

# CORPORATE GOVERNANCE

## **The Company is committed to maintaining and upholding high standards of corporate governance**

in order to safeguard the interests of shareholders, customers and employees. The Company abides strictly by the laws and regulations in Hong Kong, and observes the rules and guidelines issued by regulatory authorities including Hong Kong Monetary Authority, Hong Kong Securities and Futures Commission and the Stock Exchange of Hong Kong. The Company from time to time reviews the corporate governance practices as adopted and strives to comply with the relevant requirements of international and local corporate governance best practices.

The Company is **in full compliance with all the code provisions set out in the Code on Corporate Governance Practices** (the “Code”) contained in Appendix 14 of the Listing Rules. It also **complies with nearly all the recommended best practices** as 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 positions and prospects of the Company on a timely basis. BOCHK, the Company’s wholly-owned and principal operating subsidiary, is in full compliance with the guidelines as set out in the Supervisory Policy Manual module CG-1 entitled “Corporate Governance of Locally Incorporated Authorized Institutions” issued by Hong Kong Monetary Authority.

## **Corporate Governance Policy**

### ***Policy Statement***

The Company recognises the importance of high standards of corporate governance and maintains an effective corporate governance framework which delivers long-term success of the Group. The Company is also strongly committed to embracing and enhancing sound corporate governance principles and practices. The established and well-structured corporate governance framework directs and regulates the business ethical conduct of the Company, thereby protects and upholds the value of shareholders and stakeholders as a whole in a sustainable manner.

### ***Essential Principles***

#### **(1) Eminent Board**

##### *Authority*

The Board is responsible for supervising the management of the business and affairs of the Group with due regard to maximising shareholder value and enhancing corporate governance standard of the Group. The Board is obliged to act honestly and in good faith and to make decisions objectively in the best interests of the Group and its shareholders as a whole.

##### *Structure*

The Company is led by a high caliber Board with strong representation of Independent Non-executive Directors. The Board has a well-balanced composition of Executive Directors, Non-executive Directors and Independent Non-executive Directors. Both the number and percentage of the Independent Non-executive Directors are well

above the requirements set by relevant rules and regulations. All Directors are eminent individuals from diverse disciplines with extensive professional experience and are able to make objective judgment.

##### *Roles of Chairman and Chief Executive*

In order to promote balance of power, the roles of Chairman and Chief Executive are segregated. The Company may benefit from the segregation as the Chairman can focus on leading the Board and monitoring corporate governance and shareholder issues, while the Chief Executive leading the management to perform the day-to-day operations and affairs of the Company.

##### *Board Committees*

The Board has established four standing Board Committees which are delegated with different responsibilities to assist the Board in performing its duties. They are Audit Committee, Nomination and Remuneration Committee, Risk Committee, and Strategy and Budget Committee. Most of them are composed of a majority of independent non-executive directors. Each of the Board Committees has a well-defined mandate with the roles and responsibilities delineated therein. The performance and effectiveness of these standing Board Committees are evaluated periodically with a view to making further enhancement. Other Board Committees like Independent Board Committee and Search Committee will be formed as and when required under the appropriate circumstances.

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## (2) Prudent Risk Management

The Board recognises the need for risk control and management being a vital component of the business of the Group. The Board formulates and oversees the risk management strategies, and the related framework and policies with the assistance of the Risk Committee and other relevant Board Committee(s). The management performs the daily risk management responsibilities of the Group under the guidance of the Risk Committee.

## (3) Fair Remuneration System

The Company ensures that Directors' remuneration should be appropriate and reflect their duty and responsibility to fulfill the expectations of the shareholders and meet regulatory requirements. Directors' fees are subject to the approval of the shareholders. The Board, based on the recommendations of the Nomination and Remuneration Committee which is mainly responsible for ensuring the fairness and reasonableness of the overall human resources and remuneration strategies, approves the remuneration policies of the Group. No Director shall be involved in deciding his or her own remuneration.

## (4) Effective Disclosure Mechanism

The Board reviews and monitors from time to time the effectiveness of the Group's disclosure process for reports, announcements and price sensitive information. It encourages and takes necessary steps to disclose information in a timely manner and to ensure the information concerning the Group

is expressed and communicated in a clear and objective manner that enables the shareholders and the public to appraise the position of the Group to make informed investment decisions.

## (5) Upholding Shareholders' Rights

The Board respects the rights of shareholders as mandated by the memorandum and articles of association of the Company and relevant applicable laws and regulatory requirements. The Board places utmost importance on maintaining effective communications with shareholders and also makes its best efforts to keep the shareholders informed of the business and affairs of the Company by maintaining various channels of communications and having direct dialogue with shareholders. In addition, the shareholders also have the rights to obtain all available information of the Company, make proposals at general meetings, nominate a person for election as a director, and make enquiries about the Company.

## (6) Safeguarded Stakeholders' Interests

The Board has a fiduciary duty to protect and serve, with due care and consideration of, the interest of all stakeholders of the Company including but not limited to employees, customers, business partners, suppliers, regulators and the community. All the interests of stakeholders of the Company are further safeguarded by

strictly complying with applicable laws and regulations as well as governance policies.

## (7) Sustainable Corporate Social Responsibility

The Company attaches great importance to corporate social responsibility. The Board is committed to undertaking corporate social responsibility by strengthening relationship with its stakeholders with a view to contributing to the sustainable development of the economy, society and environment. The Company consistently supports and participates in activities that are beneficial to the community.

## (8) Pursuit of "Good to Great"

The Board encourages the pursuit of "Good to Great". With the assistance of the Nomination and Remuneration Committee, the Board ensures that each Board Committee shall conduct regular self-assessment of its effectiveness, and based on the evaluation results, the Board gives such feedback, directions and guidance as may be necessary to enhance its efficiency and effectiveness.

