targets.</p>

<ul style="list-style-type: none"> <li>Corporate Values and Core Competencies</li> </ul>	<p><b>Corporate Values</b></p> <ul style="list-style-type: none"> <li>During the year, the Group introduced an employee performance management system which emphasises on-going coaching and staff performance evaluation. In addition, as a commitment to long-term human resources development, the Group launched training programmes for Officer Trainees and Management Trainees respectively.</li> <li>In September, the Group started implementing the five-day work week to enable the staff to have more time for leisure and personal pursuits, and to enjoy better quality of life.</li> <li>The Group demonstrated its commitment to corporate social responsibility by participating actively in various social welfare and voluntary services. For details of its involvement in social responsibility, please refer to pages 70 to 72 – Good Corporate Citizenship.</li> </ul> <p><b>Core Competencies</b></p> <p>The Group received public recognition for its achievements in several key aspects during the year, ranging from corporate governance and disclosure to marketing and banking services. (For details, please refer to relevant sections.)</p>
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## 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.

The following table sets out the VAR for all trading market risk exposure of BOCHK.

HK\$'m		At 31 December	Minimum during the year	Maximum during the year	Average for the year
VAR for all market risk	– 2006	1.5	1.3	5.0	2.8
	– 2005	1.8	1.2	5.8	2.6
VAR for foreign exchange risk	– 2006	1.7	0.7	5.3	2.8
	– 2005	1.2	0.6	5.2	1.9
VAR for interest rate risk	– 2006	0.7	0.7	3.0	1.6
	– 2005	1.4	0.9	3.7	2.1
VAR for equity risk	– 2006	0.5	0.1	1.0	0.3
	– 2005	0.1	0.0	0.5	0.1

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.



## BOARD OF DIRECTORS

*Chairman*

**XIAO Gang<sup>#</sup>**

*Vice Chairmen*

**SUN Changji<sup>#</sup>**

**HE Guangbei**

*Directors*

**HUA Qingshan<sup>#</sup>**

**LI Zaohang<sup>#</sup>**

**ZHOU Zaiqun<sup>#</sup>**

**ZHANG Yanling<sup>#</sup>**

**FUNG Victor Kwok King<sup>\*</sup>**

**KOH Beng Seng<sup>\*</sup>**

**SHAN Weijian<sup>\*</sup>**

**TUNG Chee Chen<sup>\*</sup>**

**TUNG Savio Wai-Hok<sup>\*</sup>**

**YANG Linda Tsao<sup>\*</sup>**

<sup>#</sup> Non-executive Directors

<sup>\*</sup> Independent Non-executive Directors

## REGISTERED OFFICE

52nd Floor

Bank of China Tower

1 Garden Road

Hong Kong

## AUDITORS

PricewaterhouseCoopers

## SHARE REGISTRAR

Computershare Hong Kong Investor Services Limited

46th Floor

Hopewell Centre

183 Queen's Road East

Hong Kong

## SENIOR MANAGEMENT

*Chief Executive*

**HE Guangbei**

*Deputy Chief Executive*

**LAM Yim Nam**

*Chief Financial Officer*

**LEE Raymond Wing Hung**

*Deputy Chief Executive*

**GAO Yingxin**

*Chief Risk Officer*

**CHEUNG Alex Yau Shing**

*Chief Information Officer*

**LIU Peter Yun Kwan**

*Company Secretary*

**YEUNG Jason Chi Wai**

## ADS DEPOSITORY BANK

Citibank, N.A.

388 Greenwich Street

14th Floor

New York, NY 10013

United States of America

## WEBSITE

[www.bochk.com](http://www.bochk.com)



Create

values and deliver  
superior returns to  
shareholders



The acquisition of BOC Life represents a breakthrough of the Group in enhancing business capabilities and developing a full-service business model

## BOARD OF DIRECTORS AND SENIOR MANAGEMENT



Mr. XIAO Gang



Mr. SUN Changji



Mr. HE Guangbei



Mr. HUA Qingshan



Mr. LI Zaohang

### Directors

#### **Mr. XIAO Gang** *Chairman*

Aged 48. Chairman of the Board of Directors of the Company and BOCHK. Chairman of BOC. Director of BOC (BVI) and BOCHKG.

#### **Mr. SUN Changji** *Vice Chairman*

Aged 64. Vice Chairman of the Board of Directors and Chairman of Nomination and Remuneration Committee of the Company and BOCHK. Director of BOC (BVI) and BOCHKG.

#### **Mr. HE Guangbei** *Vice Chairman and Chief Executive*

Aged 52. Vice Chairman, Chief Executive and member of Strategy and Budget Committee of the Company and BOCHK. Chairman of Nanyang, Chiyu, BOC Life, Hong Kong Interbank Clearing Limited and HKICL Services Limited. Director of Hong Kong Note Printing Limited. Designated representative of BOCHK to the Hong Kong Association of Banks and presiding Chairman in 2005. Member of the Exchange Fund Advisory Committee and Banking Advisory Committee of the HKMA. Board member of Hong Kong Airport Authority, member of the Executive Committee of the Hong Kong Government Commission on Strategic Development and member of the Greater Pearl River Delta Business Council.

#### **Mr. HUA Qingshan** *Non-executive Director*

Aged 54. Non-executive Director and member of Risk Committee and Strategy and Budget Committee of the Company and BOCHK. Executive Director and Executive Vice President of BOC.

#### **Mr. LI Zaohang** *Non-executive Director*

Aged 51. Non-executive Director and member of Nomination and Remuneration Committee of the Company and BOCHK. Executive Director and Executive Vice President of BOC. Chairman of BOC Insurance and Bank of China (Canada).



Mr. ZHOU Zaiqun



Mdm. ZHANG Yanling



Dr. FUNG Victor Kwok King



Mr. KOH Beng Seng



Mr. SHAN Weijian

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**Directors**


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**Mr. ZHOU Zaiqun**  
*Non-executive Director*

Aged 54. Non-executive Director and member of Audit Committee and Strategy and Budget Committee of the Company and BOCHK. Executive Vice President of BOC and Chairman of BOC-CC.

**Mdm. ZHANG Yanling**  
*Non-executive Director*

Aged 55. Non-executive Director and member of Risk Committee of the Company and BOCHK. Executive Vice President of BOC. Chairman of Bank of China (Hungary) Limited and Vice Chairman of BOCI.

**Dr. FUNG Victor Kwok King**  
*Independent Non-executive Director*

Aged 61. Independent Non-executive Director and member of Audit Committee and Nomination and Remuneration Committee of the Company and BOCHK. Chairman of the Li & Fung Group of companies.

**Mr. KOH Beng Seng**  
*Independent Non-executive Director*

Aged 56. Independent Non-executive Director and Chairman of Risk Committee and member of the Audit Committee of the Company and BOCHK. Chief Executive Officer of Octagon Advisors Pte Ltd.

**Mr. SHAN Weijian**  
*Independent Non-executive Director*

Aged 53. Independent Non-executive Director and Chairman of Audit Committee and member of Nomination and Remuneration Committee of the Company and BOCHK. Partner of TPG Newbridge.



Mr. TUNG Chee Chen



Mr. TUNG Savio Wai-Hok



Mdm. YANG Linda Tsao



Mr. LAM Yim Nam



Mr. LEE Raymond Wing Hung

**Directors**

**Senior Management**

**Mr. TUNG Chee Chen**

*Independent Non-executive Director*

Aged 64. Independent Non-executive Director and member of Audit Committee and Nomination and Remuneration Committee of the Company and BOCHK. Chairman and Chief Executive Officer of Orient Overseas (International) Limited.

**Mr. TUNG Savio Wai-Hok**

*Independent Non-executive Director*

Aged 55. Independent Non-executive Director and member of Audit Committee, Risk Committee and Strategy and Budget Committee of the Company and BOCHK. Managing Director of Investcorp and Head of Investcorp's Technology Investment Group.

**Mdm. YANG Linda Tsao**

*Independent Non-executive Director*

Aged 80. Independent Non-executive Director and member of Audit Committee and Nomination and Remuneration Committee of the Company and BOCHK. Chairlady of Strategy and Budget Committee of the Company and BOCHK. Chairlady of the Asian Corporate Governance Association (ACGA).

**Mr. LAM Yim Nam**

*Deputy Chief Executive*

Aged 54. Deputy Chief Executive in charge of Personal Banking and Product Management, Channel Management, BOC-CC and BOC Life. Director of BOC-CC and BOC Life. Deputy General Manager of the Kwangtung Provincial Bank, Hong Kong Branch from 1989 to 1998.

**Mr. LEE Raymond Wing Hung**

*Chief Financial Officer*

Aged 57. Chief Financial Officer of the Group. Former director of CITIC International Financial Holdings Limited. Former Director and Chief Executive of the Hong Kong Chinese Bank and former Senior Vice President and Managing Director of the Bank of New York.



Mr. GAO Yingxin



Mr. CHEUNG Alex Yau Shing



Mr. LIU Peter Yun Kwan



Mr. YEUNG Jason Chi Wai

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## Senior Management

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### **Mr. GAO Yingxin** *Deputy Chief Executive*

Aged 44. Deputy Chief Executive in charge of Corporate Banking and Financial Institutions, Product Management, Global Markets and China Business. Former President and Chief Operating Officer of BOCI and former General Manager of Corporate Banking at BOC Head Office.

### **Mr. CHEUNG Alex Yau Shing** *Chief Risk Officer*

Aged 45. Chief Risk Officer in charge of the Group's overall risk management function, overseeing BOCHK's Risk Management Department and Legal and Compliance Department. Former Assistant General Manager and Chief Credit Officer of Hang Seng Bank.

### **Mr. LIU Peter Yun Kwan** *Chief Information Officer*

Aged 55. Chief Information Officer in charge of the Group's Information Technology Department. Former Sector Head – Business Consulting Services (Financial Services Sector) for IBM China/Hong Kong Limited. Former Regional Chief Operating Officer of UBS Warburg and former Global Business Technology Officer of UBS Private Banking.

### **Mr. YEUNG Jason Chi Wai** *Company Secretary*

Aged 52. Company Secretary of the Company and BOCHK. Company Secretary of BOC.

# REPORT OF THE DIRECTORS

The Directors are pleased to present their report together with the Summary Financial Statements of the Company and its subsidiaries for the year ended 31 December 2006.

## Principal Activities

The principal activities of the Group are the provision of banking and related financial services. An analysis of the Group's performance for the year by business segments is set out in Note 10 to the Summary Financial Statements.

## Results and Appropriations

The results of the Group for the year are set out in the consolidated income statement on page 74.

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.

## Closure of Register of Members

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.

## Reserves

Details of movements in the reserves of the Group are set out in Note 9 to the Summary Financial Statements.

## Donations

Charitable and other donations made by the Group during the year amounted to approximately HK\$6 million.

## Properties, Plant and Equipment

Details of movements in properties, plant and equipment of the Group are set out in Note 5 to the Summary Financial Statements.

## Share Capital

Details of the share capital of the Company are set out in Note 8 to the Summary Financial Statements.

As at the latest practicable date prior to the issue of this Summary Financial Statements and based on publicly available information, the public float of the Company was approximately 34%. The Directors consider that there is sufficient public float in the shares of the Company.

## Distributable Reserves

Distributable reserves of the Company as at 31 December 2006, calculated under section 79B of the Hong Kong Companies Ordinance, amounted to approximately HK\$5,965 million.

## Five-year Financial Summary

A summary of the results, assets and liabilities of the Group for the last five years is set out on page 3.

## Directors

The present Directors of the Company are set out on page 47. The biographical details of the Directors and senior management are set out on pages 50 to 53 of this Summary Financial Statements. The term of office for each Non-executive Director is approximately three years.

Mr. Koh Beng Seng was appointed as an Independent Non-executive Director of the Company on 23 March 2006 and was elected by shareholders at the annual general meeting of the Company held on 26 May 2006. Mr. Anthony Neoh has resigned as the Senior Adviser to the Board of Directors of the Company with effect from 1 January 2006.



In accordance with Article 98 of the Company's Articles of Association, at each annual general meeting, one-third of the Directors or the nearest number to but not less than one-third of the Directors shall retire from office by rotation and be eligible for re-election. Accordingly, Mr. Sun Changji, Mr. Hua Qingshan, Mr. Zhou Zaiqun, Mr. Tung Chee Chen and Mdm. Yang Linda Tsao will retire by rotation at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

Each of the retiring Independent Non-executive Directors, namely, Mr. Tung Chee Chen and Mdm. Yang Linda Tsao, has given an annual confirmation of his/her independence to the Company. Based on such confirmation and the information available to the Board, and by reference to the "Policy on Independence of Directors" previously adopted by the Board which sets out more stringent independence criteria than those contained in the Listing Rules, the Board considers that Mr. Tung and Mdm. Yang are independent. Further, in view of their extensive knowledge and experience, the Board believes that their re-election is in the best interests of the Company and the shareholders as a whole.

#### **Directors' Service Contracts**

No Director offering for re-election at the forthcoming Annual General Meeting has a service contract with

the Company or any of its subsidiaries which is not determinable by the employing company within one year without payment of compensation other than the normal statutory compensation.

#### **Directors' Interests in Contracts of Significance**

No contracts of significance, in relation to the Group's business to which the Company, its holding companies, or any of its subsidiaries or fellow subsidiaries was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

#### **Directors' Interests in Competing Business**

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.

BOC is a joint stock limited liability commercial bank in the Mainland of China providing a full range of commercial banking and other financial services through its associates throughout the world. Certain of the Group's operations overlap with and/or are complementary to those of BOC and its associates. To the extent that BOC or its associates compete with the Group, the Directors believe that the Group's interests are adequately protected by good corporate governance practices and

the involvement of the Independent Non-executive Directors.

Further, the Board's mandate also expressly provides that unless permissible under applicable laws or regulations, if a substantial shareholder or a Director has a conflict of interest in the matter to be considered by the Board, the matter shall not be dealt with by way of written resolutions, but 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.

Save as disclosed above, none of the Directors is interested in any business apart from the Group's business, which competes or is likely to compete, either directly or indirectly, with the Group's business.

#### **Directors' Rights to Acquire Shares**

On 5 July 2002, the following Directors were granted options by BOC (BVI), the immediate holding company of the Company, pursuant to a Pre-Listing Share Option Scheme to purchase from BOC (BVI) existing issued shares of the Company at a price of HK\$8.50 per share. These options have a vesting period of four years from 25 July 2002 with a valid exercise period of ten years. Twenty-five percent of the shares subject to such options will vest at the end of each year.

Particulars of the outstanding options granted to the Directors under the Pre-Listing Share Option Scheme as at 31 December 2006 are set out below:

	Date of grant	Exercise price (HK\$)	Exercisable period	Number of share options					
				Granted on 5 July 2002	Balances as at 1 January 2006	Exercised during the year	Surrendered during the year	Lapsed during the year	Balances as at 31 December 2006
SUN Changji	5 July 2002	8.50	25 July 2003 to 4 July 2012	1,590,600	1,590,600	–	–	–	1,590,600
HE Guangbei	5 July 2002	8.50	25 July 2003 to 4 July 2012	1,446,000	1,084,500	–	–	–	1,084,500
HUA Qingshan	5 July 2002	8.50	25 July 2003 to 4 July 2012	1,446,000	1,446,000	–	–	–	1,446,000
LI Zaohang	5 July 2002	8.50	25 July 2003 to 4 July 2012	1,446,000	1,446,000	–	–	–	1,446,000
ZHOU Zaiqun	5 July 2002	8.50	25 July 2003 to 4 July 2012	1,446,000	1,446,000	–	–	–	1,446,000
ZHANG Yanling	5 July 2002	8.50	25 July 2003 to 4 July 2012	1,446,000	1,446,000	–	–	–	1,446,000
Total				8,820,600	8,459,100	–	–	–	8,459,100

Save as disclosed above, at no time during the year was the Company, its holding companies, or any of its subsidiaries or fellow subsidiaries a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

### Directors' and Chief Executive's Interests in Shares, Underlying Shares and Debentures

Save as disclosed above, as at 31 December 2006, none of the Directors or Chief Executive of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers.

### Substantial Interests in Share Capital

The register maintained by the Company pursuant to section 336 of the SFO recorded that, as at 31 December 2006, the following corporations had the following interests (as defined in the SFO) in the Company set opposite their respective names:

Name of Corporation	No. of shares of HK\$5 each in the Company (% of total issued shares)
Central SAFE	6,964,141,034 (65.87%)
BOC	6,964,141,034 (65.87%)
BOCHKG	6,953,838,825 (65.77%)
BOC (BVI)	6,953,838,825 (65.77%)

#### Notes:

- Following the reorganisation of BOC in August 2004, Central SAFE holds the controlling equity capital of BOC on behalf of the State. Accordingly, for the purpose of the SFO, Central SAFE is deemed to have the same interests in the Company as BOC.
- BOC holds the entire issued share capital of BOCHKG, which in turn holds the entire issued share capital of BOC (BVI). Accordingly, BOC and BOCHKG are deemed to have the same interests in the Company as BOC (BVI) for the purpose of the SFO.
- BOC (BVI) beneficially held 6,953,271,456 shares of the Company. BOC (BVI) also holds 93.64% of the issued share capital of Hua Chiao which is in members' voluntary winding-up. Accordingly, for the purpose of the SFO, BOC (BVI) is deemed to have the same interests in the Company as Hua Chiao which had an interest in 567,369 shares of the Company as recorded in the register maintained by the Company under section 336 of the SFO.
- BOC holds the entire issued share capital of BOC Insurance. Accordingly, for the purpose of the SFO, BOC is deemed to have the same interests in the Company as BOC Insurance which had an interest in 5,700,000 shares of the Company.
- BOC holds the entire issued share capital of BOCI, which in turn holds the entire issued share capital of BOCI Asia Limited and BOCI Financial Products Limited. Accordingly, BOC is deemed to have the same interests in the Company as BOCI Asia Limited and BOCI Financial Products Limited for the purpose of the SFO. BOCI Asia Limited had an interest in 4,351,500 shares of the Company and an interest in 250,000 shares held under physically settled equity derivatives while BOCI Financial Products Limited had an interest in 709 shares of the Company.

All the interests stated above represented long positions. Save as disclosed above, as at 31 December 2006, no other interests or short positions were recorded in the register maintained by the Company under section 336 of the SFO.

