

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. The Company 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. In particular, 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. BOCHK, the Company's wholly-owned and principal operating subsidiary, is in full compliance with the guideline in the Supervisory Policy Manual module CG-1 issued by the Hong Kong Monetary Authority and entitled "Corporate Governance of Locally Incorporated Authorised Institutions".

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. **The Board has formulated clear written guidelines, which stipulate the circumstances under which the Management should report to and obtain prior approval from the Board** before making decisions or entering into any commitments on behalf of the Group. The Board will regularly review these guidelines.

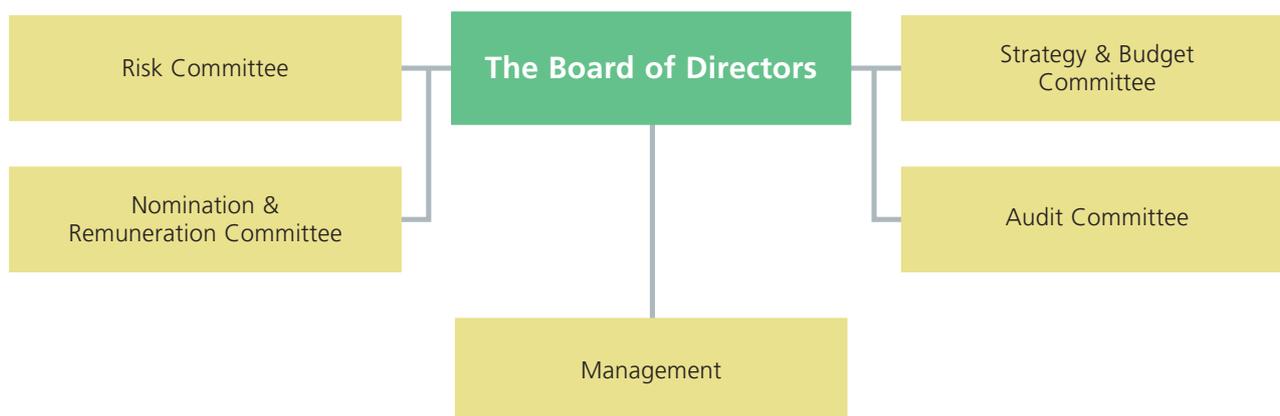
To avoid the concentration of power in any single individual, the **positions of the Chairman and the Chief Executive are held by two different individuals. Their roles are distinct and are clearly established and stipulated in the Board's Mandate**. In short, the Chairman is responsible for ensuring that the Board properly discharges its responsibilities and conforms to good corporate governance practices and procedures. As the Chairman of the Board, he is also responsible for making sure that all Directors are properly briefed on

issues arising at the board meetings, and that all Directors receive accurate, timely and clear information. The Chief Executive is responsible for providing leadership for the whole Management and implementing the important policies and development strategies approved by the Board.

Taking into consideration market practices and international best practices in corporate governance, **the Board has established four standing Board Committees** to assist it in carrying out its responsibilities. They are the Audit Committee, Nomination and Remuneration Committee, Risk Committee, and Strategy and Budget Committee. 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.

Each of the Board Committees has a well-defined mandate. They make recommendations to the Board on relevant matters within their terms of reference, or make decisions under appropriate circumstances in accordance with the power delegated by the Board. **A secretarial department is assigned to provide support services to each Board Committee so that it can discharge its responsibilities properly and effectively**. The Board and Board Committees will participate in the annual performance appraisal of the secretarial departments to ensure the support services provided by these departments are adequate and of good quality. According to their mandates, **the Board and the Board Committees will review and evaluate their respective work process and effectiveness annually, with a view to identifying areas for improvement**.

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



The Company's corporate website (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 14 members, comprising six independent non-executive Directors, five non-executive Directors and three executive Directors. There was no change to the composition of the Board in 2008 and up to the date of this report.