## *Policy Goal*

The Board and the senior management of the Company are responsible for adhering to the corporate governance principles and executing this policy. The Company seeks to manage its business in accordance with the well-defined corporate governance principles which therefore provide a solid governance framework for excellent performance and sustainable growth.

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## Corporate Governance Framework

**The Board is at the core of the Company's corporate governance framework and there is a 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 mid and long-term strategy and monitoring the implementation thereof;
- reviewing and approving the annual business plans and financial budgets;
- approving the annual, interim and quarterly results;
- reviewing and monitoring the Group's 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 implement the strategies as approved by the Board. The Management is responsible for the day-to-day operations of the Group and reports to the Board. **For this purpose, the Board has formulated clear written guidelines which stipulate the circumstances whereas 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 conduct regular review on these authorisation and guidelines.

To avoid 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, 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. In addition, as the Chairman of the Board, he is also responsible for ensuring that all Directors are properly briefed on all issues currently on hand, and that all Directors receive adequate, accurate and reliable information in a timely manner. The Chief Executive is responsible for providing leadership for the whole Management and implementing important policies and development strategies as adopted by the Board.

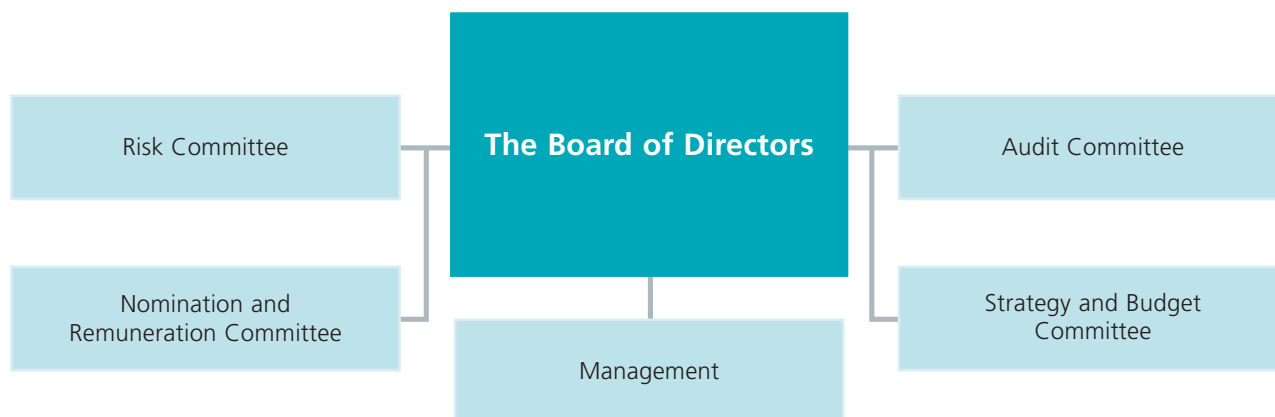
Taking into consideration market practices and international best practices in corporate governance, **the Board has established four standing Board Committees** to assist in performing its responsibilities. They are the Audit Committee, the Nomination and Remuneration Committee, the Risk Committee,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

the Strategy and Budget Committee. In addition, the Board will authorise an independent board committee comprising all Independent Non-executive Directors as and when required to review, approve and monitor connected transactions (including the continuing connected transactions) in accordance with the relevant rules and regulations that should be approved by the Board.

**Each of the Board Committees has a well-defined Mandate** and makes recommendations to the Board on relevant matters within its scope of responsibilities or makes decisions under appropriate circumstances in accordance with the power delegated by the Board. **All Board Committees are assigned a professional secretarial department which ensures that the Board Committees have adequate resources to perform their duties effectively and properly.** The Board and Board Committees will participate in the annual performance appraisal of those professional secretarial departments to enhance the services provided and ensure that adequate and efficient supports are provided to the Board and Board Committees. In addition, according to their respective Mandates, **the Board and the Board Committees will review and evaluate the effectiveness of the work process of the professional secretarial departments annually, with a view to identifying areas for further improvements.**

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



Details including the Company's corporate governance principles and framework adopted by the Board, the composition of the Board and each of the Board Committees and their respective Mandates, Shareholder Communication Policy, Corporate Governance Policy and Fair Disclosure Policy are available under the sub-section "Corporate Governance" of the section headed "About Us" on the Company's website at [www.bochk.com](http://www.bochk.com).

## Board of Directors

**The Board of the Company is composed of majority of Non-executive Directors and Independent Non-executive Directors that ensures the independence and objectivity of the decisions of the Board, as well as comprehensive and impartial control of the Management.** The Board acts honestly and in good faith so that decisions are made objectively with a view to delivering long-term and maximum shareholders' value and fulfilling its corporate responsibility to other stakeholders of the Group.

The Board currently has twelve members, comprising five Independent Non-executive Directors, five Non-executive Directors and two Executive

Directors. Mdm. Zhang Yanling resigned as a Non-executive Director of the Company with effect from 15 December 2011 and Mr. Chen Siqing was appointed as a Non-executive Director of the Company in place of Mdm. Zhang Yanling on 15 December 2011. Save as disclosed above, there were no other changes to the composition of the Board in 2011 and up to the date of this report.

**Under the current board membership, all Directors possess extensive experience in banking and management. In addition, over one-third of them are Independent Non-executive Directors, of whom some of them are experts in financial and/or risk management.**

The Board has adopted the "Policy on Independence of Directors" (the "Independence Policy") which stipulates the criteria on independence of Independent Non-executive Directors. The Company has received from each of the Independent Non-executive Directors an annual confirmation of his independence by reference to the Independence Policy. Based on the information available to the Company, it considers that all of the Independent Non-executive Directors are independent.