### Management Contracts

No contracts concerning the management or administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

### Share Options

Pursuant to written resolutions of all the Company's shareholders passed on 10 July 2002, the Company has approved and adopted two share option schemes, namely, the Share Option Scheme and the Sharesave Plan. No options have been granted by the Company pursuant to the Share Option Scheme or the Sharesave Plan during the year.

The following is a summary of the Share Option Scheme and the Sharesave Plan disclosed in accordance with the Listing Rules:

	Share Option Scheme	Sharesave Plan
Purpose	To provide the participants with the opportunity to acquire proprietary interests in the Company, to attract and retain the best available personnel, to encourage and motivate the participants to work towards enhancing the value of the Company and its shares, to allow the participants to participate in the growth of the Company and to align the interests of the Company's shareholders with those of the participants.	To encourage broad-based employee ownership of the Company's shares, to increase employee awareness and participation in the Company's share price performance, to provide employees with an additional vehicle for asset accumulation and to align the interests of all employees with those of the Company's shareholders.
Participants	Subject to compliance with applicable laws, any full-time or part-time employee, executive or officer of the Group, executive or non-executive director of the Group, or full-time or part-time employee, executive, officer or director of BOC or any of its subsidiaries serving as a member of any committee of the Group.	Any employee, executive, officer or director of the Group, having such qualifying period of service (if any) as the Board may determine from time to time and not having been granted any options under the Share Option Scheme.
Total number of shares available for issue and percentage of issued share capital as at 31 December 2006	The maximum number of shares in respect of which options may be granted under the Share Option Scheme, the Sharesave Plan and any other share option schemes and savings-based share option plans of any company in the Group (the "Other Schemes and Plans") shall not in aggregate exceed 10% of the shares in issue on 10 July 2002, that is, 1,057,278,026 shares.	Same as Share Option Scheme.

	Share Option Scheme	Sharesave Plan
Maximum entitlement of each participant	The total number of shares issued and to be issued upon the exercise of the options granted and to be granted to any one participant under the Share Option Scheme and the Other Schemes and Plans (including exercised, cancelled and outstanding options) in any twelve-month period up to and including the date of grant shall not exceed 1% of the shares in issue from time to time.	The maximum number of shares (rounded down to the next whole number) which can be paid for at the exercise price with monies equal to the aggregate of the savings contributions the participant has undertaken to make by the Maturity Date (defined as below) and interest which may be accrued thereon. Provided that the total number of shares issued and to be issued upon the exercise of the options granted and to be granted to any one participant under the Sharesave Plan and the Other Schemes and Plans (including exercised, cancelled and outstanding options) in any twelve-month period up to and including the date of grant shall not exceed 1% of the shares in issue from time to time. The amount of the monthly contribution to be made by a participant shall not be less than 1% and not more than 10% of the participant's monthly salary or such other maximum or minimum amounts as permitted by the Board.
Period within which the shares must be taken up under an option	Such period as shall be prescribed by the directors and specified in the letter of offer.	The thirty-day period (excluding the anniversary days) immediately after the first and second anniversary days from the date of grant or such other date as determined by the Board, or the thirty-day period immediately after the third anniversary of the date of grant or such other date as determined by the Board (the "Maturity Date"), or such other period(s) as may be determined by the Board.
Minimum period for which an option must be held before it can be exercised	Such minimum period as shall be prescribed by the directors and specified in the letter of offer.	One year.
(a) Amount payable on acceptance of the option	(a) HK\$1.00	(a) HK\$1.00
(b) Period within which payments or calls must or may be made	(b) Payment or an undertaking to make payment on demand of the Company must be received by the Company within the period open for acceptance as set out in the letter of offer which shall not be less than 7 days after the offer date.	(b) Payment or an undertaking to make payment on demand of the Company must be received by the Company not later than the date specified in the letter of invitation as the directors may determine.
(c) The period within which loans for such purposes must be repaid	(c) Not applicable.	(c) Not applicable.
Basis of determining the exercise price	The exercise price is determined on the date of grant by the directors and shall not be less than the highest of: <ul style="list-style-type: none"> <li>(a) the nominal value of the Company's shares;</li> <li>(b) the closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheet on the date of grant, which must be a business day; and</li> <li>(c) the average closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant.</li> </ul>	Same as Share Option Scheme.
Remaining life	The Share Option Scheme shall remain in force for a period of ten years commencing on the first day of dealings in the Company's shares on the Stock Exchange which was 25 July 2002.	The Sharesave Plan shall remain in force for a period of ten years after the date of approval and adoption of the Sharesave Plan by the Company's shareholders which was 10 July 2002.

Please refer to the section "Directors' Rights to Acquire Shares" for details of the options granted by BOC (BVI) over shares of the Company pursuant to the Pre-Listing Share Option Scheme.

### 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 in full compliance with all the code provisions set out in the "Code on Corporate Governance Practices" contained in Appendix 14 of the Listing Rules and also complies with nearly all the recommended best practices set out in the said Code. For further details, please refer to the "Corporate Governance Report" contained in this Summary Financial Report.

### Major Customers

During the year, the five largest customers of the group accounted for less than 30% of the total of interest income and other operating income of the Group.

### Connected Transactions

The Independent Non-executive Directors have reviewed the transactions which the Company disclosed in a public announcement on 4 January 2005 and 11 April 2006 and confirmed that these transactions were:

- (i) entered into in the ordinary and usual course of business of the Group;

- (ii) conducted either on normal commercial terms or, if there were not sufficient comparable transactions to judge whether they were on normal commercial terms, were on terms that were fair and reasonable so far as the Company's shareholders are concerned;

- (iii) entered into either in accordance with the terms of the agreements governing such transactions or (where there were no such agreements) on terms no less favourable than those available to or from independent third parties, as applicable; and

- (iv) in each case where an annual cap had been set, that such cap was not exceeded.

### Budgetary Discipline and Reporting

The annual budget of the Group is reviewed and approved by the Board of Directors prior to its implementation by the Management. Financial and business targets are allocated to departments and subsidiaries. There are defined procedures for the appraisal, review and approval of major capital and recurring expenditures. Proposed significant expenditures outside the approved budget will be referred to the Board or the relevant Board committee for decision. Financial performance against targets is reported to the Board regularly. Should significant changes arise in

relation to the operations, a revised financial forecast will be submitted to the Board for review and approval in a timely manner.

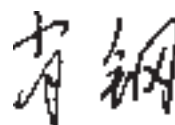
### Compliance with the Guideline on "Financial Disclosure by Locally Incorporated Authorized Institutions"

The financial statements for the year ended 31 December 2006 fully 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.

### Auditors

The financial statements have been audited by PricewaterhouseCoopers. A resolution for their re-appointment as auditors for the ensuing year will be proposed at the forthcoming Annual General Meeting.

On behalf of the Board



**XIAO Gang**

*Chairman*

Hong Kong, 22 March 2007

# CORPORATE GOVERNANCE

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.

This Summary Corporate Governance Report only gives a summary of the information contained in the full Corporate Governance Report which is set out in the 2006 Annual Report of the Company. The Annual Report, incorporating the full Corporate Governance Report, is available (in English and Chinese) 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).

## 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, interim and quarterly reports;
- reviewing and monitoring risk management and internal control;

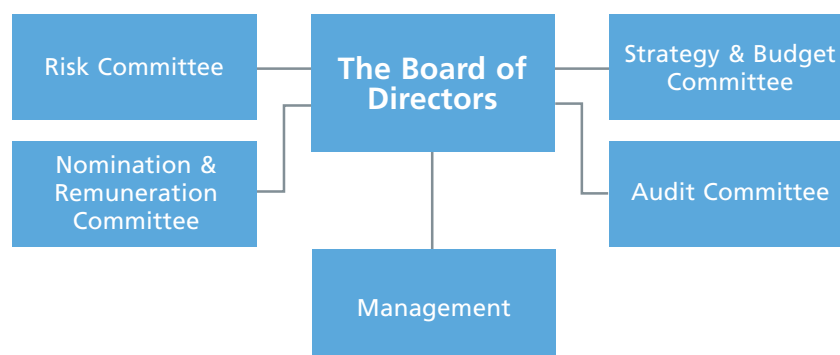
- ensuring good corporate governance and effective compliance; and
- monitoring the performance of the Management.

The Board authorises the Management to execute strategies that have been approved. The Management reports to the Board and is responsible for the day-to-day operation of the Group.

To avoid the concentration of power in any single 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.**

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. Should the need arise, the Board will 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.

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 compositions 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

**Non-executive Directors and independent non-executive Directors form the majority of the Board.** 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 in order to maximise long-term shareholder value and fulfill its corporate responsibility to other stakeholders of the Group. Its decisions are made objectively and in the best interests of the Group.

The Board currently has 13 members, comprising six independent non-executive Directors, six non-executive Directors and one executive Director. Mr. Koh Beng Seng was appointed independent non-executive Director with effect from 23 March 2006 and was duly elected by the shareholders at the annual general meeting held on 26 May 2006 in accordance with the requirement of the Company's Articles of Association. Save as disclosed above, there were no other changes to the composition of the Board in 2006 and 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 experts in financial management.** The Board has

adopted the "Policy on Independence of Directors". 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 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 Summary Financial 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. The Nomination and Remuneration Committee has established a **written and formal process for the appointment of independent non-executive Directors to ensure that the appointment procedures are standardised, thorough and transparent.**

There is no **relationship (including financial, business, family or other material/relevant relationship(s)) among the Board members.** 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 annually.

To ensure that newly appointed Directors have adequate understanding of the Company's business and operation, the Board enforces a **formal system for the initial induction and ongoing professional development of the Directors.**

**Seven Board meetings were held during the year with an average attendance rate of 99%.**

Apart from formal Board meetings and general meetings, there will also be opportunities for the Board and the Management to interact and communicate on relatively less formal occasions. Further, an off-site event will be held annually to enhance communication among Board members, and between the Board and the Management.

### Audit Committee

The Audit Committee currently has seven members comprising one non-executive Director and all the six independent non-executive Directors. Independent non-executive Directors make up 86% of the Committee members. 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 financial statements 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 financial statements, and financial and business review;
- compliance with applicable accounting standards as well as legal and regulatory requirements on financial disclosures; and
- corporate governance framework of the Group and implementation thereof.
- 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, interim review and other non-audit services;
- the Group's internal audit plan for 2006 and key areas identified;
- the deployment of human resources and pay level of the Internal Audit, and the Department's budget for 2006; and
- the 2006 key performance indicators for and 2005 performance appraisal of the Head of Internal Audit.

The work performed by the Audit Committee in 2006 included the review and, where applicable, approval of:

- the Company's Directors' Report and financial statements for the year ended 31 December 2005 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 2006 and the interim results announcement that were recommended to the Board for approval;
- the Company's announcement on quarterly financial and business review for the period ended 30 September 2006 that was recommended to the Board for approval;

In addition, in accordance with international best practices, the Audit Committee **engaged an independent third party to conduct a quality assurance review on the Group's internal audit function** during the year. The review found that many **practices adopted by the Internal Audit Department were in line with the industry**. It also came up with some recommendations for further improvement. The Audit Committee agreed to those recommendations and the Internal Audit Department was tasked to implement necessary measures in that regard to further enhance the effectiveness of the Group's internal audit function.

**Six Audit Committee meetings were held during the year with an average attendance rate of 95%.**

### 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 executives as designated 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 2006 included the review and, where applicable, approval of:

- performance appraisal of the executive Director and designated senior executives for year 2005;
- proposal on staff bonus for year 2005 and salary adjustment for year 2006 for the Group, including the designated senior executives;



- key performance indicators of the Group and the designated senior executives for year 2006;
- medium-term human resources strategies of the Group and the action plan for implementing these strategies;
- important human resources policies such as the “Succession Policy for the Senior Positions of BOCHK”, the “Performance Evaluation Method for the Executives Directly Supervised by the Board”, “Staff Code of Conduct”, the “Reform of Compensation Structure” and so on;
- reports on self-evaluation 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 boards of certain major subsidiaries of the Group.

Pursuant to the “**Policy on Directors’ Remuneration**” adopted by the Company in 2005, 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. **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 packages of the executive Director and designated senior executives.** Currently the principal components of the Company’s remuneration packages for the executive Director and designated senior executives include basic salary, discretionary bonus and other benefits in kind. A significant portion of the executive Director’s or designated senior executives’ discretionary bonus is based on the Group’s and the individual’s performance during the year. The Committee reviews and recommends to the Board the annual performance targets for the executive Director and designated senior executives by reference to the corporate goals and objectives approved by the Board from time to time. The Committee also reviews the performance of the executive Director and designated senior executives against the targets set on an ongoing basis, and reviews and approves their specific performance-based remuneration.

**Five Nomination and Remuneration Committee meetings were held during the year with an average attendance rate of 93%.**

#### **Risk Committee**

The Risk Committee currently has four members, of whom two are non-executive Directors and two are independent non-executive Directors. To be in line with the best corporate governance practices, in March 2006, the Board appointed Mr. Koh Beng Seng, the then newly appointed independent non-executive Director, as the Chairman of the Risk Committee.

The Committee assists the Board in fulfilling its oversight role over the

Company and its subsidiaries in, among others, the following areas:

- formulation of the risk appetite and risk management strategy of the Group, and determination of the Group’s risk profile;
- identification, assessment and management of material risks faced by the various business units of the Group;
- review and assessment of the adequacy and effectiveness of the Group’s risk management process, system and internal control;
- review and monitoring of the Group’s compliance with the risk management policies, process, system and internal control, including the Group’s compliance with requirements of prudence and laws and regulations in business development;
- review and approval of high-level risk-related policies of the Group; and



The Company was granted a *Special Mention Award* by the judges of *Best Corporate Governance Disclosure Awards 2006* organised by the Hong Kong Institute of Certified Public Accountants, in recognition of our commitment to improving corporate governance and disclosure

- review of significant or high risk exposures and transactions.

The work performed by the Committee in 2006 included the following:

- review of risk management limits;
- review of Risk Management Policy Statement, and a range of risk management policies covering credit risk, market risk, operational risk and stress testing;
- review and recommendation to the Board of the proposed approach to calculate minimum capital charge for credit and operational risks under Basel II, and the approval of the policies relating thereto;
- recommendations to the Board for further enhancing the Group's risk management framework and structure;
- review of significant or high risk exposures and transactions; and
- review of periodic risk management reports.

**Six Risk Committee meetings were held during the year with an average attendance rate of 90%.**

### Strategy and Budget Committee

The Strategy and Budget Committee currently comprises five members, of whom two are non-executive Directors, two are independent non-executive Directors, and one is the Chief Executive and executive Director. The Committee is chaired by Mdm. Yang Linda Tsao, 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:

- review and monitoring of the Group's long term strategy;

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

During the year, the Strategy and Budget Committee guided and monitored the Management's implementation of the Group's 2006-2011 Strategic Plan as approved by the Board in 2005. The Committee also played a prominent role in driving the formulation of the Group's key business strategies, including those for the development of China business, SME business, wealth management business, global market business and treasury business. The Committee monitored the implementation of the Group's budget and business plan for 2006. In planning for 2007, the Committee reviewed and endorsed the Group's 2007 financial budget and business plan, and recommended the same to the Board for approval.

**Five Strategy and Budget Committee meetings were held during the year with an average attendance rate of 92%.**

### 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. 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.

### 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.**

The Audit Committee was satisfied that the non-audit services did not affect the independence of PricewaterhouseCoopers. The non-audit service fees paid to PricewaterhouseCoopers in 2006 comprised mainly the tax-related services fee of HK\$2.4 million and the due diligence fee of HK\$4.9 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.

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 Audit Committee and the Board considered that the key areas of the Group's internal control systems were reasonably implemented** to prevent 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.

### Communication with Shareholders and Shareholders' Rights

**The Board attaches a high degree of importance to continuous communication with shareholders**, especially 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 and all Board Committees, and representatives of PricewaterhouseCoopers were present at the Company's 2006 annual general meeting held on 26 May 2006 at the Hong Kong Convention and Exhibition Centre to respond to questions and comments raised by shareholders.

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 announced 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** to safeguard shareholders' rights. The Board has resolved to adopt the same policies if it is granted by the shareholders the general mandates to issue and repurchase shares at the 2007 annual general meeting.

In order to enhance the transparency of shareholders' voting, **all the resolutions proposed at the Company's 2007 annual general meeting will be voted on by poll** as in previous years. 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 2007 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 2007 annual general meeting in a circular** which is despatched together with this Summary Financial Report to the shareholders.

Further shareholder information is set out in the "Shareholder Information" section of this Summary Financial 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, Hong Kong.

### Directors' Responsibility Statement in relation to Financial Statements

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 Summary Financial 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 financial statements.

The Directors are required by the Hong Kong Companies Ordinance to prepare financial statements, which give a true and fair view of the state of affairs of the Company. The financial statements 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 financial statements 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 financial statements contained in this Summary Financial 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.



Offer

rewarding career  
opportunities and  
cultivate staff  
commitment



We encouraged our staff members to take part in community services and charity activities, e.g. the *Olympic Day Run 2006*

## OUR PEOPLE



BOCHK Volunteer Team was organised to echo one of our important core values – Social Responsibility

Staff are cornerstone for corporate growth and development. During the year of 2006, we have continued our efforts in enhancing human resources management, recruitment procedures and staff training programmes, a reflection of our emphasis on “Respect” to staff. Further promotion on the Group’s corporate culture has also been carried out to stress the core value of “Teamwork”. We believe that a generally recognised culture is indispensable for better staff relationship, which in turn, helps promote business development.

### Reforming Human Resources Mechanism

According to the Group’s business development strategy, the Group has been continually enhancing its human resources and compensation policies on the job-based and performance-driven human resources management platform. Additional resources were also allocated to award those employees with excellent performance, so as to retain and attract talents.

Moreover, to enable the job-based system to support the Group’s development, we have reviewed the organisation structures and job establishments during the year. By means of rationalising job establishments and developing professional job series, the Group has enabled the employees to fully realise their potential and develop their careers, aiming at driving business growth through stronger staff motivation.

### Fostering Corporate Culture

The main theme for promotion of 2006 corporate culture was “Teamwork”, which came alongside with the activities related to “Social Responsibility” and “Respect” started in 2005. During the year, BOCHK Volunteers Team has been established, and a number of voluntary activities were organised, such as beach cleaning activity, children’s home and elderly visits. In order to recognise those units which have outstanding performance in promoting team spirit, we have launched the “Teamwork Activities Rewards Scheme”. Under this scheme, “The Departmental Award” and “The Cross-departmental Team

Award” were set up to encourage organisation of teamwork activities by individual units, and to strengthen staff communication and cohesion among different functional units.