All Directors possess extensive experience in banking and management, and over one third of them are independent non-executive Directors, of whom several are experts in financial and/or risk management. The Board has adopted the "Policy on Independence of Directors", some provisions of which are even more stringent than Rule 3.13 of the Listing Rules. The Company has received from each of the independent non-executive Directors an annual confirmation of his/her independence by reference to the Policy. On the basis of these confirmations and information available to it, the Company considers all of them to be independent. Biographical details of the Directors are set out in the "Board of Directors and Senior Management" section of this Annual Report and the Company's website at www.bochk.com.

All the existing **non-executive Directors and independent non-executive Directors** of the Company have been **appointed for a fixed term, with formal letters of appointment** setting out the key terms and conditions of their appointment. Pursuant to the Articles of Association, all Directors, including the Chairman,

Vice Chairmen and Chief Executive, shall retire by rotation at least once every three years at annual general meetings and be eligible for re-election. All Directors appointed by the Board are subject to election by shareholders at the first general meeting following their appointment. 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.** Messrs. Xiao Gang, Li Zaohang and Zhou Zaiqun are executive directors of BOC. Mdm. Zhang Yanling is a member of the senior management of BOC. 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, and to enable current Directors to constantly update their skills and knowledge so that they can continue to offer informed advice and contribute to the Board, the Board enforces a **formal system for the initial induction and**

ongoing professional development of the Directors. In 2008, the Board invited two honorable speakers with extensive knowledge in public policy and economics to share with the Board members on the impact of the global financial turmoil on the PRC and the Hong Kong economies respectively.

Ten Board meetings were held during the year with an average attendance rate of 89%. The meeting schedule was prepared and approved by the Board in the preceding year. In general, Board agenda and meeting materials are despatched to all Board members for review at least seven days

before the meetings. Board agenda is approved by the Chairman following consultation with other Board members and the Management. As a general practice, the Chairman will meet all non-executive Directors (including independent non-executive Directors) in the absence of executive Directors and the Management at the beginning of each Board meeting, in order to facilitate an open and frank discussion among the non-executive Directors. This practice has been incorporated in the Working Rules of the Board. Individual attendance records of the Directors in 2008 are set out as follows:

Director	Number of Board meetings attended	Attendance rate
<i>Non-executive Directors</i>		
Mr. XIAO Gang (<i>Chairman</i>)	7 out of 10	70%
Mr. SUN Changji (<i>Vice Chairman</i>)	10 out of 10	100%
Mr. LI Zaohang	10 out of 10	100%
Mr. ZHOU Zaiqun	9 out of 10	90%
Mdm. ZHANG Yanling	8 out of 10	80%
<i>Independent Non-executive Directors</i>		
Dr. FUNG Victor Kwok King	8 out of 10	80%
Mr. KOH Beng Seng	10 out of 10	100%
Mr. SHAN Weijian	8 out of 10	80%
Mr. TUNG Chee Chen	9 out of 10	90%
Mr. TUNG Savio Wai-Hok	10 out of 10	100%
Mdm. YANG Linda Tsao	10 out of 10	100%
<i>Executive Directors</i>		
Mr. HE Guangbei (<i>Vice Chairman and Chief Executive</i>)	10 out of 10	100%
Mr. LEE Raymond Wing Hung	10 out of 10	100%
Mr. GAO Yingxin	6 out of 10	60%

Apart from formal Board meetings and general meetings, there are opportunities for the Board and the Management to interact and communicate on relatively less formal occasions. For example, **Board members have been invited to give a talk to the Company's middle to senior management on diverse subjects leveraging on their respective background and expertise**. Further, **off-site events have been held 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 work performed by the Audit Committee in 2008 included the review and, where applicable, approval of:

- the Company's Directors' Report and financial statements for the year ended 31 December 2007 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 2008 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 31 March 2008 and 30 September 2008 that were recommended to the Board for approval;
- the audit reports and report on internal control recommendations submitted by the external auditors, and the on-site examination reports issued by regulators;

- the re-appointment of external auditors, the fees payable to external auditors for the annual audit, interim review and other non-audit services;
- the Group's internal audit plan for 2008 and key issues identified;
- the deployment of human resources and pay level of the Internal Audit, and the department's budget for 2008; and
- the 2008 key performance indicators for and 2007 performance appraisal of the Head of Internal Audit and the Internal Audit Department.