Biographical details of the Directors are set out in the section headed "Board of Directors and Senior Management" of this Annual Report and are available under the sub-section "Organisation" of the section headed "About Us" on the Company's website at [www.bochk.com](http://www.bochk.com).

All the existing **Non-executive Directors and Independent Non-executive Directors** of the Company have been **appointed for a fixed term, with formal letters of appointment** setting out the key terms and conditions of their appointment. Pursuant to the Articles of Association, all Directors, including the Chairman, Vice Chairmen and Chief Executive, shall retire by rotation at least once every three years at annual general meetings and be eligible for re-election. Accordingly, Mr. Xiao Gang, Mr. Zhou Zaiqun, Mr. Koh Beng Seng and Mr. Tung Savio Wai-Hok will retire by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election. Further, pursuant to the Articles of Association, any Director appointed by the Board during the year shall hold office only until the next following annual general meeting of the Company, but shall

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be eligible for re-election at such meeting. Accordingly, Mr. Chen Siqing, being a Director appointed on 15 December 2011, shall retire at the forthcoming annual general meeting and, being eligible, offer himself for re-election. Further details regarding the proposed re-election of Directors are set out in the section headed "Report of the Directors" of this Annual Report. In addition, the Nomination and Remuneration Committee has also 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.**

Mr. Xiao Gang, Mr. Li Lihui and Mr. Li Zaohang are Executive Directors of BOC. Mr. Zhou Zaiqun ceased to be an Executive Director and Executive Vice President of BOC with effect from 28 May 2011. Mr. Chen Siqing is an Executive Vice President of BOC. Mdm. Zhang Yanling is a former Executive Vice President of BOC (she ceased to be an Executive Vice President of BOC with effect from 23 July 2010). **Save as disclosed above, there are no other relationships between the Board members, including financial, business, family or other material/ relevant relationships.**

In addition, it is expressly provided in the Board's Mandate that, unless the

applicable laws or regulations allow otherwise, if a substantial shareholder or Director has a conflict of interest in the matter to be considered by the Board, a Board meeting must be convened and attended by Independent Non-executive Directors who have no material interest, and give professional advice to the subject matter for further consideration and approval.

During the year, the Company has arranged for **appropriate cover on Directors' Liability Insurance Policy to indemnify the Directors for liabilities arising from the corporate activities.** The coverage and the amount insured under such policy are reviewed annually by the Company.

To ensure the newly appointed Directors to have adequate understanding of the Company's business operations and to enable all Directors to update their knowledge regularly so as to provide informed recommendation and advice and make contribution to the Company, **the Board establishes a set of written policy specifying guidelines on Directors' induction and training upon appointment.**

The Company also provides regular updates to Board members on material changes to regulatory requirements applicable to the Directors and the Company on a timely basis; and arranges regular meetings with the Management to facilitate the

understanding of the latest business development of the Company. In addition, Board members are encouraged to participate actively in continuous training programmes. The Company also arranges relevant professional training programmes for Board members at Company's expense. In 2011, the Company invited Mr. Cao Yuanzheng, Chief Economist of BOC, to share with the Directors and senior management the global economic trend which enable them to grasp effectively the latest market information.

**Nine Board meetings were held during 2011 with an average attendance rate of 88%.** The meeting schedule for the year 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 prior to the scheduled meetings. Board agenda is approved by the Chairman following consultation with other Board members and the senior management. In addition, in order to facilitate open discussion with all Non-executive Directors, the Chairman meets with all Non-executive Directors (including Independent Non-executive Directors), in the absence of Executive Directors and the senior management, during the discussion session before each Board meeting. Relevant practice has been incorporated in the Working Rules of the Board.

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In 2011, details of respective Directors' attendance at the Board meetings are set out as follows:

Director	Number of Board meetings attended	Attendance rate
<i>Non-executive Directors</i>		
Mr. XIAO Gang (Chairman)	8 out of 9	89%
Mr. LI Lihui (Vice Chairman)	6 out of 9	67%
Mr. LI Zaohang	9 out of 9	100%
Mr. ZHOU Zaiqun	9 out of 9	100%
Mdm. ZHANG Yanling (Note)	9 out of 9	100%
<i>Independent Non-executive Directors</i>		
Dr. FUNG Victor Kwok King	7 out of 9	78%
Mr. KOH Beng Seng	8 out of 9	89%
Mr. SHAN Weijian	7 out of 9	78%
Mr. TUNG Chee Chen	6 out of 9	67%
Mr. TUNG Savio Wai-Hok	9 out of 9	100%
<i>Executive Directors</i>		
Mr. HE Guangbei (Vice Chairman and Chief Executive)	9 out of 9	100%
Mr. GAO Yingxin	8 out of 9	89%

Note: with effect from 15 December 2011, Mdm. Zhang Yanling resigned as a Non-executive Director of the Company and Mr. Chen Siqing was appointed as a Non-executive Director in place of Mdm. Zhang Yanling.

Apart from formal Board meetings and annual general meetings, the Company arranges, on a regular basis, other relatively relaxed events for the Board members and the senior management to facilitate their communication and interactions. For example, **certain Board members have been invited to deliver a talk to the Company's middle to senior management on various**

**specialised topics with regard to their respective background and expertise. Further, off-site events have been held from time to time to enhance communication among Board members, and between the Board and the senior management.**

## Audit Committee

The Audit Committee currently comprises six members, including five Independent

Non-executive Directors, namely Mr. Shan Weijian, Dr. Fung Victor Kwok King, Mr. Koh Beng Seng, Mr. Tung Chee Chen and Mr. Tung Savio Wai-Hok, and one Non-executive Director, Mr. Zhou Zaiqun. Independent Non-executive Directors make up 83% of the Committee members. The Audit Committee is chaired by Mr. Shan Weijian, an Independent Non-executive Director.