As a solicitous employer, we took many initiatives to show our care for staff. “Caring Ambassadors for new staff” program was launched and free medical check up was arranged. We have also compiled an Information Guide which contained service premium and other useful information for distribution to all staff members.

### Recruiting Talents

The Group advocates recruiting talents to cope with the manpower demand in line with our business development and expansion. In 2006, by using various recruitment channels, quality professionals were hired and deployed for various business and functional units, whilst fulfilling the manpower needs from front to back offices. In addition, more focus was put on recruitment in tertiary institutions, in order to recruit high-flyers to replenish our talent pool.



We organised a diverse range of staff recreational and sports activities, like choir performance and Dragon Boat Competition



Apart from capitalising on local talent resources, we also conducted candidate search in the Mainland of China and overseas in order to build an international working team. At the same time, through a series of work-flow improvement on recruitment procedures and the adoption of scientific assessment tools, the efficiency and effectiveness of staff recruitment was significantly increased, leading to a stronger human capital base for the Group.

### Strengthening Staff Training

In 2006, we provided 1,500 courses with 92,000 attendances. With the objective of enhancing our competitiveness to become a top quality financial services group, our training programmes were designed with targets to meet the Group's development strategy and overall human resources plans; to help staff's self improvement and career development, and to build up a learning organisation. Major training activities included a series of workshops and seminars covering risk management, legal and compliance, corporate governance, and corporate

cultures; sales and services skills development sessions, and leadership development courses for senior management. Moreover, Management Trainee Programme and Officer Trainees Programme were provided to fresh university graduates. In addition, efforts have been taken to establish an e-learning platform to assist training, while the launch of self-learning programmes created a dynamic and diversified channel, making training more accessible and flexible.

### Promoting Staff Communication

The Group has strived for effective two-way communications between staff and the management, as well as among staff of different units through various channels. Award Presentation Ceremony was held in order to recognise staff contributions and achievements for the year 2005. A total of 607 staff and 43 teams had been granted outstanding performance awards. We also encouraged our staff members to take part in community services and charity

activities, promoting a sense of "Social Responsibility" and good corporate citizenship among staff.

As to provide healthy activities to the staff, various kinds of recreational activities were held in 2006, including spring time staff gathering, Ocean Park Carnival, outward bound training, exchange activities for different sport teams and leisure classes for staff.



## GOOD CORPORATE CITIZENSHIP



Our sponsorship of *Junior Police Call Leadership and Management Training Project* helps strengthening the management and leadership skills of our younger generation



Our *Internship Programme for Financial Professionals in the Mainland of China* enables university students to gain better insight of the Mainland economy

商界展關懷

caringcompany<sup>2006/07</sup>

Awarded by The Hong Kong Council of Social Service  
香港社會服務聯會頒發

Having been serving Hong Kong for 90 years, Bank of China (Hong Kong) has long been aware that good corporate citizenship is of great significance underpinning our success. Through continuous cooperation with the BOCHK Charitable Foundation (the "Foundation"), we are committed to contributing to the well-being of the community we serve by proactively supporting and initiating a wide range of activities on culture and education, sports and recreation, medical and health care, environmental protection, social welfare and assistance to the needy. In recognition of our good corporate citizenship, the Hong Kong Council of Social Service named the Group the Caring Company in 2006 for the fourth consecutive year.

### Nurturing New Generation

Education and nurturing the younger generation remains one of the principal areas of support of the Foundation.

In 2006, the Foundation awarded scholarships and bursaries amounting to HK\$1.07 million to all the universities and tertiary education institution in Hong Kong, bringing the

total number of benefited students to 985 and the total contribution value to HK\$9.44 million since 1990.

To strengthen the training of management and leadership skills of our younger generation, we sponsored the "Junior Police Call Leadership and Management Training Project" organised by the Hong Kong Police. The project provides 161 classes for more than 6,400 participants in 2006 and 2007. With an aim of promoting the message of road safety among young people, the Foundation supported the Hong Kong Police to organise the "Bank of China (Hong Kong) – Hong Kong Police Youth Road Safety Quiz". The online quiz was well-received with nearly 100,000 entries.

In view of the increasing economic integration between Hong Kong and the Mainland of China, the Group organised for the second year the *Internship Programme for Financial Professionals in the Mainland of China*, which enabled university students in Hong Kong to gain a better understanding of the latest development of the Mainland economy

and finance by undertaking a 4-week internship at the Bank of China Shanghai Branch in the summer of 2006.

### Supporting Sports Development

We are dedicated to promoting sports development in order to encourage the public to lead a healthy way of life.

The Foundation continued its long-standing support to badminton training in Hong Kong through the general *2005-2008 Hong Kong Badminton Development & Training Scheme* and a number of initiatives including *Hong Kong Open Badminton Championships*, *Hong Kong Youth Badminton Championships*, *Badminton Star Award*, *Regional Badminton Training Programme*, *School Badminton Promotion Scheme*, *Badminton Doubles League cum Family Fun Day*. In the past seven years, more than 460,000 participants benefited from the Scheme. In 2006, the Foundation sponsored *Olympic Junior Ambassador team* to visit Guangzhou for a training and exchange programme. It also sponsored the badminton event in the





The *Green School Award* helps spread the environmental awareness among teachers, students and their parents



We sponsored the *Bank of China Hong Kong Sports Stars Awards 2006* to recognise the excellent achievements of the Hong Kong sports elites

2006 Corporate Games. Cash awards were also presented to Hong Kong badminton medalists in recognition of their remarkable achievements at the 15th Asian Games Doha 2006.

In order to help Hong Kong's young athletes pursue sporting excellence, the Foundation continued its sponsorship of the Hong Kong Island & Kowloon Regional Inter-school Sports Competition and the competition's top-honour award, the *BOCHK Bauhinia Bowls Award*. A total of 45,000 athlete enrolments from over 270 schools participated in 8,200 matches of this competition.

The 2008 Olympics and Paralympics in Beijing and the co-hosting of the Equestrian Events in Hong Kong create a golden opportunity for fostering sports development in Hong Kong. The Foundation introduced a brand new *Olympic Equestrian Training Course* for teachers in September in order to enhance the knowledge and appreciation of equestrian sports by teachers and their students. The Group also fully supported the Jumping Fence Design Competition

for the Show Jumping Event in the Equestrian Events, aiming to arouse and promote interests in the 2008 Olympics Equestrian Events by means of a creative art design competition.

While giving high recognition to the excellent achievements of the Hong Kong sports elites, we also advocate a sporting lifestyle and the "sports for all" message to the public. Organised by the Sports Federation & Olympic Committee of Hong Kong, China, the *Bank of China Hong Kong Sports Stars Awards* and the *Olympic Day Run* were launched with the strong support from BOCHK.

### Promoting Environmental Protection

The Foundation spared no effort in enhancing environmental awareness

Both Bank of China Tower (in Central) and Bank of China Centre (in Olympic City) received the *Indoor Air Quality Certificate (Excellent Class)* granted by the Environmental Protection Department





Our support of the *Hong Kong Response Exhibition of the 10th Venice Architectural Biennale* allowed the general public to enjoy the distinct architectural artworks

and promoting green lifestyle among teachers, students and their parents through the *Sixth Green School Award* in 2006. Three new programmes, namely, *Power Saving Action for Schools*, *Environmental Shopping Bag Design Competition*, and *Green Lunch Campaign* were held in the school year. Since 2000, the number of *Green Schools* amounted to 198 with over 1,013 participating schools.

Apart from raising public awareness, the Foundation also sponsored the Hong Kong Tree Planting Day 2006 held at Pak Tam Chung in Sai Kung. Among the 2,000 participants, about 300 were volunteer staff of the Group and their family members.

To help save the environment and facilitate computer learning of the needy students, the Group donated refurbished computers and related accessories to the "Home-School-Community Computer Donation Campaign" of the Computer Recycling Scheme organised by the Education and Manpower Bureau and the Hong Kong Council of Social Service. The Group's staff volunteers helped refurbish the computers. The Group also participated in the One Company-

One Year-One Environmental Project of the Federation of Hong Kong Industries and committed to the implementation of environmental projects within our workplace.

### Bringing Cultural Enrichment

The Group is committed to promoting arts and cultural development in Hong Kong. The Group, together with the Hong Kong Philharmonic Orchestra, also brought *Mozart in the City* that marked the 250th anniversary of Mozart's birth to the audience. To enable people from different walks of life to preview the Mozart concerts, we organised two Mini-Mozart Concerts at both the Bank of China Tower for our staff, tenants and the Times Square for the general public. All of these were well-received by the audience.

To enable the public to enjoy the distinct artworks from the **VICE VERSA: displacing Acts, Lives and Thresholds of a Hyper City** presented by the Hong Kong Institute of Architects and the Hong Kong Arts Development Council at the *10th Venice Architectural Biennale*, the Group helped staging the Hong Kong Response Exhibition in November at the Bank of China Tower.

*Le French May – The Pace of Nature, Oil Paintings by Claire Basler* held in May was the second time we staged an international painting exhibition at the Bank of China Tower.

### Helping the Needy

During the year, the Foundation joined hands with the Hong Kong Red Cross Blood Transfusion Service again to organise the *Blood Donation Week*. A total of 915 people donated blood at the Bank of China Tower, Bank of China Centre and City One Plaza. Among them, 224 came from the Group's staff members.

In 2006, the Group provided financial support and actively participated in a wide variety of charitable activities such as *Treasure Hunt Corporate Challenge*, *Run-up Two IFC Charity Race 2006*, *Be A Star Charity Christmas Lunch*, *Charity Soccer Match for Yan Chai Hospital* and *MTR Hong Kong Race Walking 2006*. We are also the Diamond Sponsor of Po Leung Kuk for nine consecutive years.

During the year, we sent out 2.83 million inserts of 9 charitable organisations in bank statements of customers.

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# CONSOLIDATED INCOME STATEMENT

For the year ended 31 December	Note	2006 HK\$'m	Restated 2005 HK\$'m
Interest income		40,271	26,177
Interest expense		(24,436)	(13,053)
<b>Net interest income</b>		<b>15,835</b>	13,124
Fees and commission income		4,985	4,006
Fees and commission expenses		(1,268)	(1,061)
<b>Net fees and commission income</b>		<b>3,717</b>	2,945
Net trading income		1,888	1,446
Net loss on investments in securities		(5)	(96)
Net insurance premium income		6,195	3,630
Other operating income		334	487
<b>Total operating income</b>		<b>27,964</b>	21,536
Net insurance benefits and claims		(6,655)	(3,362)
<b>Net operating income before loan impairment allowances</b>		<b>21,309</b>	18,174
Reversal of loan impairment allowances		1,790	2,645
<b>Net operating income</b>		<b>23,099</b>	20,819
Operating expenses		(6,558)	(5,771)
<b>Operating profit</b>		<b>16,541</b>	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
<b>Profit before taxation</b>		<b>17,139</b>	16,502
Taxation		(2,855)	(2,646)
<b>Profit for the year</b>		<b>14,284</b>	13,856
<b>Attributable to:</b>			
Equity holders of the Company		14,007	13,596
Minority interests		277	260
		<b>14,284</b>	13,856
<b>Dividends</b>		<b>8,966</b>	8,543
		<b>HK\$</b>	<b>HK\$</b>
<b>Earnings per share for profit attributable to the equity holders of the Company</b>	3	<b>1.3248</b>	1.2859

The notes on pages 76 to 101 are an integral part of these Summary Financial Statements.

# CONSOLIDATED BALANCE SHEET

As at 31 December	Notes	2006 HK\$'m	Restated 2005 HK\$'m
<b>ASSETS</b>			
Cash and balances with banks and other financial institutions		<b>30,973</b>	30,704
Placements with banks and other financial institutions		<b>130,636</b>	125,862
Trading securities and other financial instruments at fair value through profit or loss		<b>28,294</b>	20,365
Derivative financial instruments		<b>7,393</b>	5,184
Hong Kong SAR Government certificates of indebtedness		<b>34,750</b>	32,630
Advances and other accounts		<b>352,858</b>	338,403
Investment in securities			
– Available-for-sale securities		<b>100,389</b>	52,243
– Held-to-maturity securities		<b>165,588</b>	178,521
– Loans and receivables		<b>36,114</b>	13,080
Interests in associates		<b>60</b>	61
Properties, plant and equipment	5	<b>19,740</b>	18,491
Investment properties	6	<b>7,481</b>	7,626
Deferred tax assets	7	<b>69</b>	68
Other assets		<b>14,608</b>	7,764
<b>Total assets</b>		<b>928,953</b>	831,002
<b>LIABILITIES</b>			
Hong Kong SAR currency notes in circulation		<b>34,750</b>	32,630
Deposits and balances of banks and other financial institutions		<b>49,034</b>	40,655
Trading liabilities and other financial instruments at fair value through profit or loss		<b>12,629</b>	7,924
Derivative financial instruments		<b>4,052</b>	4,193
Deposits from customers		<b>694,691</b>	632,658
Certificates of deposit issued			
– at fair value through profit or loss		<b>2,498</b>	3,829
– at amortised cost		–	136
Insurance contract liabilities		<b>14,239</b>	7,968
Current tax liabilities		<b>1,128</b>	889
Deferred tax liabilities	7	<b>3,391</b>	3,055
Other accounts and provisions		<b>25,901</b>	15,352
<b>Total liabilities</b>		<b>842,313</b>	749,289
<b>EQUITY</b>			
Share capital	8	<b>52,864</b>	52,864
Reserves	9	<b>31,791</b>	27,071
Capital and reserves attributable to the equity holders of the Company		<b>84,655</b>	79,935
Minority interests		<b>1,985</b>	1,778
<b>Total equity</b>		<b>86,640</b>	81,713
<b>Total liabilities and equity</b>		<b>928,953</b>	831,002

The notes on pages 76 to 101 are an integral part of these Summary Financial Statements.

Approved by the Board of Directors on 22 March 2007 and signed on behalf of the Board by:



**XIAO Gang**  
Director



**HE Guangbei**  
Director

# NOTES TO THE FINANCIAL STATEMENTS

## 1. Basis of preparation

These Summary Financial Statements have been prepared from the Annual Financial Statements of the BOC Hong Kong (Holdings) Limited (“Annual Financial Statements”) for the year ended 31 December 2006.

The Annual 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 Annual 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.

## 2. Financial risk management

This note summarises the Group’s control of credit risk, market risk, interest rate risk and liquidity risk, and presents financial information about the exposure to the use of financial instruments.

### *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. 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.

## 2. Financial risk management (continued)

### **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 the 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.

### **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 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.

## 2. Financial risk management (continued)

### *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.



## 2. Financial risk management (continued)

### (A) Geographical concentrations of assets, liabilities and off-balance sheet items

The following note incorporates the requirements on risk disclosures of HKAS 32 and geographical concentrations of risk of HKAS 30, based on the location of the subsidiary, associate or branch in which the related item is recorded.

Capital expenditure is shown by the geographical area in which the buildings and equipment are located.

	2006				
	Total assets HK\$'m	Total liabilities HK\$'m	Contingent liabilities and commitments HK\$'m	Net operating income before loan impairment allowances HK\$'m	Capital expenditure HK\$'m
Hong Kong	912,699	833,480	172,404	20,679	726
Mainland China	15,525	8,122	15,189	609	9
Others	729	711	188	21	1
	<b>928,953</b>	<b>842,313</b>	<b>187,781</b>	<b>21,309</b>	<b>736</b>

	2005				
	Total assets HK\$'m	Total liabilities HK\$'m	Contingent liabilities and commitments HK\$'m	Net operating income before loan impairment allowances HK\$'m	Capital expenditure HK\$'m
Hong Kong	808,614	744,413	146,072	17,650	562
Mainland China	21,838	4,508	15,498	500	7
Others	550	368	112	24	–
	<b>831,002</b>	<b>749,289</b>	<b>161,682</b>	<b>18,174</b>	<b>569</b>

**2. Financial risk management (continued)**
**(B) Currency risk**

Tables below summarise the Group's exposure to foreign currency exchange rate risk as at 31 December. Included in the tables are the Group's assets and liabilities at carrying amounts in HK\$ equivalent, categorised by the original currency.

	2006							
	Renminbi HK\$'m	US Dollars HK\$'m	HK Dollars HK\$'m	EURO HK\$'m	Japanese Yen HK\$'m	Pound Sterling HK\$'m	Others HK\$'m	Total HK\$'m
<b>Assets</b>								
Cash and balances with banks and other financial institutions	24,474	3,365	2,676	126	183	56	93	30,973
Placements with banks and other financial institutions	707	35,142	89,781	947	497	768	2,794	130,636
Trading securities and other financial instruments at fair value through profit or loss	-	8,598	17,644	1,041	-	-	1,011	28,294
Derivative financial instruments	-	203	7,190	-	-	-	-	7,393
Hong Kong SAR Government certificates of indebtedness	-	-	34,750	-	-	-	-	34,750
Advances and other accounts	4,559	54,737	285,796	2,505	1,678	1,001	2,582	352,858
Available-for-sale securities	-	58,627	29,012	4,200	-	2,118	6,432	100,389
Held-to-maturity securities	-	98,960	45,780	3,815	-	1,790	15,243	165,588
Loans and receivables	-	2,556	32,909	-	-	302	347	36,114
Interests in associates	-	-	60	-	-	-	-	60
Properties, plant and equipment	69	1	19,670	-	-	-	-	19,740
Investment properties	-	-	7,481	-	-	-	-	7,481
Other assets (including deferred tax assets)	59	294	13,818	99	122	85	200	14,677
<b>Total assets</b>	<b>29,868</b>	<b>262,483</b>	<b>586,567</b>	<b>12,733</b>	<b>2,480</b>	<b>6,120</b>	<b>28,702</b>	<b>928,953</b>
<b>Liabilities</b>								
Hong Kong SAR currency notes in circulation	-	-	34,750	-	-	-	-	34,750
Deposits and balances of banks and other financial institutions	17,198	16,587	12,590	1,112	415	97	1,035	49,034
Trading liabilities and other financial instruments at fair value through profit or loss	-	3,342	9,287	-	-	-	-	12,629
Derivative financial instruments	-	450	3,602	-	-	-	-	4,052
Deposits from customers	10,994	143,913	485,066	5,893	3,609	11,968	33,248	694,691
Certificates of deposit issued	-	987	1,511	-	-	-	-	2,498
Insurance contract liabilities	-	2,130	12,109	-	-	-	-	14,239
Other accounts and provisions (including current and deferred tax liabilities)	451	8,369	20,497	274	131	92	606	30,420
<b>Total liabilities</b>	<b>28,643</b>	<b>175,778</b>	<b>579,412</b>	<b>7,279</b>	<b>4,155</b>	<b>12,157</b>	<b>34,889</b>	<b>842,313</b>
Net on-balance sheet position	1,225	86,705	7,155	5,454	(1,675)	(6,037)	(6,187)	86,640
Off-balance sheet net notional position*	54	(83,503)	77,982	(5,501)	1,817	6,012	6,433	3,294
Contingent liabilities and commitments	2,666	42,196	137,875	2,643	527	117	1,757	187,781

\* Off-balance sheet net notional position represents the net notional amounts of foreign currency derivative financial instruments, which are principally used to reduce the Group's exposure to currency movements.