The "Policy on Staff Reporting of Irregularities" adopted by the Board has **proved to be effective**. Last year, reports on a number of cases were received and handled satisfactorily through the channels and procedures set out in the said Policy.

Pursuant to paragraph C.2 of the Code, the Audit Committee conducted an annual review of the effectiveness of the internal control systems of the Group in 2008. This review covered all material controls, including financial, operational and compliance controls as well as risk management. For detailed information on this topic, please refer to the "Internal Control" section below.

Six Audit Committee meetings were held during the year with an average attendance rate of 93%. Individual attendance records of the relevant Directors are set out as follows:

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

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 designated senior management; and
- effectiveness of the Board and Board Committees.

The work performed by the Committee in 2008 included the review and where applicable, approval of:

- performance appraisal of the executive Directors and designated senior executives for year 2007;
- proposal on staff bonus for year 2007 and salary adjustment for year 2008 for the Group, including the designated senior executives;

- key performance indicators of the Group and the designated senior executives for year 2008;
- implementation progress of the Group's medium-term human resources strategies and other major human resources policies;
- reports on self-evaluation of the Board and Board Committees, which were analyzed 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;
- recruitment of the Group's designated senior executives;
- formulation, review and amendment on major HR and compensation policies; and

- matters relating to the appointment of directors to the boards of certain major subsidiaries of the Group.

Pursuant to the "Policy on Directors' Remuneration" adopted by the Company, 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.** Information relating to the remuneration of each Director for 2008 is set out in Note 22 of this Annual Report. The present scale of Director's fees, including additional fees for membership of Board Committees, is given below:

Board of Directors:	
All Directors	HK\$200,000 p.a.
Board Committees:	
Chairman	HK\$100,000 p.a.
Other Committee members	HK\$50,000 p.a.

The **Nomination and Remuneration Committee** also has the delegated responsibility to **determine the specific remuneration packages of the executive Directors and designated senior executives**, including share options, benefits in kind, pension rights, etc. Currently the principal components of the Company's remuneration packages for the executive Directors and designated senior executives include basic salary, discretionary bonus and other benefits in kind. A significant portion of the executive Directors' 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 Directors 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 Directors and designated senior executives against the targets set on an ongoing basis, and reviews and approves their specific performance-based remuneration.

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

Director	Number of committee meetings attended	Attendance rate
Mr. SUN Changji (<i>Chairman</i>)	8 out of 8	100%
Mr. LI Zaohang	8 out of 8	100%
Dr. FUNG Victor Kwok King	7 out of 8	87.5%
Mr. SHAN Weijian	7 out of 8	87.5%
Mr. TUNG Chee Chen	6 out of 8	75%
Mdm. YANG Linda Tsao	8 out of 8	100%

Risk Committee

The Risk Committee has three members in 2008. Two of them are independent non-executive Directors and one is a non-executive Director. The Committee is chaired by Mr. Koh Beng Seng, an independent non-executive Director. Mdm. Yang Linda Tsao, an independent non-executive director and the Chairlady of the Strategy and Budget Committee, attended the Risk Committee meetings from time to time as an observer.

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 capital management;
- review and monitoring of the Group's compliance with the risk management process, system and internal control, including the Group's compliance with prudential, legal and regulatory requirements governing the business of the Group;
- review and approval of high-level risk-related policies of the Group; and
- review of significant or high risk exposures and transactions.

The work performed by the Committee in 2008 included the following:

- review of risk management limits;
- review of Group Operational Principles, Risk Management Policy Statement and a range of risk management policies covering strategic risk, reputation risk, credit

risk, market risk, interest rate risk, liquidity risk, operational risk, legal and compliance risk and stress testing;

- review and monitoring of Basel II implementation especially the implementation progress of FIRB and ICAAP; as well as approval of FIRB models;
- approval of the Bank's Capital Management Policy, capital optimisation plans, ICAAP Framework and Minimum CAR, as well as BOCHK Group's Operating CAR Range;
- review of the fixed income investment strategy;
- review of significant high risk exposures and transactions; and
- review of various periodic risk management reports.