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The Audit Committee assists the Board in performing the duties in respect of 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 Group Audit;
- appointment of external auditor and assessment of its qualification, independence and performance and, with authorisation of the Board, determination of its 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 during 2011 included

the review and, where applicable, approval of:

- the Company's Directors' Report and financial statements for the year ended 31 December 2010 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 2011 and the interim results announcement that were recommended to the Board for approval;
- the Company's announcements on quarterly financial and business review for the period ended 31 March 2011 and 30 September 2011 that were recommended to the Board for approval;
- the audit reports and report on internal control recommendations submitted by external auditor, and the on-site examination reports issued by regulators;
- the re-appointment of external auditor, the fees payable to external auditor for the annual audit, interim review and other non-audit services;
- the Company's audit plan for 2011 and key issues identified;

- the deployment of human resources and pay level of the Internal Audit and its budget for 2011; and
- the 2011 key performance indicators for and 2010 performance appraisal of the Head of Group Audit and the Group Audit.

The "Policy on Staff Reporting of Irregularities" adopted by the Board is proved to be effective. During the 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 2011. The review covers all the material internal controls and measures, including financial, operational and compliance controls as well as risk management functions. The review also considers the adequacy of resources, staff qualifications and experience and training of the Group's accounting and financial reporting functions. Details of the relevant review will be elaborated in the section headed "Internal Control" of this Annual Report.

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Five Audit Committee meetings were held during 2011 with an average attendance rate of 97%. Attendance records of relevant Directors are set out as follows:

Director	Number of committee meetings attended	Attendance rate
Mr. SHAN Weijian ( <i>Chairman</i> )	5 out of 5	100%
Mr. ZHOU Zaiqun	5 out of 5	100%
Dr. FUNG Victor Kwok King	4 out of 5	80%
Mr. KOH Beng Seng	5 out of 5	100%
Mr. TUNG Chee Chen	5 out of 5	100%
Mr. TUNG Savio Wai-Hok	5 out of 5	100%

## Nomination and Remuneration Committee

The Nomination and Remuneration Committee comprises five members, including two Non-executive Directors, namely Mr. Li Lihui and Mr. Li Zaohang, and three Independent Non-executive Directors, namely Dr. Fung Victor Kwok King, Mr. Shan Weijian and Mr. Tung Chee Chen. It was chaired by Mr. Li Lihui, a Non-executive Director of the Board. With effect from 9 January 2012, Mr. Li Lihui has resigned as the Chairman of Nomination and Remuneration Committee, but remained as a member; Mr. Tung Chee Chen was appointed as the Chairman; Dr. Fung Victor Kwok King resigned as a member and Mr. Tung Savio Wai-Hok was appointed as a member in place of Dr. Fung Victor Kwok King. Prior and subsequent to such change, the Independent Non-executive Directors represent 60% of the Committee members.

The Nomination and Remuneration Committee assists the Board in performing the duties in respect of the Company and its subsidiaries in, among others, the following areas:

- overall human resources, remuneration strategy and incentive framework 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 the Board and Board Committees;
- remuneration of Directors, Board Committee members, designated senior management and key personnel, and
- effectiveness of the Board and Board Committees.

The work performed by the Nomination and Remuneration Committee during 2011 included the review and, where applicable, approval of:

- formulation, review and amendment on major human resources and remuneration policies, including the review and revision of the threshold conditions for variable pay deferment after taking into account the market conditions; review of the identification criteria of "Senior Management", "Key Personnel", "Key Employee Group" and "Risk Control Personnel" as delineated in the "Guideline on a Sound Remuneration System" published by Hong Kong Monetary Authority, as well as the review of specified jobs for "Senior Management" and "Key Personnel" in accordance with the changes in organisational structure and risk management requirements;



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- performance appraisal of the Executive Directors and designated senior executives for year 2010;
- proposal on staff bonus for year 2010 and salary adjustment for year 2011 for the Group, including the designated senior executives;
- key performance indicators of the Group and the designated senior executives for year 2011;
- proposal on human resources budget of the Group for year 2011;
- appointment/resignation of designated senior executives;
- monitoring the implementation progress of the Group's medium-term human resources strategies and other major human resources policies;
- report of self-evaluation results of the Board and Board Committees,

which were analysed by the Nomination and Remuneration Committee. It 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

- consideration of the matters relating to the adjustment and appointment of directors in 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. **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 2011 is set out in Note 21 to the financial statements of the 2011 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.

Note: For the year ended 31 December 2011, all Non-executive Directors waived their Directors' fee as mentioned above.

The Nomination and Remuneration Committee also has the delegated responsibility to **determine the specific remuneration packages**

**of the Executive Directors and designated senior executives.**

**Five Nomination and Remuneration Committee meetings were held**

**during 2011 with an average attendance rate of 84%.** Attendance records of relevant Directors are set out as follows:

Director	Number of committee meetings attended	Attendance rate
Mr. Li Lihui ( <i>Chairman</i> )	5 out of 5	100%
Mr. Li Zaohang	5 out of 5	100%
Dr. FUNG Victor Kwok King	3 out of 5	60%
Mr. SHAN Weijian	3 out of 5	60%
Mr. TUNG Chee Chen	5 out of 5	100%

Note: With effect from 9 January 2012, Mr. Li Lihui resigned as the Chairman of Nomination and Remuneration Committee, but remains as a member of the Committee; Mr. Tung Chee Chen was appointed as the Chairman of Nomination and Remuneration Committee; in addition, Dr. Fung Victor Kwok King resigned as a member of the Nomination and Remuneration Committee and Mr. Tung Savio Wai-Hok was appointed as a member in place of Dr. Fung Victor Kwok King.