**2. Financial risk management (continued)**  
**(B) Currency risk (continued)**

	2005							Total HK\$'m
	Renminbi HK\$'m	US Dollars HK\$'m	HK Dollars HK\$'m	EURO HK\$'m	Japanese Yen HK\$'m	Pound Sterling HK\$'m	Others HK\$'m	
<b>Assets</b>								
Cash and balances with banks and other financial institutions	22,730	4,752	2,697	153	154	103	115	30,704
Placements with banks and other financial institutions	262	35,833	82,389	371	–	3,064	3,943	125,862
Trading securities and other financial instruments at fair value through profit or loss	–	6,549	11,099	1,209	–	–	1,508	20,365
Derivative financial instruments	–	874	4,310	–	–	–	–	5,184
Hong Kong SAR Government certificates of indebtedness	–	–	32,630	–	–	–	–	32,630
Advances and other accounts	1,961	47,896	279,042	3,738	2,423	831	2,512	338,403
Available-for-sale securities	–	26,033	19,283	2,414	–	1,011	3,502	52,243
Held-to-maturity securities	–	101,694	57,640	4,003	243	1,288	13,653	178,521
Loans and receivables	–	1,704	9,778	–	–	–	1,598	13,080
Interests in associates	–	–	61	–	–	–	–	61
Properties, plant and equipment	61	–	18,430	–	–	–	–	18,491
Investment properties	–	–	7,626	–	–	–	–	7,626
Other assets (including deferred tax assets)	19	744	7,025	–	–	9	35	7,832
<b>Total assets</b>	<b>25,033</b>	<b>226,079</b>	<b>532,010</b>	<b>11,888</b>	<b>2,820</b>	<b>6,306</b>	<b>26,866</b>	<b>831,002</b>
<b>Liabilities</b>								
Hong Kong SAR currency notes in circulation	–	–	32,630	–	–	–	–	32,630
Deposits and balances of banks and other financial institutions	14,150	9,245	12,507	247	3,389	63	1,054	40,655
Trading liabilities and other financial instruments at fair value through profit or loss	–	2,746	5,178	–	–	–	–	7,924
Derivative financial instruments	–	840	3,353	–	–	–	–	4,193
Deposits from customers	9,210	132,105	427,160	6,787	2,693	13,199	41,504	632,658
Certificates of deposit issued	–	1,325	2,640	–	–	–	–	3,965
Insurance contract liabilities	–	1,019	6,949	–	–	–	–	7,968
Other accounts and provisions (including current and deferred tax liabilities)	629	5,879	11,253	222	131	196	986	19,296
<b>Total liabilities</b>	<b>23,989</b>	<b>153,159</b>	<b>501,670</b>	<b>7,256</b>	<b>6,213</b>	<b>13,458</b>	<b>43,544</b>	<b>749,289</b>
Net on-balance sheet position	1,044	72,920	30,340	4,632	(3,393)	(7,152)	(16,678)	81,713
Off-balance sheet net notional position	(5)	(68,875)	48,257	(4,575)	3,392	7,146	16,811	2,151
Contingent liabilities and commitments	1,558	34,600	121,423	1,945	812	50	1,294	161,682

## 2. Financial risk management (continued)

### (C) Interest rate risk

Tables below summarise the Group's exposure to interest rate risk as at 31 December. Included in the tables are the Group's assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates. The carrying amounts of derivative financial instruments which are principally used to reduce the Group's exposure to interest rate movements are under the column captioned 'Non-interest bearing'.

	2006						
	Up to 1	1-3	3-12	1-5	Over 5	Non-	Total
	month	months	months	years	years	interest	
HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m	
<b>Assets</b>							
Cash and balances with banks and other financial institutions	24,894	-	-	-	-	6,079	30,973
Placements with banks and other financial institutions	74,263	47,717	8,656	-	-	-	130,636
Trading securities and other financial instruments at fair value through profit or loss	4,623	4,729	1,829	3,243	11,977	1,893	28,294
Derivative financial instruments	-	-	-	-	-	7,393	7,393
Hong Kong SAR Government certificates of indebtedness	-	-	-	-	-	34,750	34,750
Advances and other accounts	303,273	32,873	11,096	2,487	420	2,709	352,858
Available-for-sale securities	5,578	14,102	5,402	27,529	47,728	50	100,389
Held-to-maturity securities	25,050	38,721	32,265	41,105	28,447	-	165,588
Loans and receivables	2,429	12,753	20,932	-	-	-	36,114
Interests in associates	-	-	-	-	-	60	60
Properties, plant and equipment	-	-	-	-	-	19,740	19,740
Investment properties	-	-	-	-	-	7,481	7,481
Other assets (including deferred tax assets)	-	-	-	-	-	14,677	14,677
<b>Total assets</b>	<b>440,110</b>	<b>150,895</b>	<b>80,180</b>	<b>74,364</b>	<b>88,572</b>	<b>94,832</b>	<b>928,953</b>
<b>Liabilities</b>							
Hong Kong SAR currency notes in circulation	-	-	-	-	-	34,750	34,750
Deposits and balances of banks and other financial institutions	44,271	955	2,692	-	-	1,116	49,034
Trading liabilities and other financial instruments at fair value through profit or loss	6,025	3,603	2,946	55	-	-	12,629
Derivative financial instruments	-	-	-	-	-	4,052	4,052
Deposits from customers	565,717	77,894	21,891	996	18	28,175	694,691
Certificates of deposit issued	-	-	514	1,984	-	-	2,498
Insurance contract liabilities	-	-	-	-	-	14,239	14,239
Other accounts and provisions (including current and deferred tax liabilities)	6,298	99	-	-	-	24,023	30,420
<b>Total liabilities</b>	<b>622,311</b>	<b>82,551</b>	<b>28,043</b>	<b>3,035</b>	<b>18</b>	<b>106,355</b>	<b>842,313</b>
Interest sensitivity gap	(182,201)	68,344	52,137	71,329	88,554	(11,523)	86,640

2. Financial risk management (continued)  
(C) Interest rate risk (continued)

	2005						
	Up to 1 month HK\$'m	1-3 months HK\$'m	3-12 months HK\$'m	1-5 years HK\$'m	Over 5 years HK\$'m	Non- interest bearing HK\$'m	Total HK\$'m
<b>Assets</b>							
Cash and balances with banks and other financial institutions	26,846	–	–	–	–	3,858	30,704
Placements with banks and other financial institutions	78,240	40,141	7,479	–	–	2	125,862
Trading securities and other financial instruments at fair value through profit or loss	3,243	3,908	2,015	3,495	7,348	356	20,365
Derivative financial instruments	–	–	–	–	–	5,184	5,184
Hong Kong SAR Government certificates of indebtedness	–	–	–	–	–	32,630	32,630
Advances and other accounts	276,408	40,833	12,770	4,715	474	3,203	338,403
Available-for-sale securities	4,976	7,574	1,930	20,547	17,160	56	52,243
Held-to-maturity securities	27,990	46,049	34,953	53,587	15,942	–	178,521
Loans and receivables	3,466	3,351	6,263	–	–	–	13,080
Interests in associates	–	–	–	–	–	61	61
Properties, plant and equipment	–	–	–	–	–	18,491	18,491
Investment properties	–	–	–	–	–	7,626	7,626
Other assets (including deferred tax assets)	–	–	–	–	–	7,832	7,832
<b>Total assets</b>	421,169	141,856	65,410	82,344	40,924	79,299	831,002
<b>Liabilities</b>							
Hong Kong SAR currency notes in circulation	–	–	–	–	–	32,630	32,630
Deposits and balances of banks and other financial institutions	34,444	1,709	3,015	–	–	1,487	40,655
Trading liabilities and other financial instruments at fair value through profit or loss	1,725	2,097	1,310	2,792	–	–	7,924
Derivative financial instruments	–	–	–	–	–	4,193	4,193
Deposits from customers	454,663	131,904	21,937	1,478	–	22,676	632,658
Certificates of deposit issued	–	250	2,378	1,337	–	–	3,965
Insurance contract liabilities	–	–	–	–	–	7,968	7,968
Other accounts and provisions (including current and deferred tax liabilities)	4,911	–	–	–	–	14,385	19,296
<b>Total liabilities</b>	495,743	135,960	28,640	5,607	–	83,339	749,289
Interest sensitivity gap	(74,574)	5,896	36,770	76,737	40,924	(4,040)	81,713

**2. Financial risk management (continued)**
**(C) Interest rate risk (continued)**

Tables below summarise the effective interest rate by major currencies for monetary financial instruments not carried at fair value through profit or loss subject to interest rate risk as at 31 December:

	2006					
	Renminbi %	US Dollars %	HK Dollars %	EURO %	Japanese Yen %	Pound Sterling %
<b>Assets</b>						
Cash and balances with banks and other financial institutions	1.00	3.25	0.96	2.11	0.09	2.04
Placements with banks and other financial institutions	1.87	5.23	4.06	3.63	0.32	5.34
Advances to customers	5.86	6.25	5.21	4.92	1.61	5.17
Advances to banks and other financial institutions	–	5.57	4.12	3.78	0.72	–
Available-for-sale securities	–	5.62	3.99	3.47	–	5.19
Held-to-maturity securities	–	4.91	4.17	3.57	–	5.50
Loans and receivables	–	5.30	3.90	–	–	4.70
<b>Liabilities</b>						
Deposits and balances of banks and other financial institutions	1.25	5.11	3.64	3.60	0.24	5.23
Deposits from customers	0.75	3.78	3.01	2.01	–	3.68
Certificates of deposit issued	–	3.39	3.63	–	–	–

	2005					
	Renminbi %	US Dollars %	HK Dollars %	EURO %	Japanese Yen %	Pound Sterling %
<b>Assets</b>						
Cash and balances with banks and other financial institutions	0.99	3.34	0.83	0.82	–	1.35
Placements with banks and other financial institutions	1.05	4.22	4.10	2.40	–	4.58
Advances to customers	5.01	5.17	5.32	3.30	1.22	4.74
Advances to banks and other financial institutions	–	4.38	4.31	–	0.27	–
Available-for-sale securities	–	4.92	3.81	2.91	–	4.61
Held-to-maturity securities	–	4.12	4.03	2.92	0.23	4.68
Loans and receivables	–	4.15	3.92	–	–	–
<b>Liabilities</b>						
Deposits and balances of banks and other financial institutions	0.96	4.03	3.79	2.35	0.05	4.28
Deposits from customers	0.65	3.02	3.04	1.16	–	3.05
Certificates of deposit issued	–	3.02	3.05	–	–	–

## 2. Financial risk management (continued)

### (D) Liquidity risk

Tables below analyse assets and liabilities of the Group as at 31 December into relevant maturity groupings based on the remaining period at balance sheet date to the contractual maturity date.

	2006							Total HK\$'m
	On demand HK\$'m	Up to 1 month HK\$'m	1-3 months HK\$'m	3-12 months HK\$'m	1-5 years HK\$'m	Over 5 years HK\$'m	Undated HK\$'m	
<b>Assets</b>								
Cash and balances with banks and other financial institutions	30,973	-	-	-	-	-	-	30,973
Placements with banks and other financial institutions	-	74,263	47,717	8,656	-	-	-	130,636
Trading securities and other financial instruments at fair value through profit or loss								
– debt securities								
– certificates of deposit held	-	10	104	279	875	1,454	-	2,722
– others	-	1,331	2,345	3,717	5,462	11,719	675	25,249
– equity securities	-	-	-	-	-	-	323	323
Derivative financial instruments	6,218	537	217	109	274	38	-	7,393
Hong Kong SAR Government certificates of indebtedness	34,750	-	-	-	-	-	-	34,750
Advances and other accounts								
– advances to customers	28,497	8,085	15,471	39,287	136,122	116,931	1,594	345,987
– trade bills	76	1,670	1,030	350	-	-	2	3,128
– advances to banks and other financial institutions	-	-	156	940	2,647	-	-	3,743
Available-for-sale securities								
– debt securities								
– certificates of deposit held	-	157	-	2,512	5,479	-	-	8,148
– others	-	1,735	5,643	4,101	30,893	49,819	-	92,191
– equity securities	-	-	-	-	-	-	50	50
Held-to-maturity securities								
– debt securities								
– certificates of deposit held	-	1,600	1,205	3,176	3,386	-	-	9,367
– others	-	3,759	7,700	35,308	79,067	30,387	-	156,221
Loans and receivables	-	2,429	12,753	20,932	-	-	-	36,114
Interests in associates	-	-	-	-	-	-	60	60
Properties, plant and equipment	-	-	-	-	-	-	19,740	19,740
Investment properties	-	-	-	-	-	-	7,481	7,481
Other assets (including deferred tax assets)	4,185	9,773	2	247	131	163	176	14,677
<b>Total assets</b>	<b>104,699</b>	<b>105,349</b>	<b>94,343</b>	<b>119,614</b>	<b>264,336</b>	<b>210,511</b>	<b>30,101</b>	<b>928,953</b>
<b>Liabilities</b>								
Hong Kong SAR currency notes in circulation	34,750	-	-	-	-	-	-	34,750
Deposits and balances of banks and other financial institutions	20,982	24,405	955	2,692	-	-	-	49,034
Trading liabilities and other financial instruments at fair value through profit or loss								
Derivative financial instruments	2,963	231	86	90	590	92	-	4,052
Deposits from customers	289,650	304,216	77,585	22,272	950	18	-	694,691
Certificates of deposit issued	-	-	-	514	1,984	-	-	2,498
Insurance contract liabilities	-	-	-	-	-	14,239	-	14,239
Other accounts and provisions (including current and deferred tax liabilities)	13,919	9,615	1,226	1,253	3,963	-	444	30,420
<b>Total liabilities</b>	<b>362,264</b>	<b>340,389</b>	<b>81,662</b>	<b>32,264</b>	<b>10,639</b>	<b>14,651</b>	<b>444</b>	<b>842,313</b>
Net liquidity gap	(257,565)	(235,040)	12,681	87,350	253,697	195,860	29,657	86,640

**2. Financial risk management (continued)**  
**(D) Liquidity risk (continued)**

	2005							Total HK\$'m
	On demand HK\$'m	Up to 1 month HK\$'m	1-3 months HK\$'m	3-12 months HK\$'m	1-5 years HK\$'m	Over 5 years HK\$'m	Undated HK\$'m	
<b>Assets</b>								
Cash and balances with banks and other financial institutions	30,704	–	–	–	–	–	–	30,704
Placements with banks and other financial institutions	–	78,251	40,145	7,466	–	–	–	125,862
Trading securities and other financial instruments at fair value through profit or loss								
– debt securities								
– certificates of deposit held	–	–	114	60	963	761	–	1,898
– others	–	140	1,320	2,001	7,502	7,172	–	18,135
– equity securities	–	–	–	–	–	–	332	332
Derivative financial instruments	4,576	198	227	54	98	31	–	5,184
Hong Kong SAR Government certificates of indebtedness	32,630	–	–	–	–	–	–	32,630
Advances and other accounts								
– advances to customers	25,368	6,710	16,133	31,534	132,520	118,015	2,029	332,309
– trade bills	101	1,125	1,460	353	–	–	–	3,039
– advances to banks and other financial institutions	102	164	267	376	2,146	–	–	3,055
Available-for-sale securities								
– debt securities								
– certificates of deposit held	–	101	200	356	3,521	–	–	4,178
– others	–	1,609	2,598	1,673	23,680	18,449	–	48,009
– equity securities	–	–	–	–	–	–	56	56
Held-to-maturity securities								
– debt securities								
– certificates of deposit held	–	884	3,846	4,430	5,117	202	–	14,479
– others	–	1,005	6,088	27,278	111,417	18,254	–	164,042
Loans and receivables	–	3,466	3,351	6,263	–	–	–	13,080
Interests in associates	–	–	–	–	–	–	61	61
Properties, plant and equipment	–	–	–	–	–	–	18,491	18,491
Investment properties	–	–	–	–	–	–	7,626	7,626
Other assets (including deferred tax assets)	6,014	1,389	–	239	111	–	79	7,832
<b>Total assets</b>	<b>99,495</b>	<b>95,042</b>	<b>75,749</b>	<b>82,083</b>	<b>287,075</b>	<b>162,884</b>	<b>28,674</b>	<b>831,002</b>
<b>Liabilities</b>								
Hong Kong SAR currency notes in circulation	32,630	–	–	–	–	–	–	32,630
Deposits and balances of banks and other financial institutions	21,112	15,479	1,049	3,015	–	–	–	40,655
Trading liabilities and other financial instruments at fair value through profit or loss								
– debt securities	–	641	1,411	1,750	3,560	562	–	7,924
– equity securities	2,601	427	146	239	616	164	–	4,193
Derivative financial instruments	247,534	229,779	131,900	21,939	1,506	–	–	632,658
Deposits from customers	–	–	–	2,336	1,629	–	–	3,965
Certificates of deposit issued	–	–	–	–	–	7,968	–	7,968
Insurance contract liabilities	–	–	–	–	–	–	–	–
Other accounts and provisions (including current and deferred tax liabilities)	12,034	1,602	1,034	1,045	3,131	1	449	19,296
<b>Total liabilities</b>	<b>315,911</b>	<b>247,928</b>	<b>135,540</b>	<b>30,324</b>	<b>10,442</b>	<b>8,695</b>	<b>449</b>	<b>749,289</b>
Net liquidity gap	(216,416)	(152,886)	(59,791)	51,759	276,633	154,189	28,225	81,713



## 2. Financial risk management (continued)

### (D) *Liquidity risk (continued)*

The above maturity classifications have been prepared in accordance with the guideline on “Financial Disclosure by Locally Incorporated Authorized Institutions” under the Supervisory Policy Manual issued by the HKMA. In accordance with the guideline, the Group has reported assets such as advances and debt securities which have been overdue for not more than one month as “Repayable on demand”. In the case of an asset that is repayable by different payments or instalments, only that portion of the asset that is actually overdue is reported as overdue. Any part of the asset that is not due is reported according to the residual maturity unless the repayment of the asset is in doubt in which case the amount is reported as “Undated”. The above assets are stated after deduction of provisions, if any.