Nine Risk Committee meetings were held during the year with an average attendance rate of 100%. Individual attendance records of the relevant Directors are set out as follows:

Director	Number of committee meetings attended	Attendance rate
Mr. KOH Beng Seng (<i>Chairman</i>)	9 out of 9	100%
Mdm. ZHANG Yanling	9 out of 9	100%
Mr. TUNG Savio Wai-Hok	9 out of 9	100%

Strategy and Budget Committee

The Strategy and Budget Committee comprises four members: two independent non-executive directors, one non-executive director, and the Chief Executive, an 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:

- draft, review, motion, and monitor the Group's medium to long-term strategy;
- review and monitor the Group's regular/periodic (including annual) business plan and financial budget;

- draft and review the process for formulating the Group's medium to long-term strategy to ensure that they are sufficiently robust to take into account a range of alternatives;
- monitor implementation of the Group's medium to long-term strategy through pre-determined metrics and provide guidance to Management; and
- make recommendations to the Board on major capital expenditures and strategic commitments of the Group and monitor implementation of the same.

During the year, the Strategy and Budget Committee monitored Management's implementation of the Group's medium to long-term

strategy as approved by the Board. The Committee also played a prominent role in driving the formulation and implementation of the Group's key business strategies, including those for the development of the bank's China business and bank card's cooperation with China UnionPay. In early 2008, the Committee reviewed the 2008-2012 rolling strategic plan for the Group and the Group's 2008 financial budget and business plan, and recommended the same to the Board for approval. In late 2008, the Committee reviewed the Group's preliminary financial budget and business plan for 2009.

Eight Strategy and Budget Committee meetings were held during the year with an average attendance rate of 97%. Individual attendance records of the relevant Directors are set out as follows:

Director	Number of committee meetings attended	Attendance rate
Mdm. YANG Linda Tsao (<i>Chairlady</i>)	8 out of 8	100%
Mr. HE Guangbei	8 out of 8	100%
Mr. ZHOU Zaiqun	7 out of 8	87.5%
Mr. TUNG Savio Wai-Hok	8 out of 8	100%

Ad Hoc Committees

The Board established an ad hoc Independent Board Committee and an ad hoc Search Committee during the year.

Search Committee

Following the resignation of Mr. Chan Tze Ching, Deputy Chief Executive (Financial Markets) in March 2008, the Search Committee was convened to conduct a global and open recruitment to search for a suitably qualified replacement. The Committee was chaired by Dr. Fung Victor Kwok King, independent non-executive Director. Its members included Mr. Sun Changji, Mr. He Guangbei, and independent non-executive Directors Mr. Koh Beng Seng, Mr. Shan Weijian, Mr. Tung Chee Chen,

Mr. Tung Savio Wai-Hok and Mdm. Yang Linda Tsao. The Committee has engaged an independent professional search firm to assist the Committee in conducting a global and open recruitment. After several rounds of selection and with the recommendation of the Nomination and Remuneration Committee, the Board resolved to appoint Mr. Wong David See Hong as the Deputy Chief Executive of the Group with effect from 1 July 2008 to provide overall leadership for the financial market business lines covering Investment, Global Markets, Cash Management, Custody, Investment and Insurance products, and other capital market related business lines.

In August 2008, the Board resolved to recruit a Chief Operating Officer of the

Group to provide overall leadership and oversight to the Group's IT, bank-wide operations, business optimisation and corporate services. With the assistance of a professional search firm, the Committee, comprising all the above-mentioned members together with Mr. Li Zaohang, a non-executive Director, was convened to conduct an open recruitment and has made substantive progress to date. As a result of the forthcoming retirement of Mr. Lee Raymond Wing Hung, executive Director and Chief Financial Officer, from 1 June 2009, the Committee has been convened in February 2009 to conduct an open and global recruitment to search for a suitably qualified candidate to fill the position of the Chief Financial Officer of the Group.