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## Risk Committee

The Risk Committee comprises four members, including two Non-executive Directors, namely Mr. Li Zaohang and Mdm. Zhang Yanling, and two Independent Non-executive Directors, namely Mr. Koh Beng Seng and Mr. Tung Savio Wai-Hok. With effect from 15 December 2011, Mdm. Zhang Yanling resigned as a member of the Risk Committee and Mr. Chen Siqing was appointed as a member in place of Mdm. Zhang Yanling. The Committee is chaired by Mr. Koh Beng Seng, an Independent Non-executive Director.

The Risk Committee assists the Board in performing the duties in respect of 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 various business units of the Group;
- review and assessment of the adequacy and effectiveness of the Group's risk management policies, system and internal control;
- review and monitoring of the Group's capital management;

- review of the Group's target balance sheet;
- review and monitoring of the Group's compliance with the risk management policies, system and internal control, including the Group's compliance with prudential, legal and regulatory requirements governing the businesses of the Group;
- review and approval of high-level risk-related policies of the Group;
- review of significant or high risk exposures and transactions; and
- review of key reports, including risk exposure reports, model development and validation reports, and credit risk model performance reports.

The work performed by the Risk Committee during 2011 included the following:

- review/approval of policies, including the "BOCHK Group Operating Principles", the "Risk Management Policy Statement", the "Requirements Relating to the Approval, Formulation, Review and Revision of Risk Management Policies and Procedures of BOCHK Group", the "Capital Management Policy", the "Staff Code of Conduct", the "Policy for Validating Internal Rating Systems", the "Connected

Transactions Management Policy", and a range of risk management policies covering strategic risk, credit risk, market risk, liquidity risk, interest rate risk, operational risk, legal, compliance and reputation risk and stress testing;

- review/approval of the risk adjustment method for group bonus funding mechanics;
- review of the Group's operating plans, including the Group's target balance sheets, the BOCHK's banking book investment plans and portfolio key risk indicators, results of Internal Capital Adequacy Assessment Process (ICAAP), as well as risk management limits;
- review and monitoring of Basel II implementation, including approval of IRB models, review of model validation reports, receiving the implementation progress reports of IRB, as well as the status reports of the allocation of risk-weighted assets;
- review of various risk management reports; and
- review of significant high risk exposures and transactions.

**Eight Risk Committee meetings were held during 2011 with an average attendance rate of 94%.** Attendance records of relevant Directors are set out as follows:

Director	Number of committee meetings attended	Attendance rate
Mr. KOH Beng Seng ( <i>Chairman</i> )	8 out of 8	100%
Mr. TUNG Savio Wai-Hok	7 out of 8	88%
Mdm. ZHANG Yanling ( <i>Note</i> )	7 out of 8	88%
Mr. LI Zaohang	8 out of 8	100%

Note: With effect from 15 December 2011, Mdm. Zhang Yanling resigned as a member of Risk Committee and Mr. Chen Siqing was appointed as a member of Risk Committee in place of Mdm. Zhang Yanling.

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## Strategy and Budget Committee

The Strategy and Budget Committee comprises five members, including two Non-executive Directors, namely Mr. Zhou Zaiqun and Mdm. Zhang Yanling, and two Independent Non-executive Directors, namely Dr. Fung Victor Kwok King and Mr. Tung Savio Wai-Hok, and Mr. He Guangbei, the Chief Executive as well as the Executive Director of the Company. Dr. Fung Victor Kwok King was appointed as a member of the Strategy and Budget Committee with effect from 21 October 2011. Mdm. Zhang Yanling resigned as a member of the Strategy and Budget Committee and Mr. Chen Siqing was appointed as a member in place of Mdm. Zhang Yanling with effect from 15 December 2011. The Strategy and Budget Committee is chaired by Mr. Zhou Zaiqun, a Non-Executive Director.

The Strategy and Budget Committee assists the Board in performing the duties in respect of the Company and

its subsidiaries in, among others, the following areas:

- drafting, review of, making motion, and monitoring the Group's medium to long-term strategies;
- drafting and review of the process of formulating the Group's medium to long-term strategies to ensure that they are sufficiently robust to take into account a range of alternatives;
- monitoring the implementation of the Group's medium to long-term strategies through pre-determined metrics and providing guidance to the Management;
- review of and monitoring the Group's regular/periodic (including annual) business plans and financial budgets; and
- making recommendations to the Board on major capital expenditures, merger & acquisition

and strategic commitments of the Group and monitoring the implementation thereof.

During the year, the Strategy and Budget Committee played a prominent role in providing guidance and monitoring the implementation of the Group's short-term business strategies and driving the formulation and implementation of the Group's key business strategies, such as the development of China business, RMB business, etc. In particular, the Strategy and Budget Committee guided the Management to review the medium to long-term rolling strategic plans of the Group for further improvements in response to the new opportunities and threats arising from the new operating environment. In addition, it also reviewed and monitored the implementation of the Group's financial budgets and business plans for 2011. The Strategy and Budget Committee also reviewed and endorsed the Group's financial budgets and business plans for the year 2012 and recommended the same to the Board for approval.