The analysis of debt securities by remaining period to maturity is disclosed in order to comply with the guideline on “Financial Disclosure by Locally Incorporated Authorized Institutions” under the Supervisory Policy Manual issued by the HKMA. The disclosure does not imply that the securities will be held to maturity.

### (E) *Fair values of financial assets and liabilities*

Fair value estimates are made at a specific point in time based on relevant market information and information about various financial instruments. The following methods and assumptions have been used to estimate the fair value of each class of financial instrument as far as practicable.

#### **Balances with banks and other financial institutions and Trade bills**

The maturities of these financial assets and liabilities are within one year and the carrying value approximates fair value.

#### **Advances to customers, banks and other financial institutions**

Substantially all the advances to customers, banks and other financial institutions are on floating rate terms, bear interest at prevailing market interest rates and their carrying value approximates fair value.

#### **Held-to-maturity securities**

Fair value for held-to-maturity securities is based on market prices or broker/dealer price quotations. Where this information is not available, fair value has been estimated using quoted market prices for securities with similar credit, maturity and yield characteristics. Their carrying value approximates fair value.

#### **Loans and receivables and Certificates of deposit issued**

A discounted cash flow model is used based on a current yield curve appropriate for the remaining term to maturity and their carrying value approximates fair value.

#### **Deposits from customers**

Substantially all the deposits from customers mature within one year from balance sheet date and their carrying value approximates fair value.

## 2. Financial risk management (continued)

### (F) *Fiduciary activities*

The Group provides custody, trustee and investment management services to third parties which involve the Group providing both settlement functions and book keeping services to the beneficiaries. Those assets that are held in a fiduciary capacity are not included in these financial statements. As at 31 December 2006, the Group had a balance of securities custody accounts amounting to approximately HK\$224,000 million (2005: HK\$175,412 million).

## 3. 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).

## 4. Directors' and senior management's emoluments

### (a) *Directors' emoluments*

Details of the emoluments paid to or receivable by the directors of the Company in respect of their services rendered for managing the subsidiaries within the Group during the year are as follows:

For the year 2006	Directors' fees HK\$'000	Basic salaries, allowances and benefits in kind HK\$'000	Bonus HK\$'000	Total HK\$'000
<b>Executive Director</b>				
He Guangbei	300	4,658	1,818	6,776
<b>Non-executive Directors</b>				
Xiao Gang	222	–	–	222
Sun Changji	300	–	–	300
Hua Qingshan	300	–	–	300
Li Zaohang	250	–	–	250
Zhou Zaiqun	300	–	–	300
Zhang Yanling	250	–	–	250
Fung Victor Kwok King*	300	–	–	300
Koh Beng Seng*	272	–	–	272
Shan Weijian*	350	–	–	350
Tung Chee Chen*	300	–	–	300
Tung Savio Wai-Hok*	350	–	–	350
Yang Linda Tsao*	400	–	–	400
	<b>3,894</b>	<b>4,658</b>	<b>1,818</b>	<b>10,370</b>

**4. Directors' and senior management's emoluments (continued)**  
**(a) Directors' emoluments (continued)**

For the year 2005	Directors' fees HK\$'000	Basic salaries, allowances and benefits in kind HK\$'000	Bonus HK\$'000	Total HK\$'000
<b>Executive Director</b>				
He Guangbei	331	4,728	1,969	7,028
<b>Non-executive Directors</b>				
Xiao Gang	300	–	–	300
Sun Changji	300	–	–	300
Hua Qingshan	254	–	–	254
Li Zaohang	250	–	–	250
Zhou Zaiqun	254	–	–	254
Zhang Yanling	250	–	–	250
Fung Victor Kwok King*	300	–	–	300
Shan Weijian*	350	–	–	350
Tung Chee Chen*	300	–	–	300
Tung Savio Wai-Hok*	29	–	–	29
Yang Linda Tsao*	263	–	–	263
	<b>3,181</b>	<b>4,728</b>	<b>1,969</b>	<b>9,878</b>

Note:

\* Independent Non-executive Directors

In July 2002, options were granted to several directors of the Company by the immediate holding company, BOC (BVI), under the Pre-Listing Share Option Scheme. During the year, no options were exercised and no benefits arising from the granting of these share options were included in the directors' emoluments disclosed above or recognised in the income statement.

For details of policies on directors' emoluments please refer to the Corporate Governance Report.

**4. Directors' and senior management's emoluments (continued)****(b) Five highest paid individuals**

The five individuals whose emoluments were the highest in the Group for the year include 1 (2005: 1) director whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining 4 (2005: 4) individuals during the year are as follows:

	<b>2006</b> HK\$'m	2005 HK\$'m
Basic salaries and allowances	<b>13</b>	12
Discretionary bonuses	<b>6</b>	5
Others (including pension contributions)	<b>1</b>	1
	<b>20</b>	18

Emoluments of individuals were within the following bands:

	<b>Number of individuals</b>	
	<b>2006</b>	2005
HK\$3,000,001 – HK\$3,500,000	–	1
HK\$3,500,001 – HK\$4,000,000	<b>1</b>	–
HK\$4,000,001 – HK\$4,500,000	<b>1</b>	–
HK\$4,500,001 – HK\$5,000,000	–	2
HK\$5,000,001 – HK\$5,500,000	–	1
HK\$5,500,001 – HK\$6,000,000	<b>1</b>	–
HK\$6,000,001 – HK\$6,500,000	<b>1</b>	–

During the year, no director waived any emoluments and the Group has not paid any emoluments to the directors or any of the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

## 5. Properties, plant and equipment

	Premises HK\$'m	Property under development HK\$'m	Equipment, fixtures and fittings HK\$'m	Total HK\$'m
Net book value at 1 January 2006				
As previously reported	16,820	11	1,485	18,316
Effect of merger of a commonly controlled entity	169	–	6	175
Net book value at 1 January 2006, restated	16,989	11	1,491	18,491
Additions	–	–	736	736
Disposals	(186)	(7)	(25)	(218)
Revaluation	1,208	–	–	1,208
Depreciation for the year	(303)	–	(368)	(671)
Reclassification from investment properties (Note 6)	190	–	–	190
Reversal of/(provision for) impairment losses	8	(4)	–	4
Net book value at 31 December 2006	17,906	–	1,834	19,740
At 31 December 2006				
Cost or valuation	17,906	–	4,658	22,564
Accumulated depreciation and impairment	–	–	(2,824)	(2,824)
Net book value at 31 December 2006	17,906	–	1,834	19,740
Net book value at 1 January 2005				
As previously reported	15,184	32	1,280	16,496
Effect of merger of a commonly controlled entity	161	–	8	169
Net book value at 1 January 2005, restated	15,345	32	1,288	16,665
Additions	19	1	549	569
Disposals	(502)	–	(20)	(522)
Revaluation	3,421	–	–	3,421
Depreciation for the year	(242)	–	(326)	(568)
Reclassification to investment properties (Note 6)	(1,057)	–	–	(1,057)
Disposal of subsidiaries	–	(21)	–	(21)
Reversal of/(provision for) impairment losses	5	(1)	–	4
Net book value at 31 December 2005	16,989	11	1,491	18,491
At 31 December 2005				
Cost or valuation	16,997	19	4,166	21,182
Accumulated depreciation and impairment	(8)	(8)	(2,675)	(2,691)
Net book value at 31 December 2005	16,989	11	1,491	18,491

## 5. Properties, plant and equipment (continued)

	Premises HK\$'m	Property under development HK\$'m	Equipment, fixtures and fittings HK\$'m	Total HK\$'m
The analysis of cost or valuation of the above assets is as follows:				
At 31 December 2006				
At cost	–	–	4,658	4,658
At valuation	17,906	–	–	17,906
	<b>17,906</b>	–	<b>4,658</b>	<b>22,564</b>
At 31 December 2005				
At cost	–	19	4,166	4,185
At valuation	16,997	–	–	16,997
	16,997	19	4,166	21,182

The carrying value of premises is analysed based on the remaining terms of the leases as follows:

	2006 HK\$'m	2005 HK\$'m
Held in Hong Kong		
On long-term lease (over 50 years)	11,224	10,785
On medium-term lease (10 – 50 years)	6,452	5,960
On short-term lease (less than 10 years)	–	3
Held outside Hong Kong		
On long-term lease (over 50 years)	54	55
On medium-term lease (10 – 50 years)	160	180
On short-term lease (less than 10 years)	16	6
	<b>17,906</b>	16,989

As at 31 December 2006, premises are included in the consolidated balance sheet at valuation carried out at 31 October 2006 on the basis of their open market value by an independent firm of chartered surveyors, Knight Frank Petty Limited (formerly known as Chesterton Petty Limited). Knight Frank Petty Limited also confirmed that there has been no material change in valuations at 31 December 2006.

## 5. Properties, plant and equipment (continued)

As a result of the above-mentioned revaluations, changes in value of the Group's premises were recognised in the Group's premises revaluation reserves, the income statement and minority interests respectively as follows:

	2006 HK\$'m	2005 HK\$'m
Increase in valuation credited to premises revaluation reserve	1,209	3,325
(Decrease)/increase in valuation credited to income statement	(1)	63
Increase in valuation credited to minority interests	–	33
	<b>1,208</b>	<b>3,421</b>

As at 31 December 2006, the net book value of premises that would have been included in the Group's consolidated balance sheet had the assets been carried at cost less accumulated depreciation and impairment losses were HK\$5,750 million (2005: HK\$5,780 million).

## 6. Investment properties

	2006 HK\$'m	2005 HK\$'m
At 1 January		
As previously reported	7,539	5,381
Effect of merger of a commonly controlled entity	87	83
At 1 January, restated	7,626	5,464
Disposals	(529)	(256)
Fair value gains	574	1,386
Reclassification (to)/from properties, plant and equipment (Note 5)	(190)	1,057
Disposal of subsidiaries	–	(25)
At 31 December	<b>7,481</b>	<b>7,626</b>

As at 31 December 2006, investment properties are included in the consolidated balance sheet at valuation carried out at 31 October 2006 on the basis of their open market value by an independent firm of chartered surveyors, Knight Frank Petty Limited. Knight Frank Petty Limited also confirmed that there has been no material change in valuations at 31 December 2006.

## 6. Investment properties (continued)

The carrying value of investment properties is analysed based on the remaining terms of the leases as follows:

	2006 HK\$'m	2005 HK\$'m
Held in Hong Kong		
On long-term lease (over 50 years)	6,687	6,856
On medium-term lease (10 – 50 years)	545	574
On short-term lease (less than 10 years)	40	39
Held outside Hong Kong		
On long-term lease (over 50 years)	4	14
On medium-term lease (10 – 50 years)	201	143
On short-term lease (less than 10 years)	4	–
	<b>7,481</b>	<b>7,626</b>

## 7. 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	<b>401</b>	<b>3,155</b>	<b>(71)</b>	<b>(89)</b>	<b>(74)</b>	<b>3,322</b>
	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	<b>357</b>	<b>2,941</b>	<b>(72)</b>	<b>(127)</b>	<b>(112)</b>	<b>2,987</b>



**7. Deferred taxation (continued)**

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:

	<b>2006</b> <b>HK\$'m</b>	2005 HK\$'m
Deferred tax assets	<b>(69)</b>	(68)
Deferred tax liabilities	<b>3,391</b>	3,055
	<b>3,322</b>	2,987

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

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

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

**8. Share capital**

	<b>2006</b> <b>HK\$'m</b>	2005 HK\$'m
Authorised:		
20,000,000,000 ordinary shares of HK\$5.00 each	<b>100,000</b>	100,000
Issued and fully paid:		
10,572,780,266 ordinary shares of HK\$5.00 each	<b>52,864</b>	52,864

9. Reserves

	Attributable to equity holders of the Company									
	Share capital HK\$'m	Premises revaluation reserve HK\$'m	Reserve for fair value changes of available- for-sale securities HK\$'m	Regulatory reserve* HK\$'m	Merger reserve** HK\$'m	Translation reserve HK\$'m	Retained earnings HK\$'m	Total HK\$'m	Minority interests HK\$'m	Total equity 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		

## 9. Reserves (continued)

	Attributable to equity holders of the Company									
	Share capital HK\$'m	Premises revaluation reserve HK\$'m	Reserve for fair value changes of available- for-sale securities HK\$'m	Regulatory reserve* HK\$'m	Merger reserve** HK\$'m	Translation reserve HK\$'m	Retained earnings HK\$'m	Total HK\$'m	Minority interests HK\$'m	Total equity HK\$'m
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							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.

## 10. 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.

## 10. Segmental reporting (continued)

	2006							Consolidated HK\$'m
	Retail HK\$'m	Corporate HK\$'m	Treasury HK\$'m	Insurance HK\$'m	Others HK\$'m	Subtotal HK\$'m	Eliminations 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
<b>Total operating income</b>	<b>11,385</b>	<b>5,490</b>	<b>5,029</b>	<b>6,894</b>	<b>402</b>	<b>29,200</b>	<b>(1,236)</b>	<b>27,964</b>
Net insurance benefits and claims	-	-	-	(6,655)	-	(6,655)	-	(6,655)
<b>Net operating income before loan impairment allowances</b>	<b>11,385</b>	<b>5,490</b>	<b>5,029</b>	<b>239</b>	<b>402</b>	<b>22,545</b>	<b>(1,236)</b>	<b>21,309</b>
(Provision for)/Reversal of loan impairment allowances	(27)	1,817	-	-	-	1,790	-	1,790
<b>Net operating income</b>	<b>11,358</b>	<b>7,307</b>	<b>5,029</b>	<b>239</b>	<b>402</b>	<b>24,335</b>	<b>(1,236)</b>	<b>23,099</b>
Operating expenses	(5,033)	(1,500)	(458)	(65)	(738)	(7,794)	1,236	(6,558)
<b>Operating profit/(loss)</b>	<b>6,325</b>	<b>5,807</b>	<b>4,571</b>	<b>174</b>	<b>(336)</b>	<b>16,541</b>	<b>-</b>	<b>16,541</b>
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
<b>Profit before taxation</b>	<b>6,307</b>	<b>5,804</b>	<b>4,569</b>	<b>174</b>	<b>285</b>	<b>17,139</b>	<b>-</b>	<b>17,139</b>
<b>Assets</b>								
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
	<b>169,595</b>	<b>222,701</b>	<b>497,155</b>	<b>15,804</b>	<b>27,170</b>	<b>932,425</b>	<b>(3,472)</b>	<b>928,953</b>
<b>Liabilities</b>								
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
	<b>578,249</b>	<b>148,353</b>	<b>98,531</b>	<b>14,649</b>	<b>6,003</b>	<b>845,785</b>	<b>(3,472)</b>	<b>842,313</b>
<b>Other information</b>								
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

## 10. Segmental reporting (continued)

	2005							Consolidated HK\$'m
	Retail HK\$'m	Corporate HK\$'m	Treasury HK\$'m	Insurance HK\$'m	Others HK\$'m	Subtotal HK\$'m	Eliminations 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
<b>Total operating income</b>	<b>9,958</b>	<b>4,889</b>	<b>3,449</b>	<b>3,548</b>	<b>795</b>	<b>22,639</b>	<b>(1,103)</b>	<b>21,536</b>
Net insurance benefits and claims	-	-	-	(3,362)	-	(3,362)	-	(3,362)
<b>Net operating income before loan impairment allowances</b>	<b>9,958</b>	<b>4,889</b>	<b>3,449</b>	<b>186</b>	<b>795</b>	<b>19,277</b>	<b>(1,103)</b>	<b>18,174</b>
Reversal of loan impairment allowances	956	1,689	-	-	-	2,645	-	2,645
<b>Net operating income</b>	<b>10,914</b>	<b>6,578</b>	<b>3,449</b>	<b>186</b>	<b>795</b>	<b>21,922</b>	<b>(1,103)</b>	<b>20,819</b>
Operating expenses	(4,514)	(1,293)	(308)	(56)	(703)	(6,874)	1,103	(5,771)
<b>Operating profit</b>	<b>6,400</b>	<b>5,285</b>	<b>3,141</b>	<b>130</b>	<b>92</b>	<b>15,048</b>	<b>-</b>	<b>15,048</b>
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
<b>Profit before taxation</b>	<b>6,388</b>	<b>5,284</b>	<b>3,141</b>	<b>142</b>	<b>1,547</b>	<b>16,502</b>	<b>-</b>	<b>16,502</b>
<b>Assets</b>								
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
	<b>158,844</b>	<b>211,834</b>	<b>426,791</b>	<b>9,343</b>	<b>25,799</b>	<b>832,611</b>	<b>(1,609)</b>	<b>831,002</b>
<b>Liabilities</b>								
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
	<b>554,244</b>	<b>101,719</b>	<b>82,381</b>	<b>8,365</b>	<b>4,189</b>	<b>750,898</b>	<b>(1,609)</b>	<b>749,289</b>
<b>Other information</b>								
Additions of properties, plant and equipment	-	-	-	-	569	569	-	569
Depreciation	186	64	22	2	294	568	-	568
Amortisation of securities	-	-	463	-	-	463	-	463

**11. Loans to directors and officers**

Particulars of advances made to directors and officers of the Company pursuant to section 161B of the Hong Kong Companies Ordinance are as follows:

	<b>2006 HK\$'m</b>	2005 HK\$'m
Aggregate amount of relevant loans outstanding at year end	<b>184</b>	22
Maximum aggregate amount of relevant loans outstanding during the year	<b>347</b>	186

**12. Comparative amounts**

In June 2006, the Group acquired a 51% shareholding of an entity under common control, BOC Life. The financial statements have been prepared in accordance with the principles of merger accounting as set out in Accounting Guideline 5 "Merger accounting for common control combinations" issued by the HKICPA. The comparative amounts for the year ended 31 December 2005 have been restated in accordance with the principles for merger accounting to present the result and assets of the Group as if BOC Life had been combined with the Group during the year.