Independent Board Committee

Pursuant to the Board's resolutions, an Independent Board Committee was set up in May and November 2008 respectively to review and approve the respective proposals for borrowing subordinated loan from BOC to enhance the Bank's supplementary capital. The Committee comprised all the independent non-executive Directors of the Company and was chaired by Mr. Tung Chee Chen. The Committee has engaged an independent financial adviser for the purpose of assisting the Committee to review the proposed subordinated loans from BOC and the terms thereof. On the basis of the independent financial adviser's affirmative advice and its own review, the Committee is satisfied that the terms of the subordinated loans are fair and reasonable, on normal commercial terms and arm's length basis, and are in the interests of the Company and its shareholders taken as a whole.

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. Apart from the securities of the Company, the Code applies equally to the Director's dealings in the securities of BOC which was listed on the Stock Exchange of Hong Kong in June 2006. 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 2008. The Code has been revised in January and March 2009 to reflect changes made to the Model Code, including the extended "black out" period for Directors' dealing in the Company's securities.

External Auditors

Pursuant to the "Policy on External Auditors" adopted by the Board, the **Audit Committee** reviewed and monitored and **was satisfied with the independence and objectivity of PricewaterhouseCoopers**, the Group's external auditors, **and the effectiveness of their audit procedures**, based on the principles and standards set out in the policy that were in line with international best practices. Upon the recommendation of the Audit Committee, the Board will propose that PricewaterhouseCoopers be re-appointed as auditors of the Group at the Company's 2009 annual general meeting. Subject to authorisation by the shareholders, the Board will authorise the Audit Committee to determine the remuneration of PricewaterhouseCoopers. For 2008, the fee charged by PricewaterhouseCoopers was HK\$38 million, of which HK\$33 million was for audit services and HK\$5 million related to other services. For 2007, the fee charged by PricewaterhouseCoopers was HK\$37 million, of which HK\$32 million was for audit services and HK\$5 million related to other services.

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 2008 comprised mainly the tax-related services fee of HK\$3 million, fee in relation to advisory service on New Accounting Standard, Cut-off Date Audit and Capital Injection Verification for Nanyang Commercial Bank (China) Limited of HK\$1 million and miscellaneous non-audit services fee of HK\$1 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. According to the Board's delegation, the Management is responsible for the day-to-day operations and risk management.

The internal control system is designed to maximise assurance against material misstatement or loss; to manage the risk of system failure; and to assist in the achievement of the Group's objectives. In addition to safeguarding the Group's assets, it also ensures the maintenance of proper accounting records and compliance with relevant laws and regulations.

The Group conducts an annual review of the effectiveness of its internal control systems covering all material controls, including financial, operational and compliance controls as well as risk management. The review is conducted by making reference to the guidelines and definitions given by the regulatory and professional bodies for the purpose of assessing five different internal control elements, namely, the control environment, risk assessment, control activities, information and communication, and monitoring. The assessment covers all the major internal controls and measures, including financial, operational and compliance controls as well as risk management functions. The annual review is coordinated by the Group's Internal Audit, which, after the Management and various business departments have performed their self-assessment, will carry out an independent examination and other post-assessment work on the review process and results. The results of the 2008 review have been reported to the Audit Committee and the Board.

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

- with a Management that functions under a rational organisational structure and whose authority and responsibility are clearly delineated, the Group has formulated policies and procedures to ensure reasonable checks and balances for all the operating units, reasonable safeguard for the Group's assets, the implementation of internal controls and adherence to relevant laws and regulations and risk management in its operations;
- the Management draws up and continuously monitors the implementation of the Group's strategies, business plans and financial budgets. The accounting and management systems that are in place provide the basis for evaluating financial and operational performance;
- the Group has various risk management and human resources policies. There are specific units and personnel that are responsible for identifying, assessing and managing all the major risks. These include reputation, strategic, legal, compliance, credit, market, operational, liquidity and interest rate risks; (The Group's risk management governance structure is given on page 46 to page 51 in this Annual Report.)
- the Group has established an information technology governance structure that produces a range of reports on information systems and management, including information on the monitoring of various business units, financial information and operating performance. Such information facilitates the Management, business units and

the regulatory bodies in assessing and monitoring the Group's operation and performance. Proper communication channels and reporting mechanisms are in place at various business units and levels to facilitate exchange of information;