**Six Strategy and Budget Committee meetings were held during 2011 with an average attendance rate of 97%.** Attendance records of relevant Directors are set out as follows:

Director	Number of committee meetings attended	Attendance rate
Mr. ZHOU Zaiqun ( <i>Chairman</i> )	6 out of 6	100%
Mr. HE Guangbei	6 out of 6	100%
Mdm. ZHANG Yanling ( <i>Note 1</i> )	5 out of 6	83%
Mr. TUNG Savio Wai-Hok	6 out of 6	100%
Dr. FUNG Victor Kwok King ( <i>Note 2</i> )	1 out of 1	100%

Note 1: Mdm. Zhang Yanling resigned as a member of the Strategy and Budget Committee and Mr. Chen Siqing was appointed as a member of the Strategy and Budget Committee in place of Mdm. Zhang Yanling with effect from 15 December 2011.

Note 2: Dr. Fung Victor Kwok King was appointed as a member of the Strategy and Budget Committee with effect from 21 October 2011.

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## Ad Hoc Committee

The Board established an ad hoc Independent Board Committee during the year with details as follows:

## Independent Board Committee

An Independent Board Committee was established in June 2011 to review and approve the terms and conditions of the appointment of BOCI, an indirect wholly-owned subsidiary of BOC, as one of the dealers and joint lead managers in relation to the issue of medium term note by BOCHK in November 2011 to professional and institutional investors. The Independent Board Committee comprised all the Independent Non-executive Directors of the Company and was chaired by Mr. Tung Chee Chen. Though the subject transaction was exempted from compliance with relevant requirements for independent review under the Listing Rules, yet the Independent Board Committee was established to review and approve relevant issues in view of good corporate governance. As the terms and conditions for BOCI's appointment are consistent with those for the appointment of the other two dealers and joint lead managers who are independent third parties, the Independent Board Committee considered that the appointment was fair and reasonable, on normal commercial terms and was in the interests of the Company and its shareholders as a whole.

## Directors' Securities Transactions

The Company has established and implemented the "Code for Securities Transactions by Directors" (the "Company's Code") to govern securities transactions by Directors. Terms of the Company's Code are more stringent than the mandatory standards set out in the "Model Code for Securities Transactions by Directors of Listed Issuers" as contained in Appendix 10 of the Listing Rules. Apart from the securities of the Company, the Company's Code also applies to the Director's dealings in the securities of BOC which has been listed on the Stock Exchange of Hong Kong since June 2006. Upon inquiry by the Company, all Directors confirmed that they had strictly complied with the provisions as set out in both the Company's Code and the said Model Code throughout the year 2011.

## Remuneration and Incentive Mechanism

The Remuneration and Incentive Mechanism of the Group is based on the principles of "effective motivation" and "sound remuneration management". It links remuneration, performance and risk management tightly, and encourages staff to enhance their performance and at the same time strengthen their awareness of risk management so as to achieve sound remuneration management.

The Remuneration and Incentive Policy of the Group is applicable for the Company and all its subsidiaries (including the branches and

institutions both in and out of Hong Kong).

- **"Senior Management" and "Key Personnel"**

The following groups of employees have been identified as the "Senior Management" and "Key Personnel" as defined in the HKMA's Guideline on a Sound Remuneration System:

- "Senior Management": The senior executives designated by the Board who are responsible for oversight of the firm-wide strategy or material business lines, including Chief Executive, Deputy Chief Executives, Chief Financial Officer, Chief Risk Officer, Chief Operating Officer, Assistant Chief Executive, Board Secretary and Head of Group Audit.
- "Key Personnel": The employees whose individual business activities involve the assumption of material risk which may have significant impact on risk exposure, or whose individual responsibilities are directly and materially linked to the risk management, or those who have direct influence to the profit, including Head of material business line, Head of major subsidiary, Head of Trading and Chief Dealer, as well as Head of risk control functions.

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- **Determination of the Remuneration Policy**

To fulfill the above-mentioned principles and to facilitate effective risk management within the framework of the Remuneration Policy of the Group, the Remuneration Policy of the Group is initiated by Human Resources Department with consultation of the risk control units including risk management, financial management and compliance in order to balance the needs for staff motivations, sound remuneration and prudent risk management. After the proposed Remuneration Policy is cleared with the Management Committee, it will be submitted to the Nomination and Remuneration Committee for review and thereafter to the Board of Directors for approval. The Nomination and Remuneration Committee and the Board of Directors will seek opinions from other Board Committees (e.g. Risk Committee, Audit Committee, etc.) where they consider necessary under the circumstances.

- **Key Features of the Remuneration and Incentive Mechanism**

1. *Performance Management Mechanism*

To reflect the corporate culture of "Achieving Performance and Effectiveness", the Group has put in place a performance management mechanism to formalise the performance management at the levels of the Group, units and individuals. The annual targets of the Group will be cascaded down under the framework of balanced scorecard whereby the performance of the Senior Management and different units (including business units, risk control units and other units)

would be assessed from the perspectives of financial, customer, building block/key tasks, human capital, risk management and compliance. As to the performance management of individual staff at different levels, the annual targets of the Group will be tied to the job requirements of different posts at different levels through the model of level-based performance management. Performance of individuals will be appraised with reference to their accomplishment of work targets, contribution towards overall performance of their corresponding units and compliance of risk management and internal control policies. Under this mechanism, not only the target accomplishment has been taken into account, the risk exposure involved during the course of work of a staff member could also be evaluated and managed so as to provide safeguards to the Group against the risk and ensure normal operations. The mechanism is also associated with the assessment on system of values, thereby facilitating the attainment of the core values.

2. *Risk Modification of Remuneration*

To implement the principle of aligning the performance and remuneration with the risk, based on "The Risk Adjustment Method for Group Bonus Funding Mechanics", the key risk modifiers of the bank have been incorporated into the performance management mechanism of the Group. The size of the Variable Remuneration Pool of the Group is calculated according to the risk adjusted performance results approved by the Board and is subject to the Board's discretion. This method ensures

the Group to fix the Group's Variable Remuneration Pool after considering risk exposures and changes and to maintain effective risk management through the remuneration mechanism.

