



The year of 2007 was a successful year for the Group. We have made notable progress in the implementation of our 2006-2011 strategic plan and produced encouraging results in our major business areas. The marked performance was underpinned by our strong commitment to being a top-quality financial services group with a powerful base in Hong Kong, a solid presence in China and a strategic foothold in the region.

Net operating income before impairment allowances surged by 27.9% to HK\$27,254 million while operating profit before impairment allowances increased by 32.1% to HK\$19,481 million. While achieving strong business growth, we have also faced challenges in our treasury investments amid the volatile financial market. We have proactively managed our investment portfolio and taken some write-downs on the Group's asset-backed securities. Despite the write-downs, the Group's profit attributable to shareholders rose by 10.3% from 2006 to HK\$15,446 million while earnings per share were up 10.3% to HK\$1.4609, achieving another record level since its listing.

The Group's financial position remains healthy. Total assets reached HK\$1,067.6 billion, up 14.9%, a milestone for the Group. Our loan quality remained excellent as our classified or impaired loan ratio further improved to 0.44% while our classified loan ratio was consistently lower than market. Capital adequacy ratio at end-2007 was 13.08%. Exposure to US subprime asset-backed securities had been significantly reduced to HK\$4.1 billion from HK\$12.8 billion at the end of June.

The Board is recommending a final dividend of HK\$0.487 per share at the Company's Annual General Meeting on 20 May 2008. That, together with the interim dividend of HK\$0.428 per share, will mean a total dividend of HK\$0.915 per share for fiscal 2007, representing an increase of 7.9% versus HK\$0.848 per share for fiscal 2006. The Group's 2007 total dividend payout as a percentage of profit attributable to shareholders will be 62.6%.

With our enhanced business platform, we have successfully captured the business opportunities arising from a robust economy in Hong Kong. In 2007, the Hong Kong economy remained generally upbeat and sustained above-trend growth, fuelled by private consumption, exports of merchandise

and services, business investment, tourism and an active financial market. However, inflationary pressure was being felt more acutely due to strong domestic demand and the effect of imported inflation.

2007 was the second year in which BOCHK implemented its strategic plan for 2006-2011. Under our Relationship-Product-Channel (RPC) Model, we actively reinforced our business platform by consolidating existing businesses, enhancing our innovative capability and focusing on service quality. Our efforts to innovate, integrate and execute with an aim at better serving the customers' needs paid off handsomely. We saw impressive growth in both net interest income and net fees and commission income. Loans to both corporate and individual customers registered encouraging growth, particularly, higher yielding loans including trade finance, SME loans and lending through our Mainland operation. We have also reinforced our leading market positions in residential mortgage, loan syndication and Hong Kong RMB banking business.

Our net fees and commission income also increased substantially, mainly driven by robust growth in investment and insurance fee income benefiting from the buoyant stock market and IPO activities. We also made significant progress in building the Group's product manufacturing and distribution capabilities. During the year, we continued to broaden our product platform and introduced our own branded treasury and QDII products, private placement and custodian services. We also enhanced our cash management services platform.

In December 2007, our indirect wholly owned subsidiary, Nanyang Commercial Bank (China) Limited ("NCB China"), was established and commenced operation in Shanghai. NCB China will consolidate and spearhead our expansion into the Mainland RMB retail banking market. Its commencement of operation represents a vital landmark in the Group's strategic focus to offer comprehensive banking services to local Chinese enterprises and individuals as well as to Hong Kong and overseas customers with banking needs in China.

Looking forward, we expect 2008 will be a year full of opportunities as well as challenges. While we should be alert to the increasing uncertainty confronting the global credit market and the US economy, we also believe that Hong Kong's banking and financial services sector is likely to benefit from positive developments in China. To

succeed, we will remain agile in responding to the changing market environment and the needs of our customers. We will continue to maximise shareholder value by delivering growth and enhancing our business capabilities. We will also capitalise on our relationship with our parent bank, Bank of China (BOC) and our presence in the Mainland to capture emerging business opportunities. This is evidenced by the Group's recent appointment by the BOC Group as the principal bank for its Asia-Pacific Loan Syndication Centre. This development will help solidify the Group's leading position in corporate banking and loan syndication while giving us an added advantage in extending our reach to markets in the Asia-Pacific region outside Hong Kong and China. As a member of BOC Group, we are also honoured to support the Beijing Olympic Games and share in the pride that everyone has for the world's most important sporting event.

Last year was the 90th anniversary of the establishment of BOC in Hong Kong. In retrospect, we take considerable pride in what we have achieved. Since its listing in 2002, the Company has been actively strengthening its corporate governance framework and business platform to deliver sustaining growth in its operating results and to enhance shareholder value. The consistently strong performance of the Group in recent years is a tribute to the Management team and our staff force as a whole. In this connection, I would like to extend my heartfelt gratitude to our employees for their dedicated efforts and intelligence. I am grateful to my fellow Board Members who are tireless in their contributions to our vision and governance. On behalf of the entire organisation, I wish to express my appreciation to our shareholders and customers for their continued support. I am confident that as we continue to build on our strengthened foundation, together with the Board's wise counsel and the support of our stakeholders, we have every reason to believe in the Group's continued success.



**XIAO Gang**  
Chairman

25 March 2008