- pursuant to a risk-based approach and in accordance with the internal audit plan approved by the Audit Committee, the Group's Internal Audit conducts independent reviews on such aspects as financial activities, various business units, various kinds of risks, operations and activities. Audit reports are submitted directly to the Audit Committee. Internal Audit will closely follow up on the items that require attention in a systematic way and will report to the Audit Committee and the Management in a timely manner; and
- the Audit Committee reviews the reports submitted by external auditors to the Group's Management in connection with the annual audit as well as the recommendations made by regulatory bodies on internal control. Internal Audit will follow up on the same to ensure timely implementation of the recommendations, and will also periodically report the status of the implementation to the Management and the Audit Committee.

The Group is committed to maintaining and upholding good corporate governance practices and internal control system of all subsidiaries and foreign operations are reviewed regularly. During the year of 2008, continuous improvement on the organization structure and segregation of duty, the risk management policy and procedure, and the enhancement of disclosure transparency have been undertaken. In response to the dramatic changes in the economic environment

resulting from the global economic crisis, the Group has implemented a series of measures and undertaken an on-going review on the effectiveness and efficiency of the internal control mechanism. In 2008, areas for improvement have been identified and appropriate measures have been implemented.

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 Chairman of the Board, the Chairmen and members of Board Committees, and representatives of PricewaterhouseCoopers were present at the Company's 2008 annual general meeting held on 20 May 2008 at the Bank of China Tower to respond to questions and comments raised by shareholders. Resolutions passed at the Company's 2008 annual general meeting included: adoption of the Company's and the Group's 2007 financial statements, declaration of 2007 final dividend, re-election of Directors, re-appointment of auditors and grant of a general mandate to the Board to issue and repurchase shares of the Company.

The Board is aware of investors' concern regarding the potential dilution of the shareholders' value arising from the exercise of power pursuant to the grant of a general mandate to issue shares to the Board. To alleviate those concerns, the Board has voluntarily reduced the general mandate to issue shares to 5% of the issued share capital as compared to the 20% permitted under the Listing Rules in the event that the issue of shares is for cash and not related to any

acquisition of assets for approval by the shareholders at the 2009 annual general meeting. Further, given its commitment to high standards of corporate governance, the Board announced at the 2008 annual general meeting certain **internal policies for the exercise of the powers granted to the Board under the general mandates to issue shares solely for cash and repurchase shares** as follows:

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

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

The Board has resolved to adopt the above policies if it is granted by the shareholders the general mandates to issue and repurchase shares at the 2009 annual general meeting.

All the resolutions proposed at the Company's 2009 annual general meeting will be voted on by poll. 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 posted on the Company's website at www.bochk.com and the Stock Exchange's website at www.hkexnews.hk as soon as practicable following conclusion of the vote-counting.

In order that shareholders can have a better understanding of the agenda items to be discussed at the 2009 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 2009 annual general meeting in a circular** which is despatched together with this Annual Report to the shareholders. This includes background information to the proposed resolutions, information on the retiring Directors and information on voting and other issues relating to the 2009 annual general meeting in the form of "Frequently Asked Questions" (including how to convene an extraordinary general meeting and how to put forward a proposal for consideration by shareholders at a general meeting).

Further shareholder information is set out in the "Investor Relations" section of this Annual Report. Shareholders who

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

Directors' Responsibility Statement in relation to 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 Annual Report. The statement is made with a view to distinguishing for shareholders the respective responsibilities of the Directors and of the auditors in relation to the 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 Annual Report, the Company has adopted appropriate accounting policies which have been consistently applied with the support of reasonable and prudent judgements and estimates, and that all accounting standards which they consider to be applicable have been followed.