"The Risk Adjustment Method for Group Bonus Funding Mechanics" consists of "Risk Modifier" and "Post Result Score Adjustment":

- "Risk Modifier" measures the risk factors that are quantifiable and directly linked to group's financial performance, including credit risk, market risk, interest rate risk, as well as liquidity risk. With most of the indicators being quantitative, "Risk Modifier" utilises both absolute and relative measures, and assesses the risk level from both ex-ante and ex-post perspectives.

- "Post Result Score Adjustment" measures the risk factors that are not quantifiable, aiming at the overall adjustment to the group's performance results upon the occurrence of major risk events. These risk factors include operational risk, legal and compliance risk, as well as reputation risk. "Post Result Score Adjustment" utilises qualitative measures, assesses the impact of non quantifiable risk factors to the group's performance results from ex-post perspective.

3. *Performance-based and Risk-adjusted Remuneration Management*

The remuneration of staff is composed of "fixed remuneration" and "variable remuneration", the

# CORPORATE GOVERNANCE

proportion of one to the other for individual staff members depends on job grades, roles, responsibilities and functions of the staff with the prerequisite that balance has to be struck between the fixed and variable portion. Generally speaking, the higher the job grades and/or the greater the responsibilities, the higher will be the proportion of variable remuneration so as to encourage the staff to follow the philosophy of prudent risk management and sound long-term financial stability.

Every year, the Group will conduct periodic review on the fixed remuneration of the staff with reference to various factors like remuneration strategy, market pay trend and staff salary level; and to determine the remuneration based on the affordability of the Group as well as the performance of the Group, units and individuals. As mentioned above, performance assessment criteria include quantitative and qualitative factors, as well as financial and non-financial indicators.

According to the Group Bonus Funding Mechanics, the size of the Variable Remuneration Pool of the Group is determined by the Board on the basis of the financial performance of the Group and the achievement of non-financial strategic business targets under the long-term development of the Group. Thorough consideration is also made to the risk factors in the determination process. The size of the Pool is reached based on pre-defined formulaic calculations but the Board can make discretionary adjustment to it if deemed appropriate under prevailing circumstances. When the group's

performance is relatively weak (e.g. failed to meet the threshold performance level), no variable remuneration will be paid out that year in principle, however, the Board reserves the rights to exercise its discretion.

As far as individual units and individual staff are concerned, allocation of the variable remuneration is closely linked to the performance of the units, and that of each individual staff as well as the unit he/she is attaching to, the assessment of which should include risk modifiers. The performance and remuneration arrangement of risk control personnel are determined by the achievements of their core job responsibilities, independent from the business they oversee; for front-line risk controllers, a matrix reporting and performance management system is applied to ensure the suitability of performance-based remuneration. Within the acceptable risk level of the Group, the better the performance of the unit and the individual staff, the higher will be the variable remuneration for the individual staff.

#### 4. *Linking the payout of the variable remuneration with the time horizon of the risk to reflect the long-term value creation of the Group*

To work out the principle of aligning remuneration with the time horizon of risk and to ensure that sufficient time is allowed to ascertain the associated risk and its impact before the actual payout, payout of the variable remuneration of staff is required to be deferred in cash if such amount reaches certain

prescribed threshold. The Group adopts a progressive approach towards deferral. The longer the time horizon of risk in the activities conducted by the staff, the higher the job grade or the higher amount of the variable remuneration, the higher will be the proportion of deferral. Deferral period lasts for 3 years.

The vesting of the deferred variable remuneration is linked with the long term value creation of the Group. The vesting conditions are linked to the yearly performance (financial and non-financial) of the Group in the next 3 years to the effect that the variable remuneration could only be vested to such extent as set for the relevant year in that 3-year period subject to the condition that the Group's performance has met the threshold requirement in the corresponding year. In case of material revision of the original estimates of the performance of the Group or individual units, or if a staff is found to commit fraud, or found to be of malfeasance or in violation of internal control policies, the unvested portion of the deferred variable remuneration of the relevant staff will be clawed back.

#### • **External Remuneration Consultant**

To ensure the suitability and competitiveness of the remuneration and incentive mechanism, the Group appointed Towers Watson Pennsylvania Inc. for independent consultation in areas of base pay management approach, pay management mechanism of Senior Management, short-term incentive schemes as well as market remuneration data.



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## External Auditor

Pursuant to the "Policy on External Auditor Management" adopted by the Board, **the Audit Committee reviewed and monitored and was satisfied with the independence and objectivity of PricewaterhouseCoopers, the Group's external auditor, and the effectiveness of its audit procedures**, based on the principles and standards set out in the said 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 auditor of the Group at the Company's 2012 annual general meeting. Subject to shareholders' authorisation, the Board will authorise the Audit Committee to determine the remuneration of PricewaterhouseCoopers. For 2011, the fee charged by PricewaterhouseCoopers was HK\$38 million, of which HK\$32 million was for audit services and HK\$6 million related to other services. For 2010, the fee charged by PricewaterhouseCoopers was HK\$39 million, of which HK\$31 million was for audit services and HK\$8 million related to other services. Among the said HK\$8 million, HK\$4 million of which was the fee charged by PricewaterhouseCoopers in relation to issue of subordinated notes by BOCHK.

The Audit Committee was satisfied that the non-audit services in 2011 did not affect the independence of PricewaterhouseCoopers. The amount paid to PricewaterhouseCoopers for non-audit services in 2011 comprised mainly the tax-related services fee of approximately HK\$2 million and other non-audit services fee of approximately HK\$4 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 scope of delegation, the Management is responsible for the day-to-day operations and risk management.