For the purpose of presentation of income statement, certain items are now reclassified and included as part of the operating profit of the Group as management believes that this better reflects the Group's operations. Certain comparative amounts have been reclassified to conform with the current year's presentation.

**13. Approval of summary financial statements**

These Summary Financial Statements were approved and authorised for issue by the Board of Directors on 22 March 2007.

## CONNECTED TRANSACTIONS

In 2006, BOCHK, a wholly owned subsidiary of the Company, and its subsidiaries engaged on a regular basis in the usual course of their business in numerous transactions with BOC and its Associates. As BOC is the Company's controlling shareholder and therefore a connected person of the Company, all such transactions constituted connected transactions for the purposes of the Listing Rules. As the stated purpose of Central SAFE is to exercise the rights of an equity investor on behalf of the state and not to have any commercial operations, for purposes of this report, therefore, Central SAFE and the companies of which it is a substantial shareholder have not been treated as connected persons to the Company.

The transactions fell into the following three categories:

1. De minimis transactions entered into in the usual course of business and under normal commercial terms. Such transactions were exempted from disclosure and shareholder approval by virtue of rule 14A.33 of the Listing Rules;
2. Certain regular banking transactions entered into on a continual basis throughout the year. On 4 January 2005 the Company made an announcement (the "Announcement") in accordance with Rule 14A.34 of the Listing Rules. The Announcement listed those continuing connected transactions that exceeded the de minimis threshold and set out caps in respect of such transactions for the three years 2005-2007. These transactions were conducted in the ordinary course of its business and on normal commercial terms. On 11 April 2006 the Company has announced its intention to revise the caps for Inter-bank Capital Markets transactions. On 26 May 2006 over 99.99% of the independent shareholders in the extraordinary general meeting voted for such changes. Details of these continuing connected transactions are set out below and are described in the announcements which may be viewed at the Company's website.

Type of Transaction	2006 Cap HK\$'m	2006 Actual Amount HK\$'m
Securities Transactions	220	196
Fund Distribution Transactions	190	54
Credit Card Services	220	92
Information Technology Services	110	43
Property Transactions	140	97
Bank-note Delivery	100	38
Insurance Agency	410	295
Provision of Insurance Cover	110	62
Foreign Exchange Transactions	550	56
Trading of Interests in Loans	18,500	1,180
Inter-bank Capital Markets	14,000	4,539

3. On 11 April 2006 the Company and BOC Insurance entered into a Sale and Purchase Agreement whereby the Company conditionally agreed to purchase the BOC Life Shares, representing 51% of the issued share capital of BOC Life, for a purchase price of HK\$900 million. As BOC Insurance is wholly owned by BOC, this purchase constitute a connected transaction. On 26 May 2006 an extraordinary general meeting was held and over 99.99% of the independent shareholders vote for the resolutions.

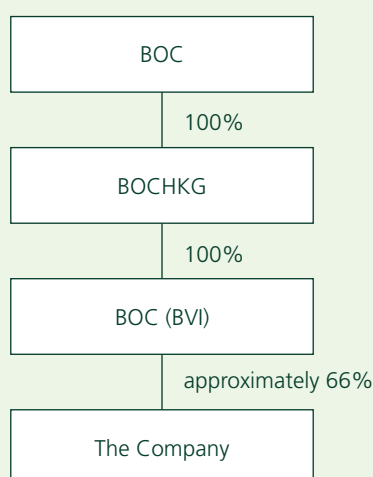


## RECONCILIATION BETWEEN HKFRSs VS IFRS/PRC GAAP

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

## (ii) HKFRSs Vs PRC GAAP

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

# AUDITOR'S STATEMENT ON THE SUMMARY FINANCIAL REPORT

**TO THE SHAREHOLDERS OF  
BOC HONG KONG (HOLDINGS) LIMITED**  
(incorporated in Hong Kong with limited liability)

We have examined the summary financial report of BOC Hong Kong (Holdings) Limited for the year ended 31 December 2006 on pages 2 to 105.

## **Respective responsibilities of directors and auditors**

Under the Hong Kong Companies Ordinance, the directors of the Company are responsible for preparing the summary financial report which complies with section 141CF(1) of the Hong Kong Companies Ordinance. In preparing the summary financial report, section 141CF(1) of the Hong Kong Companies Ordinance requires that the summary financial report be derived from the annual consolidated financial statements and the independent auditor's report thereon and the directors' report for the year ended 31 December 2006, be in such form and contain such information and particulars as specified in section 5 of the Hong Kong Companies (Summary Financial Reports of Listed Companies) Regulation, and be approved by the board of directors.

It is our responsibility to form an independent opinion on the summary financial report, based on our examination, and to report our opinion solely to you, as a body, and we are also required to state whether the independent auditor's report on the annual consolidated financial statements for the year ended 31 December 2006 is qualified or otherwise modified, in accordance with section 5 of the Hong Kong Companies (Summary Financial Reports of Listed Companies) Regulation, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this statement.

## **Basis of opinion**

We conducted our engagement in accordance with Hong Kong Standards on Assurance Engagements and with reference to Practice Note 710 "The auditors' statement on the summary financial report" issued by the Hong Kong Institute of Certified Public Accountants. Our examination includes examining evidence supporting the consistency of the summary financial report with the annual consolidated financial statements and the independent auditor's report thereon and the directors' report for the year ended 31 December 2006 and the compliance of the summary financial report with the requirements of section 5 of the Hong Kong Companies (Summary Financial Reports of Listed Companies) Regulation, and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

## **Opinion**

Based on the foregoing, in our opinion the summary financial report on pages 2 to 105:

- (a) is consistent with the annual consolidated financial statements and the independent auditor's report thereon and the directors' report of BOC Hong Kong (Holdings) Limited for the year ended 31 December 2006 from which it is derived; and
- (b) complies with the requirements of section 5 of the Hong Kong Companies (Summary Financial Reports of Listed Companies) Regulation.

We have audited the annual consolidated financial statements of BOC Hong Kong (Holdings) Limited for the year ended 31 December 2006 and have issued an independent auditor's report thereon dated 22 March 2007 which is unqualified or otherwise unmodified.



**PricewaterhouseCoopers**  
*Certified Public Accountants*  
Hong Kong, 22 March 2007

# SHAREHOLDER INFORMATION

## Financial Calendar 2007

Announcement of 2006 annual results	22 March (Thursday)
Last day in Hong Kong of dealings in the Company's shares with entitlement to final dividend	14 May (Monday)
Ex-dividend date	15 May (Tuesday)
ADS record date for final dividend	16 May (Wednesday)
Latest time in Hong Kong for lodging transfers for entitlement to final dividend	16 May (Wednesday) 4:30 p.m.
Book closure period (both days inclusive)	17 May (Thursday) to 22 May (Tuesday)
Record date for final dividend	22 May (Tuesday)
Latest time for lodging proxy forms for 2007 Annual General Meeting	21 May (Monday) 3:00 p.m.
2007 Annual General Meeting	23 May (Wednesday) 3:00 p.m.
Final dividend payment date	30 May (Wednesday)
Announcement of 2007 interim results	Mid to late August

## 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).

## Dividends

The Directors have recommended a final dividend of HK\$0.447 per share subject to the approval of shareholders at the 2007 Annual General Meeting.

## Share Information

### Listing

The Company's ordinary shares are listed and traded on the Stock Exchange. In addition, the Company maintains a Level 1 ADR facility for its ADSs. Each ADS represents 20 ordinary shares of the Company.

### Ordinary shares (as at 31 December 2006)

Issued shares:	10,572,780,266
Public float:	Approximately 34%

### Nominal value

HK\$5.00 per share

### Market capitalisation (as at 31 December 2006)

HK\$223.09 billion

### Share Price

Closing price on 31 December 2004:	HK\$14.85
Closing price on 30 December 2005:	HK\$14.90
Closing price on 29 December 2006:	HK\$21.10
Highest trading price during the year:	HK\$22.10
Lowest trading price during the year:	HK\$14.45

## SHAREHOLDER INFORMATION

### **Credit ratings (long term)**

Standard & Poor's:	A-
Moody's Investors Service:	A2
Fitch Ratings:	A

### **Index constituent**

The Company is a constituent of the following indices:

Hang Seng Index  
Hang Seng London Reference Index  
MSCI Index  
FTSE All-World Hong Kong Index  
FTSE/Xinhua China 25 Index

### **Stock codes**

Ordinary shares:	
The Stock Exchange of Hong Kong Limited:	2388
Reuters:	2388.HK
Bloomberg:	2388 HK

Level 1 ADR Programme:	
CUSIP No.:	096813209
OTC Symbol:	BHKLY

### **Shareholder Enquiries**

Any matters relating to your shareholding, e.g. transfer of shares, change of name or address, lost share certificates and dividend warrants, should be sent in writing to:

Hong Kong	Computershare Hong Kong Investor Services Limited Rooms 1806-1807 18th Floor, Hopewell Centre 183 Queen's Road East Telephone: (852) 2862 8555 Facsimile: (852) 2865 0990 / (852) 2529 6087 E-mail: <a href="mailto:hkinfo@computershare.com.hk">hkinfo@computershare.com.hk</a>
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USA	Citibank Shareholder Services 250 Royall Street Canton, MA 02021, USA Telephone: 1-877-248-4237 (toll free) 1-781-575-4555 (outside USA) E-mail: <a href="mailto:Citibank@shareholders-online.com">Citibank@shareholders-online.com</a>
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## Investor Relations

Enquiries may be directed to:

Investor Relations Division  
BOC Hong Kong (Holdings) Limited  
52nd Floor  
Bank of China Tower  
1 Garden Road  
Hong Kong  
Telephone: (852) 2826 6314 / (852) 2846 2749  
Facsimile: (852) 2810 5830  
E-mail: [investor\\_relations@bochk.com](mailto:investor_relations@bochk.com)

## DEFINITIONS

In this Summary Financial Report, unless the context otherwise requires, the following terms shall have the meanings set out below:

Terms	Meanings
"AC"	the Audit Committee
"ADR"	American Depositary Receipt
"ADS"	American Depositary Share
"ALCO"	the Asset and Liability Management Committee
"Annual Financial Statements"	the annual financial statements of BOC Hong Kong (Holdings) Limited
"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 Insurance"	Bank of China Group Insurance Company Limited, a company incorporated under the laws of Hong Kong and a wholly owned subsidiary of BOC
"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
"BOC-CC"	BOC Credit Card (International) Limited, a company incorporated under the laws of Hong Kong and a wholly subsidiary of BOCHK
"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
"BOCHK Charitable Foundation"	Bank of China (Hong Kong) Limited Charitable Foundation (formerly known as the "Bank of China Group Charitable Foundation"), a charitable foundation being established in July 1994



Terms	Meanings
"BOCI"	BOC International Holdings Limited, a company incorporated under the laws of Hong Kong and a wholly owned subsidiary of BOC
"CBS"	Corporate Banking Services
"CE"	Chief Executive
"Central SAFE"	Central SAFE Investments Limited
"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)
"HK GAAP"	Generally Accepted Accounting Principles in Hong Kong
"HKICPA"	Hong Kong Institute of Certified Public Accountants
"HKMA"	Hong Kong Monetary Authority
"Hong Kong" or "Hong Kong SAR"	Hong Kong Special Administrative Region
"Hong Kong SAR Government"	Hong Kong Special Administrative Region Government
"Hua Chiao"	Hua Chiao Commercial Limited (in members' voluntary liquidation), a company incorporated under the laws of Hong Kong, in which BOC holds an equity interest of 93.64%
"IFRS"	International Financial Reporting Standards
"IPO"	Initial Public Offering
"IT"	Information Technology

## DEFINITIONS

Terms	Meanings
"LIBOR"	London Interbank Offered Rate
"Listing Rules"	The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
"The Mainland" or "Mainland China" or "The Mainland of China"	The mainland of the PRC
"MSCI Index"	Morgan Stanley Capital International Index
"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
"PRC GAAP"	Accounting Standards for Business Enterprises and the Accounting System for Financial Institutions of the PRC
"RC"	The Risk Committee
"RMB" or "Renminbi"	Renminbi, the lawful currency of the PRC
"RMD"	The Risk Management Department
"SFO"	the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong
"Share Option Scheme"	the Share Option Scheme conditionally approved and adopted by the shareholders of the Company on 10 July 2002
"Sharesave Plan"	the Sharesave Plan conditionally approved and adopted by the shareholders of the Company on 10 July 2002
"SME(s)"	Small and medium-sized enterprise(s)
"Stock Exchange" or "Stock Exchange of Hong Kong"	The Stock Exchange of Hong Kong Limited
"Summary Financial Report"	Summary Financial Report of the Group for the year ended 31 December 2006
"Summary Financial Statements"	comprise consolidated income statement and consolidated balance sheet of the Group extracted from the Annual Financial Statements
"US" or "USA"	the United States of America
"VAR"	Value at Risk

# BRANCH NETWORK & CORPORATE BANKING CENTRES

## Bank of China (Hong Kong) – Branch Network Hong Kong Island

Branch	Address	Telephone
<b>Central &amp; Western District</b>		
Bank of China Tower Branch	1 Garden Road, Hong Kong	2826 6888
Sheung Wan Branch	252 Des Voeux Road Central, Hong Kong	2541 1601
Queen's Road West (Sheung Wan) Branch	2-12 Queen's Road West, Sheung Wan, Hong Kong	2815 6888
Connaught Road Central Branch	13-14 Connaught Road Central, Hong Kong	2841 0410
Central District Branch	2A Des Voeux Road Central, Hong Kong	2160 8888
Central District (Wing On House) Branch	71 Des Voeux Road Central, Hong Kong	2843 6111
Shek Tong Tsui Branch	534 Queen's Road West, Shek Tong Tsui, Hong Kong	2819 7277
Western District Branch	386-388 Des Voeux Road West, Hong Kong	2549 9828
Queen's Road Central Branch	81-83 Queen's Road Central, Hong Kong	2588 1288
Bonham Road Branch	63 Bonham Road, Hong Kong	2517 7066
IFC Wealth Management Centre	Shop 3001, Level 3, IFC Mall, 1 Harbour View Street, Central, Hong Kong	2523 8180
Kennedy Town Branch	Harbour View Garden, 2-2F Catchick Street, Kennedy Town, Hong Kong	2818 6162
Caine Road Branch	57 Caine Road, Hong Kong	2521 3318
First Street Branch	55A First Street, Sai Ying Pun, Hong Kong	2517 3399
United Centre Branch	Shop 1021, United Centre, 95 Queensway, Hong Kong	2861 1889
Wyndham Street Branch	1-3 Wyndham Street, Central, Hong Kong	2843 2888
Des Voeux Road West Branch	111-119 Des Voeux Road West, Hong Kong	2546 1134
Gilman Street Branch	136 Des Voeux Road Central, Hong Kong	2135 1123
<b>Wan Chai District</b>		
Jardine's Bazaar Branch	G/F, Siki Centre, No. 23 Jardine's Bazaar, Causeway Bay, Hong Kong	2882 1383
Gloucester Road Wealth Management Centre	Unit 3, G/F, Immigration Tower, 7 Gloucester Road, Wan Chai, Hong Kong	2511 8933
409 Hennessy Road Branch	409-415 Hennessy Road, Wan Chai, Hong Kong	2835 6118
Johnston Road Branch	152-158 Johnston Road, Wan Chai, Hong Kong	2574 8257
Harbour Road Branch	26 Harbour Road, Wan Chai, Hong Kong	2827 8407
Happy Valley Branch	11 King Kwong Street, Happy Valley, Hong Kong	2838 6668
Causeway Bay Branch	18 Percival Street, Causeway Bay, Hong Kong	2572 4273
Wan Chai (China Overseas Building) Branch	139 Hennessy Road, Wan Chai, Hong Kong	2529 0866
Wan Chai (Wu Chung House) Branch	213 Queen's Road East, Wan Chai, Hong Kong	2892 0909
Hennessy Road (Wan Chai) Branch	310-312 Hennessy Road, Wan Chai, Hong Kong	2923 5628
Wan Chai Road Branch	127-135 Wan Chai Road, Wan Chai, Hong Kong	2577 4862
<b>Eastern District</b>		
Siu Sai Wan Branch	Shop 19, Cheerful Garden, Siu Sai Wan, Hong Kong	2505 2399
Taikoo Shing Branch	Shop G1012, Yiu Sing Mansion, Taikoo Shing, Hong Kong	2886 0612
Taikoo Shing Branch Safe Box Service Centre	Shop G1006, Hoi Shing Mansion, Taikoo Shing, Hong Kong	2885 4582
North Point Branch	Roca Centre, 464 King's Road, North Point, Hong Kong	2811 8880
North Point (King's Centre) Branch	193-209 King's Road, North Point, Hong Kong	2286 2000
North Point (Hang Ying Building) Branch	Shop B1, 318-328 King's Road, North Point, Hong Kong	2887 1199
North Point (Kiu Fai Mansion) Branch	413-415 King's Road, North Point, Hong Kong	2562 6108
Sai Wan Ho Branch	142-146 Shau Kei Wan Road, Sai Wan Ho, Hong Kong	2886 3344
Heng Fa Chuen Branch	Shop 205-208, East Wing Shopping Centre, Heng Fa Chuen, Chai Wan, Hong Kong	2897 1131
Kam Wa Street Branch	3 Kam Wa Street, Shau Kei Wan, Hong Kong	2885 9311
City Garden Branch	233 Electric Road, North Point, Hong Kong	2571 2878
King's Road Branch	131-133 King's Road, North Point, Hong Kong	2887 0282
Chai Wan Branch	Block B, Walton Estate, 341-343 Chai Wan Road, Chai Wan, Hong Kong	2558 6433
Chai Wan Branch Safe Box Service Centre	27 Gold Mine Building, 345 Chai Wan Road, Chai Wan, Hong Kong	2557 0248
Healthy Village Branch	Shop 1 & 2, Healthy Village Phase II, 668 King's Road, North Point, Hong Kong	2563 2278
Sheung On Street Branch	77 Sheung On Street, Chai Wan, Hong Kong	2897 0923

Branch	Address	Telephone
Aldrich Garden Branch	Shop 58, Aldrich Garden, Shau Kei Wan, Hong Kong	3196 4956
Shau Kei Wan (Po Man Building) Branch	260-262 Shau Kei Wan Road, Shau Kei Wan, Hong Kong	2568 5211
Wan Tsui Road Branch	4 Lin Shing Road, Chai Wan, Hong Kong	2557 3283
Quarry Bay Branch	Parkvale, 1060 King's Road, Quarry Bay, Hong Kong	2564 0333
<b>Southern District</b>		
Tin Wan Branch	2-12 Ka Wo Street, Tin Wan, Hong Kong	2553 0135
Stanley Branch	Shop 401, Shopping Centre, Stanley Plaza, Hong Kong	2813 2290
Aberdeen Branch	25 Wu Pak Street, Aberdeen, Hong Kong	2553 4165
South Horizons Branch	G38, West Centre Marina Square, South Horizons, Ap Lei Chau, Hong Kong	2580 0345
South Horizons Branch Safe Box Service Centre	Shop 118, Marina Square East Centre, Ap Lei Chau, Hong Kong	2555 7477
Wah Kwai Estate Branch	Shop 17, Shopping Centre, Wah Kwai Estate, Hong Kong	2550 2298
Wong Chuk Hang Road Branch	40 Wong Chuk Hang Road, Hong Kong	2814 8272
Chi Fu Landmark Branch	Shop 510, Chi Fu Landmark, Pok Fu Lam, Hong Kong	2551 2282
Ap Lei Chau Branch	13-15 Wai Fung Street, Ap Lei Chau, Hong Kong	2554 6487

## Kowloon

Branch	Address	Telephone
<b>Kowloon City District</b>		
Prince Edward Road (Kowloon City) Branch	382-384 Prince Edward Road, Kowloon City, Kowloon	2926 6038
To Kwa Wan Branch	80N To Kwa Wan Road, To Kwa Wan, Kowloon	2364 4344
Pak Tai Street Branch	4-6 Pak Tai Street, To Kwa Wan, Kowloon	2760 7773
Hung Hom (Eldex Industrial Building) Branch	21 Ma Tau Wai Road, Hung Hom, Kowloon	2764 8363
Hung Hom Wealth Management Centre	37-39 Ma Tau Wai Road, Hung Hom, Kowloon	2170 0888
OUHK Branch	The Open University of Hong Kong, 30 Good Shepherd Street, Ho Man Tin, Kowloon	2760 9099
Ma Tau Kok Road Branch	39-45 Ma Tau Kok Road, To Kwa Wan, Kowloon	2714 9118
Ma Tau Wai Road Branch	47-49 Ma Tau Wai Road, Hung Hom, Kowloon	2926 5123
Site 11 Whampoa Garden Branch	Shop G6, Site 11, Whampoa Garden, Hung Hom, Kowloon	2363 3982
Whampoa Garden Branch	Shop G8B, Site 1, Whampoa Garden, Hung Hom, Kowloon	2764 7233
Nga Tsin Wai Road Branch	25 Nga Tsin Wai Road, Kowloon City, Kowloon	2383 2316
Waterloo Road Branch	Shop A2, Man Kee Mansion, 86 Waterloo Road, Kowloon	2363 9231
<b>Wong Tai Sin District</b>		
Tai Yau Street Branch	35 Tai Yau Street, San Po Kong, Kowloon	2328 0087
Chuk Yuen Estate Branch	Shop S1, Chuk Yuen Shopping Centre, Chuk Yuen South Estate, Kowloon	2325 5261
Choi Hung Branch	19 Clear Water Bay Road, Ngau Chi Wan, Kowloon	2327 0271
Choi Hung Road Branch	58-68 Choi Hung Road, San Po Kong, Kowloon	2927 6111
Choi Wan Estate Branch	A3-18 Commercial Complex, Choi Wan Estate, Kowloon	2754 5911
Wong Tai Sin Branch	Shop G1, Wong Tai Sin Shopping Centre, Wong Tai Sin, Kowloon	2327 8147
San Po Kong (Wing Lok Building) Branch	28-34 Tseuk Luk Street, San Po Kong, Kowloon	2328 7915
Yuk Wah Street Branch	46-48 Yuk Wah Street, Tsz Wan Shan, Kowloon	2927 6655
Lok Fu Branch	Shop 2, Lok Fu Shopping Centre II, Lok Fu, Kowloon	2337 0271
Tseuk Luk Street Wealth Management Centre	86 Tseuk Luk Street, San Po Kong, Kowloon	2326 2883
Sheung Fung Street Branch	66-68 Sheung Fung Street, Tsz Wan Shan, Kowloon	2327 8118
Diamond Hill Branch	G107 Plaza Hollywood, Diamond Hill, Kowloon	2955 5088

## Bank of China (Hong Kong) – Branch Network (continued)

Branch	Address	Telephone
<b>Kwun Tong District</b>		
Kowloon Bay Wealth Management Centre	Shop 2, Telford House, 16 Wang Hoi Road, Kowloon Bay, Kowloon	2759 9339
Kowloon Bay Branch	17 Wang Hoi Road, Kowloon Bay, Kowloon	2331 3783
Ngau Tau Kok (Garden Estate) Branch	Shop 6, Lotus Tower 2, Kwun Tong Garden Estate, 297 Ngau Tau Kok Road, Ngau Tau Kok, Kowloon	2763 5456
169 Ngau Tau Kok Road Branch	169 Ngau Tau Kok Road, Ngau Tau Kok, Kowloon	2750 7311
177 Ngau Tau Kok Road Branch	177 Ngau Tau Kok Road, Ngau Tau Kok, Kowloon	2927 4321
Ping Tin Estate Branch	Shop 225, 2/F, Ping Tin Shopping Centre, Lam Tin, Kowloon	2927 7828
Wang Kwun Road Branch	Unit G1, Nan Fung Commercial Centre, Wang Kwun Road, Kowloon Bay, Kowloon	2755 0268
Sau Mau Ping Branch	Shop 214, Sau Mau Ping Shopping Centre, Sau Mau Ping, Kowloon	2772 0028
Hip Wo Street Branch	195-197 Hip Wo Street, Kwun Tong, Kowloon	2345 0102
Ting Fu Street Branch	11-13 Ting Fu Street, Ngau Tau Kok, Kowloon	2756 4621
Yau Tong Branch	Shop G1-G27, Ka Fu Arcade, Yau Tong Centre, Kowloon	2349 9191
Hoi Yuen Road Branch	55 Hoi Yuen Road, Kwun Tong, Kowloon	2763 2127
Tsui Ping Estate Branch	Shop 116, 1/F, Shopping Circuit, Tsui Ping Estate, Kwun Tong, Kowloon	2345 3238
26 Fu Yan Street Branch	26-32 Fu Yan Street, Kwun Tong, Kowloon	2342 5262
95 Fu Yan Street Branch	95 Fu Yan Street, Kwun Tong, Kowloon	2343 4141
Telford Gardens Wealth Management Centre	Shop P20, Telford Gardens, Kowloon Bay, Kowloon	2758 3987
Telford Gardens Branch	Shop P2, Telford Gardens, Kowloon Bay, Kowloon	2796 1551
Lam Tin Branch	Shop 12, 49 Kai Tin Road, Lam Tin, Kowloon	2347 1456
Kwun Tong Branch	20-24 Yue Man Square, Kwun Tong, Kowloon	2344 4116
Ngau Tau Kok Road (Kwun Tong) Branch	327 Ngau Tau Kok Road, Kwun Tong, Kowloon	2389 3301
Kwun Tong Plaza Branch	G1 Kwun Tong Plaza, 68 Hoi Yuen Road, Kwun Tong, Kowloon	2342 4295
<b>Yau Tsim Mong District</b>		
Tai Kok Tsui Branch	73-77 Tai Kok Tsui Road, Tai Kok Tsui, Kowloon	2395 3269
Shan Tung Street Branch	42-48 Shan Tung Street, Mong Kok, Kowloon	2332 5461
Shanghai Street (Prince Edward) Branch	689-693 Shanghai Street, Mong Kok, Kowloon	2391 0502
Prince Edward Branch	774 Nathan Road, Kowloon	2399 3000
Tsim Sha Tsui Branch	24-28 Carnarvon Road, Tsim Sha Tsui, Kowloon	2721 6242
Tsim Sha Tsui East Branch	Shop G02-03, Inter-Continental Plaza, 94 Granville Road, Tsim Sha Tsui, Kowloon	2739 0308
Jordan Branch	328-330 Nathan Road, Kowloon	2928 6111
Jordan Road Branch	1/F, Sino Cheer Plaza, 23-29 Jordan Road, Kowloon	2730 0883
Shanghai Street (Mong Kok) Branch	611-617 Shanghai Street, Mong Kok, Kowloon	2394 4181
Mong Kok Branch	589 Nathan Road, Mong Kok, Kowloon	2332 0111
Prince Edward Road West (Mong Kok) Branch	116-118 Prince Edward Road West, Mong Kok, Kowloon	2928 4138
Mong Kok Road Branch	50-52 Mong Kok Road, Mong Kok, Kowloon	2395 3263
Mong Kok (Silvercorp Int'l Tower) Branch	Shop B, 707-713 Nathan Road, Mong Kok, Kowloon	2391 6677
Mong Kok (President Commercial Centre) Branch	608 Nathan Road, Mong Kok, Kowloon	2384 7191
Shanghai Street (Yau Ma Tei) Branch	364-366 Shanghai Street, Yau Ma Tei, Kowloon	2782 2071
Yau Ma Tei Branch	471 Nathan Road, Yau Ma Tei, Kowloon	2780 2307
Kimberley Road Branch	37 Kimberley Road, Tsim Sha Tsui, Kowloon	2739 1886
Cameron Road Wealth Management Centre	30 Cameron Road, Tsim Sha Tsui, Kowloon	2312 0010
Humphrey's Avenue Branch	4-4A Humphrey's Avenue, Tsim Sha Tsui, Kowloon	2311 3822
Olympian City Branch	Shop 133, 1/F, Olympian City 2, 18 Hoi Ting Road, Kowloon	2749 2110
Fuk Tsun Street Branch	32-40 Fuk Tsun Street, Tai Kok Tsui, Kowloon	2391 8468
Canton Road Branch	60 Canton Road, Tsim Sha Tsui, Kowloon	2730 0688
Lock Road Branch	19 Lock Road, Tsim Sha Tsui, Kowloon	2367 6164

Branch	Address	Telephone
<b>Sham Shui Po District</b>		
Kowloon Plaza Branch	Unit 1, Kowloon Plaza, 485 Castle Peak Road, Kowloon	2370 8928
Festival Walk Branch	Unit LG256, Festival Walk, Kowloon Tong, Kowloon	2265 7288
Yu Chau Street Branch	42-46 Yu Chau Street, Sham Shui Po, Kowloon	2397 1123
Dragon Centre Branch	Shop 206A, Dragon Centre, 37K Yen Chow Street, Sham Shui Po, Kowloon	2788 3238
Lei Cheng Uk Estate Branch	Shop 108, Lei Cheng Uk Commercial Centre, Lei Cheng Uk Estate, Kowloon	2729 8251
Castle Peak Road (Cheung Sha Wan) Branch	365-371 Castle Peak Road, Cheung Sha Wan, Kowloon	2728 3311
108 Cheung Sha Wan Road Branch	108 Cheung Sha Wan Road, Sham Shui Po, Kowloon	2779 0157
194 Cheung Sha Wan Road Branch	194-196 Cheung Sha Wan Road, Sham Shui Po, Kowloon	2728 9389
Cheung Sha Wan Plaza Branch	Shop G08, Cheung Sha Wan Plaza, 833 Cheung Sha Wan Road, Kowloon	2745 7088
248 Castle Peak Road Branch	244-248 Castle Peak Road, Cheung Sha Wan, Kowloon	2386 1233
412 Castle Peak Road Branch	412-420 Castle Peak Road, Cheung Sha Wan, Kowloon	2743 8010
223 Nam Cheong Street Branch	223 Nam Cheong Street, Sham Shui Po, Kowloon	2928 2088
Stage 2 Mei Foo Sun Chuen Branch	19 Glee Path, Mei Foo Sun Chuen, Kowloon	2370 8382
Mei Foo VIP Centre	Shop N47-49, Mount Sterling Mall, Mei Foo Sun Chuen, Kowloon	2742 8003
Mei Foo Mount Sterling Mall Branch	17-B Mount Sterling Mall, Mei Foo Sun Chuen, Kowloon	2742 6611
Lai Chi Kok (Hong Kong Industrial Centre) Branch	A2, G/F, Hong Kong Industrial Centre, 491 Castle Peak Road, Kowloon	2745 1491
Lai Chi Kok Road Branch	282-284 Lai Chi Kok Road, Sham Shui Po, Kowloon	2728 7216
Sham Shui Po Branch	207-211 Nam Cheong Street, Sham Shui Po, Kowloon	2777 0171
Sham Shui Po (On Ning Building) Branch	147-149 Castle Peak Road, Sham Shui Po, Kowloon	2708 3678

## New Territories & Outlying Islands

Branch	Address	Telephone
<b>Sha Tin District</b>		
Jat Min Chuen Branch	Shop 1, G/F, Ming Yiu Lau, Jat Min Chuen, Sha Tin, New Territories	2647 8784
41 Tai Wai Road Branch	41-45 Tai Wai Road, Sha Tin, New Territories	2929 4288
74 Tai Wai Road Branch	74-76 Tai Wai Road, Sha Tin, New Territories	2699 9523
Fo Tan Branch	No 2, 1/F, Shatin Galleria, 18-24 Shan Mei Street, Fo Tan, New Territories	2691 7193
Lucky Plaza Branch	Lucky Plaza, Wang Pok Street, Sha Tin, New Territories	2605 6556
City One Sha Tin Branch	Shop A, 16-20 Ngan Shing Commercial Centre, City One, Sha Tin, New Territories	2648 8083
Sha Tin VIP Centre	Shop 18, L1, Shatin Plaza, Sha Tin, New Territories	2688 7668
Sha Kok Estate Branch	Shop 39, Sha Kok Shopping Centre, Sha Kok Estate, Sha Tin, New Territories	2648 0302
Heng On Estate Branch	Shop 203, Commercial Centre, Heng On Estate, Ma On Shan, New Territories	2642 0111
Ma On Shan Plaza Branch	Shop 2103, Level 2, Ma On Shan Plaza, Sai Sha Road, Ma On Shan, New Territories	2631 0063
Lung Hang Estate Branch	103 Lung Hang Commercial Centre, Sha Tin, New Territories	2605 8618
New Town Plaza Branch	Shop 608, Level 6 Phase 1, New Town Plaza, Sha Tin, New Territories	2606 6163
Sunshine City Branch	Shop 16, Blocks C & D, Sunshine City, Ma On Shan, New Territories	2631 1011
Lek Yuen Branch	No 1, Fook Hoi House, Lek Yuen Estate, Sha Tin, New Territories	2605 3021
<b>Tai Po District</b>		
Tai Kwong Lane Branch	16-22 Tai Kwong Lane, Tai Po Market, New Territories	2652 2133
Tai Po Branch	68-70 Po Heung Street, Tai Po Market, New Territories	2657 2121
Tai Po Plaza Branch	Unit 4, Level 1 Tai Po Plaza, 1 On Tai Road, Tai Po, New Territories	2665 5890
On Chee Road Branch	Shop 10-11, Jade Plaza, 3 On Chee Road, Tai Po, New Territories	2665 1966
Fu Heng Estate Branch	Shop 1-2, Fu Heng Shopping Centre, Tai Po, New Territories	2661 6278
Fu Shin Estate Branch	Shop G11, Fu Shin Shopping Centre, Tai Po, New Territories	2663 2788
Kwong Fuk Road Branch	40-50 Kwong Fuk Road, Tai Po Market, New Territories	2658 2268

## Bank of China (Hong Kong) – Branch Network (continued)

Branch	Address	Telephone
<b>Sai Kung District</b>		
Sai Kung Branch	7-11 Wan King Path, Sai Kung, New Territories	2792 1465
East Point City Branch	Shop 101, East Point City, Tseung Kwan O, New Territories	2628 7238
Hau Tak Estate Branch	Shop 7, Hau Tak Shopping Centre, Tseung Kwan O, New Territories	2703 5203
HKUST Branch	The Hong Kong University of Science & Technology, Clear Water Bay Road, New Territories	2358 2345
Tseung Kwan O Plaza Branch	Shop 112-125, Level 1, Tseung Kwan O Plaza, Tseung Kwan O, New Territories	2702 0282
Po Lam Estate Branch	Shop 207, Po Lam Shopping Centre, Po Lam Estate, Tseung Kwan O, New Territories	2701 4962
<b>Tsuen Wan District</b>		
Tai Wo Hau Branch	5-9 Tai Ha Street, Tai Wo Hau, Tsuen Wan, New Territories	2429 0304
407 Castle Peak Road Branch	407-411 Castle Peak Road, Tsuen Wan, New Territories	2920 3211
Clague Garden Branch	Shop 1-3, Commercial Complex, Clague Garden Estate, 24 Hoi Shing Road, Tsuen Wan, New Territories	2412 2202
Tsuen Wan Branch	297-299 & 313 Sha Tsui Road, Tsuen Wan, New Territories	2411 1321
Castle Peak Road (Tsuen Wan) Wealth Management Centre	167 Castle Peak Road, Tsuen Wan, New Territories	2406 9932
Castle Peak Road (Tsuen Wan) Branch	201-207 Castle Peak Road, Tsuen Wan, New Territories	2416 6577
Tsuen Wan VIP Centre	31-33 Chung On Street, Tsuen Wan, New Territories	2406 8908
Sham Tseng Branch	Shop G1 & G2, Rhine Garden, Sham Tseng, New Territories	2491 0038
Fuk Loi Estate Branch	129-135 Sha Tsui Road, Tsuen Wan, New Territories	2499 0755
Texaco Road Branch	Shop A112, East Asia Gardens, 36 Texaco Road, Tsuen Wan, New Territories	2414 4287
<b>Kwai Tsing District</b>		
Ha Kwai Chung Branch	192-194 Hing Fong Road, Kwai Chung, New Territories	2424 9823
Sheung Kwai Chung Branch	7-11 Shek Yi Road, Sheung Kwai Chung, New Territories	2480 6161
Cheung Hong Estate Branch	201-202 Commercial Centre No 2, Cheung Hong Estate, Tsing Yi Island, New Territories	2497 7718
Cheung Fat Estate Branch	Shop 317, Cheung Fat Shopping Centre, Tsing Yi Island, New Territories	2433 1689
Cheung Hong Estate Commercial Centre Branch	2 G/F, Commercial Centre, Cheung Hong Estate, Tsing Yi Island, New Territories	2497 0325
Maritime Square Branch	Shop 115, Maritime Square, Tsing Yi Island, New Territories	2436 9298
Lei Muk Shue Branch	Shop 22, Lei Muk Shue Shopping Centre, Kwai Chung, New Territories	2428 5731
Metroplaza Branch	Shop 260-265, Metroplaza, 223 Hing Fong Road, Kwai Chung, New Territories	2420 2686
Kwai Cheong Road Branch	40 Kwai Cheong Road, Kwai Chung, New Territories	2480 3311
Kwai Chung Branch	432-436 Castle Peak Road, Kwai Chung, New Territories	2410 9133
Kwai Chung Road Branch	1009 Kwai Chung Road, Kwai Chung, New Territories	2424 3021
Kwai Chung Plaza Branch	A18-20, G/F, Kwai Chung Plaza, 7-11 Kwai Foo Road, Kwai Chung, New Territories	2920 2468
<b>Tuen Mun District</b>		
Tuen Mun Town Plaza Branch	Shop 2, Tuen Mun Town Plaza Phase II, Tuen Mun, New Territories	2450 8877
Tuen Mun Wealth Management Centre	Shop 5, Level 1, North Wing, Trend Plaza, Tuen Mun, New Territories	2404 9777
Tuen Mun Fa Yuen Branch	Shop G & H, 6 Tsing Hoi Circuit, Tuen Mun, New Territories	2458 1033
Tuen Mun San Hui Branch	G13-G14 Eldo Court, Heung Sze Wui Road, Tuen Mun, New Territories	2457 3501
Siu Hong Court Branch	226 Commercial Centre, Siu Hong Court, Tuen Mun, New Territories	2466 6703
Leung King Estate Branch	Shop 211, Leung King Shopping Centre, Tuen Mun, New Territories	2463 3855
Kin Wing Street Branch	24-30 Kin Wing Street, Tuen Mun, New Territories	2465 2212
Venice Gardens Branch	Shop13-15, G/F, Venice Gardens, Leung Tak Street, Tuen Mun, New Territories	2455 1288
Butterfly Estate Branch	Shop 123-130, Tip Ling House, Butterfly Estate, Tuen Mun, New Territories	2920 5188

Branch	Address	Telephone
<b>Yuen Long District</b>		
Tai Tong Road Branch	Shop A135, 1/F, Hop Yick Plaza, 23 Tai Tong Road, Yuen Long, New Territories	2479 2113
Yuen Long Branch	102-108 Castle Peak Road, Yuen Long, New Territories	2474 2211
Castle Peak Road (Yuen Long) Branch	162 Castle Peak Road, Yuen Long, New Territories	2476 2193
Yuen Long (Hang Fat Mansion) Branch	8-18 Castle Peak Road, Yuen Long, New Territories	2475 3777
Tin Shui Estate Branch	Shop 108-109, Tin Shui Shopping Centre, Tin Shui Wai, New Territories	2445 8728
Kau Yuk Road Branch	18-24 Kau Yuk Road, Yuen Long, New Territories	2473 2833
Kingswood Villas Branch	A189 Kingswood Richly Plaza, Tin Shui Wai, New Territories	2448 3313
Kingswood Ginza Branch	Shop G73, Phase 1 Kingswood Ginza, Tin Shui Wai, New Territories	2616 4233
<b>North District</b>		
Sheung Shui Branch	61 San Fung Avenue, Sheung Shui, New Territories	2671 0155
Sheung Shui VIP Centre	33 San Fung Avenue, Sheung Shui, New Territories	2639 9233
Landmark North Branch	Shop 351, Landmark North, Sheung Shui, New Territories	2670 3131
Sha Tau Kok Branch	Block 16-18, Sha Tau Kok Chuen, Sha Tau Kok, New Territories	2674 4011
Flora Plaza Branch	Shop 28, Flora Plaza, 88 Pak Wo Road, Fanling, New Territories	2675 6683
Fanling Centre Branch	Shop 2D-E & H, Fanling Centre, Fanling, New Territories	2669 7899
Choi Yuen Estate Branch	Shop 4, F3 level, Commercial Centre, Choi Yuen Estate, Sheung Shui, New Territories	2671 6783
136 San Fung Ave Branch	136 San Fung Avenue, Sheung Shui, New Territories	2670 6138
Luen Wo Market Branch	17-19 Wo Fung Street, Luen Wo Market, Fanling, New Territories	2675 5113
Luen Shing Street Branch	Shop B, 10-16 Luen Shing Street, Luen Wo Market, Fanling, New Territories	2675 6113
<b>Outlying Island District</b>		
Cheung Chau Branch	53-55 Tai Sun Street, Cheung Chau, New Territories	2981 0021
Hong Kong International Airport Branch	Unit 7T075, Passenger Terminal Building, Hong Kong International Airport	2326 1883

## Mainland Branches

Branch	Address	Telephone
Shenzhen Branch	G/F, The Kwangtung Provincial Bank Building, 1013 Ren Min Nan Road, Shenzhen, China	(86-755) 8233 0230
Shenzhen Baoan Sub-Branch	Unit 108 Xushida Garden, Xin An Si Road, Baoan District 34-2, Shenzhen, China	(86-755) 2785 3302
Shenzhen Futian Sub-Branch	1/F, Shen Ye Garden Club House, Caitian Road, Futian District, Shenzhen, China	(86-755) 8294 2929
Shantou Branch	G/F, 3 Yingbin Road, Shantou, China	(86-754) 826 8266
Shanghai Branch	Room A103-A107, Tomorrow Square, 389 Nanjing West Road, Shanghai, China	(86-21) 2306 9090
Qingdao Branch	G/F, 6 Yun Xiao Road, Qingdao, China	(86-532) 8573 2828

## Network & Corporate Banking Centres

Network & Centres	Address	Telephone
Corporate Business	10/F, Bank of China Tower, 1 Garden Road, Hong Kong	2826 6889
Corporate Finance	10/F, Bank of China Tower, 1 Garden Road, Hong Kong	2826 6491
Commercial Business I	9/F, Bank of China Tower, 1 Garden Road, Hong Kong	2826 6409
Commercial Business II	9/F, Bank of China Tower, 1 Garden Road, Hong Kong	3419 3555
Commercial Business III	Unit 702-706, The Gateway Tower 3 (Prudential Tower), 21 Canton Road, Tsim Sha Tsui, Kowloon	2247 8888
Financial Institutions Business (Banks)	33/F, Bank of China Tower, 1 Garden Road, Hong Kong	2903 6666
Financial Institutions Business (Non-Banks)	33/F, Bank of China Tower, 1 Garden Road, Hong Kong	2826 6888
Hong Kong Central & West Commercial Centre	24/F, Bank of China Tower, 1 Garden Road, Hong Kong	3419 3513
Hong Kong Central & West SME Centre		
Hong Kong East Commercial Centre	3/F, Eastern Commercial Centre, 393-407 Hennessy Road, Wan Chai, Hong Kong	2833 8790
Hong Kong East SME Centre		
Kowloon East Commercial Centre	Room 607-610, 6/F, Telford House, 16 Wang Hoi Road, Kowloon Bay, Kowloon	3406 7300
Kowloon East SME Centre		

Network & Corporate Banking Centres  
(continued)

Network & Centres	Address	Telephone
Kowloon East Commercial Centre San Po Kong Office San Po Kong SME Centre	Room 601, 6/F, Stelux House, 698 Prince Edward Road East, San Po Kong, Kowloon	2263 4900
Kowloon East Commercial Centre Hung Hom Office Hung Hom SME Centre	Room 507, 5/F, Tower A, Hung Hom Commercial Centre, 37-39 Ma Tau Wai Road, Kowloon	2197 0188
Kowloon West Commercial Centre Kowloon West SME Centre	3/F - 7/F & 9/F, Kwangtung Provincial Bank Building, 589 Nathan Road, Mong Kok, Kowloon	3412 1688
New Territories East Commercial Centre New Territories East SME Centre	3/F, 68-70 Po Heung Street, Tai Po Market, Tai Po, New Territories	2654 3222
New Territories East Commercial Centre Fo Tan Office Fo Tan SME Centre	Room 1408-1411, 14/F, Shatin Galleria, 8-24 Shan Mei Street, Fo Tan, New Territories	2687 5665
New Territories West Commercial Centre New Territories West SME Centre	Room 1720-1724, Nan Fung Centre, 264-298 Castle Peak Road, Tsuen Wan, New Territories	3412 7044
New Territories West Commercial Centre Yuen Long Office Yuen Long SME Centre	4/F, The Kwangtung Provincial Bank Building, 102-108 Castle Peak Road, Yuen Long, New Territories	2442 8788
Causeway Bay Commercial Services Centre	2/F, 18 Percival Street, Causeway Bay, Hong Kong	2892 7032
Cheung Sha Wan Commercial Services Centre	Unit 1, Kowloon Plaza, 485 Castle Peak Road, Kowloon	2310 5923
Trade Finance Trade Product	5/F, Bank of China Centre, Olympian City, 11 Hoi Fai Road, West Kowloon	3198 3544
Trade Finance Trade Services Centre	5/F-10/F, Bank of China Centre, Olympian City, 11 Hoi Fai Road, West Kowloon	3198 3388

Nanyang Commercial Bank – Branch Network

Branch	Address	Telephone
Head Office	151 Des Voeux Road, Central, Hong Kong	2852 0888
<b>Hong Kong Island</b>		
Western Branch	128 Bonham Strand East, Sheung Wan, Hong Kong	2851 1100
Causeway Bay Branch	472 Hennessy Road, Causeway Bay, Hong Kong	2832 9888
Happy Valley Branch	29 Wong Nei Chung Road, Happy Valley, Hong Kong	2893 3383
Kennedy Town Branch	86 Belcher's Street, Kennedy Town, Hong Kong	2817 1946
Quarry Bay Branch	1014 King's Road, Quarry Bay, Hong Kong	2563 2286
Des Voeux Road West Branch	334 Des Voeux Road West, Hong Kong	2540 4532
Aberdeen Branch	171 Aberdeen Main Road, Aberdeen, Hong Kong	2553 4115
North Point Branch	351 King's Road, North Point, Hong Kong	2566 8116
Sheung Wan Branch	21 Connaught Road West, Sheung Wan, Hong Kong	2559 0888
Sai Wan Ho Branch	63 Shaukeiwan Road, Sai Wan Ho, Hong Kong	2567 0315
Wanchai Branch	123 Johnston Road, Wanchai, Hong Kong	2574 8118
Causeway Centre Branch	Shop 16, Causeway Centre, 28 Harbour Road, Wanchai, Hong Kong	2827 6338
Central District Branch	56-58 Wellington Street, Central, Hong Kong	2522 5011
Sunning Road Branch	8 Sunning Road, Causeway Bay, Hong Kong	2882 7668
<b>Kowloon</b>		
Mongkok Branch	727 Nathan Road, Mongkok, Kowloon	2394 8206
Yaumati Branch	309 Nathan Road, Yaumati, Kowloon	2782 9888
Ferry Point Branch	Shops D-F, G/F, Best-O-Best Commercial Centre, 32-36 Ferry Street, Yaumati, Kowloon	2332 0738
Homantin Branch	71A Waterloo Road, Homantin, Kowloon	2715 7518
Nathan Road Branch	570 Nathan Road, Mongkok, Kowloon	2780 0166
Laichikok Road Branch	236 Laichikok Road, Shamshuipo, Kowloon	2396 4164
Jordan Road Branch	20 Jordan Road, Yaumati, Kowloon	2735 3301
Tokwawan Branch	62 Tokwawan Road, Kowloon	2764 6666
Kwun Tong Branch	410 Kwun Tong Road, Kowloon	2389 6266
Tsimshatsui Branch	Shop A, 1/F, Hong Kong Pacific Centre, 28 Hankow Road, Tsimshatsui, Kowloon	2376 3988
Hunghom Branch	69A Wuhu Street, Hunghom, Kowloon	2362 2301
Shamshuipo Branch	198-200 Tai Po Road, Shamshuipo, Kowloon	2777 0147
Yee On Street Branch	Shops 4-6, G/F, Yee On Centre, 45 Hong Ning Road, Kowloon	2790 6688
Peninsula Centre Branch	Shop G48 Peninsula Centre, 67 Mody Road, Tsim Sha Tsui, Kowloon	2722 0823
San Po Kong Branch	41-45, Yin Hing Street, San Po Kong, Kowloon	2328 5555
Kowloon City Branch	86 Nga Tsin Wai Road, Kowloon City, Kowloon	2716 6033
Laguna City Branch	Shop No. 26, Phase 1 Laguna City, Cha Kwo Ling Road, Kowloon	2772 3336
<b>New Territories</b>		
Kwai Chung Branch	100 Lei Muk Road, Kwai Chung, New Territories	2480 1118
Tai Po Branch	Shop No. 11, G/F, Treasure Garden, 1 On Chee Road, Tai Po, New Territories	2656 5201
Yuen Long Branch	G/F, Tung Yik Building Tai Tong Road, Yuen Long, New Territories	2479 0231
Ha Kwai Chung Branch	180 Hing Fong Road, Kwai Chung, New Territories	2429 4242

Branch	Address	Telephone
Tsuen Wan Branch	78 Chung On Street, Tsuen Wan, New Territories	2492 0243
Sheung Shui Branch	31 Fu Hing Street, Sheung Shui, New Territories	2679 4333
Tuen Mun Branch	Forward Mansion, Yan Ching Circuit, Tuen Mun, New Territories	2459 8181
Shatin Branch	Shop 7-8, Lucky Plaza, Shatin, New Territories	2605 9188
Luk Yeung Sun Chuen Branch	P2A-C, 1/F, Luk Yeung Galleria, 22-26 Wai Tsuen Road, Tsuen Wan, New Territories	2498 4411
Sai Kung Branch	Shop 11-12 Sai Kung Garden, Man Nin Street, New Territories	2791 1122
<b>The Mainland of China</b>		
Shenzhen Branch	Nanyang Mansion, 2002 Kin Chit Road, Shenzhen, China	(86-755) 2515 6333
Shenzhen Shekou Sub-Branch	Shekou Finance Centre, Taizi Road, Shenzhen, China	(86-755) 2682 8788
Haikou Branch	Room 702-703, 7/F, Haikou Nanyang Building, 81 Bin Hai Avenue, Haikou, Hainan Province, China	(86-898) 6851 2538
Guangzhou Branch	4/F, CITIC Plaza, 233 Tianhe North Road, Guangzhou, China	(86-20) 3891 2668
Dalian Branch	1/F, Li Yuan Mansion, 16-18 Mingze Street, Dalian, Liaoning Province, China	(86-411) 8282 3636
Beijing Branch	Level 1A, Regent Court, No. 88, Jian Guo Men Wai Da Jie, Beijing, China	(86-10) 6568 4728
<b>Overseas</b>		
San Francisco Branch	31/F, 50 California Street, San Francisco, CA94111, USA	(1-415) 398 8866

Chiyu Banking Corporation – Branch Network

Branch	Address	Telephone
Head Office	78 Des Voeux Road Central, Hong Kong	2843 0111
<b>Hong Kong Island</b>		
North Point Branch	390-394 King's Road, North Point, Hong Kong	2570 6381
Wanchai Branch	325 Hennessy Road, Wanchai, Hong Kong	2572 2823
Sheung Wan Branch	22-24 Bonham Strand West, Hong Kong	2544 1678
Western Branch	443 Queen's Road West, Hong Kong	2548 2298
Quarry Bay Branch	967-967A, King's Road, Quarry Bay, Hong Kong	2811 3131
<b>Kowloon</b>		
Hung Hom Branch	23-25 Gillies Avenue, Hung Hom, Kowloon	2362 0051
Kwun Tong Branch	42-44 Mut Wah Street, Kwun Tong, Kowloon	2343 4174
Sham Shui Po Branch	235-237 Laichikok Road, Kowloon	2789 8668
San Po Kong Branch	61-63 Hong Keung Street, San Po Kong, Kowloon	2328 5691
Yau Ma Tei Branch	117-119 Shanghai Street, Yaumatei, Kowloon	2332 2533
Castle Peak Road Branch	226-228 Castle Peak Road, Kowloon	2720 5187
Kowloon Bay Branch	Shop No. 10 G/F, Kai Lok House, Kai Yip Estate, Kowloon Bay, Kowloon	2796 8968
Tokwawan Branch	G/F, Shop No. 11-13, 78 Tokwawan Road, Kowloon	2765 6118
Tsz Wan Shan Branch	Shop 703A, 7/F, Tsz Wan Shan Shopping Centre, 23 Yuk Wah Street, Tsz Wan Shan, Kowloon	2322 3313
<b>New Territories</b>		
Tuen Mun Yau Oi Estate Branch	Shop No. 103-104, G/F, Restaurant Block, Yau Oi Estate, Tuen Mun, New Territories	2452 3666
Kwai Hing Estate Branch	Shop No. 1, G/F, Hing Yat House, Kwai Hing Estate, Kwai Chung, New Territories	2487 3332
Tai Po Tai Wo Estate Branch	Shop No. 112-114, G/F, On Wo House, Tai Wo Estate, Tai Po, New Territories	2656 3386
Belvedere Garden Branch	Shop No. 5A, G/F, Belvedere Square, Tsuen Wan, New Territories	2411 6789
Tsuen Wan Branch	Shop No. 1 & 1d, Level 2, Discovery Park Commercial Centre, Tsuen Wan, New Territories	2413 8111
Shatin Sui Wo Court Branch	Shop No. F7, Commercial Centre, Sui Wo Court, Shatin, New Territories	2601 5888
Ma On Shan Branch	Shop 313, Level 3, Ma On Shan Plaza, Bayshore Tower, Ma On Shan, New Territories	2640 0733
Sheung Tak Estate Branch	Shop No. 238, Sheung Tak Shopping Centre, Sheung Tak Estate, Tseung Kwan O, New Territories	2178 2278
<b>The Mainland of China</b>		
Xiamen Branch	1/F, 859 Xiahe Road, Xiamen, Fujian Province, China	(86-592) 5851 691
Fuzhou Branch	1/F, International Building, 210 Wusi Road, Fuzhou Fujian Province, China	(86-591) 8781 0078

**Be environmentally friendly for our better future**

As a good corporate citizen, we do not use lamination and spot UV as normally adopted by the industry in our annual report 2006. Instead, we use varnishing, an environmentally friendly technique. The whole report is also printed on recyclable and elemental chlorine free paper. This demonstrates our efforts in working for the betterment of our future generations.



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