The internal control system is designed to provide appropriate 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 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 review also considers the adequacy of resources, staff qualifications and experience and training of the Group's accounting and financial reporting functions. The review is coordinated by the Group's Internal Audit which, after the Management and various business departments have performed their self-assessment, then carries out an independent examination and other

post-assessment work on the review process and results. The results of the 2011 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:

- a rational organisational structure with appropriate personnel is developed and whose responsibility, authority, and accountability 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 is given on page 37 to page 41 in this Annual Report);



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- 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 areas, various kinds of risks, operations and activities. Reports are submitted directly to the Audit Committee. Internal Audit closely follows up on the items that require attention in a systematic way and reports to the Management and the Audit Committee in a timely manner; and
- the Audit Committee reviews the reports submitted by external auditor 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 follows up on the same to ensure timely implementation of the recommendations, and also periodically reports the status of the implementation to the Management and the Audit Committee.

The Group is committed to upholding good corporate governance practices and the internal control system of all subsidiaries are reviewed regularly. During the year of 2011, continuous improvements on the organisation structure and segregation of duty, the risk management policy and procedure, and the enhancement of disclosure transparency have been undertaken. In response to the volatility in global financial markets and uncertain economic outlook, the Group has implemented a series of measures and undertaken an on-going review on the effectiveness of the internal control mechanism. In 2011, areas for improvement have been identified and appropriate measures have been implemented.

## Communication with Shareholders

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

The Chairman of the Board, the Chairman of the Nomination and Remuneration Committee, the Chairman of the Risk Committee, the Chairman of the Strategy and Budget Committee, members of the Audit Committee and representatives of PricewaterhouseCoopers were present at the Company's 2011 annual general meeting and extraordinary general meeting held on 25 May 2011 at the Grand Ballroom, Lower Lobby, Conrad Hong Kong, Pacific Place to respond to enquiries raised by shareholders. As the Chairman of Audit Committee was unable to attend the annual general meeting due to other business engagements, members of Audit Committee were present on behalf of the Chairman of Audit Committee. Resolutions passed at the Company's 2011 annual general meeting

included: adoption of the Company's 2010 financial statements, declaration of 2010 final dividend, re-election of Directors, re-appointment of auditor and the grant of general mandates to the Board to issue and repurchase shares of the Company.

As disclosed in the 2010 Annual Report of the Company, in view of the 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, the Board has voluntarily reduced the general mandate to issue shares of up to 5% of the issued share capital as compared to the 20% limit 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 2011 annual general meeting. The Board would also recommend the said 5% threshold at the forthcoming 2012 annual general meeting for approval by shareholders. Further, given its commitment to high standards of corporate governance, the Board also adopted 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.** The relevant policies are summarised 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; and

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- 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.

**All the resolutions proposed at the Company's 2012 annual general meeting will be voted on by poll.** Accordingly, the Company will engage 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 and the Stock Exchange's website as soon as practicable following conclusion of the vote-counting for shareholders' information.

Besides, in order that shareholders can have a better understanding of the agenda items to be discussed at

the 2012 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 2012 annual general meeting in a circular to shareholders** which includes introductions to the proposed resolutions to be approved at the annual general meeting, information on the retiring Directors who are eligible for re-election and information on voting and other issues relating to the 2012 annual general meeting in the form of "Frequently Asked Questions".

## Shareholders' Rights

Shareholders are entitled to convene an extraordinary general meeting, make any proposals at shareholders' meetings and propose a person for election as a director. Please see the detailed procedures as follows:

- the way in which shareholders can convene an extraordinary general meeting:**  
Any shareholder(s) holding not less than 5% of the issued capital of the Company may request the Board of Directors to convene an extraordinary general meeting. The requisition, duly signed by the shareholder(s) concerned, must clearly state the objects of the meeting and must be deposited at the registered office of the Company, 52nd Floor, Bank of China Tower, 1 Garden Road, Central, Hong Kong. The Company would take appropriate actions and make necessary arrangements in accordance with

the requirements under Section 113 of the Companies Ordinance once a valid requisition is received.

- the procedures for making proposals at shareholders' meetings:**

The following shareholders are entitled to put forward a proposal (which may properly be put to the meeting) for consideration at a general meeting of the Company:

- any number of members representing not less than 2.5% of the total voting rights of the Company on the date of the requisition; or
- not less than 50 members holding shares in the Company on which there has been paid up an average sum, per member, of not less than HK\$2,000.

The requisition specifying the proposal, duly signed by the shareholders concerned, together with a statement of not more than 1,000 words with respect to the matter referred to in the proposal must be deposited at the registered office of the Company, (52nd Floor, Bank of China Tower, 1 Garden Road, Central, Hong Kong), not less than six weeks before the general meeting. The Company would take appropriate actions and make necessary arrangements, and the shareholders concerned would be responsible for the expenses incurred in giving effect thereto in accordance with the requirements under Section 115A of the Companies Ordinance once valid documents are received.

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- **the procedure for Director's nomination and election by shareholders:**

If a shareholder wishes to propose a person other than a retiring Director for election as a Director at a general meeting, the shareholder should lodge at the registered office of the Company (52nd Floor, Bank of China Tower, 1 Garden Road, Central, Hong Kong), (a) a notice signed by such shareholder (other than the proposed person) duly qualified to attend and vote at the meeting of his/her intention to propose such person for election; and (b) a notice signed by the proposed person indicating his/her willingness to be elected.

The period during which the aforesaid notices may be given will be at least seven days. Such period will commence on the day after the despatch of the notice of the general meeting for which such notices are given and end no later than seven days prior to the date of such general meeting. The Company would take appropriate actions and make necessary arrangements, and the shareholder concerned would be responsible for the expenses incurred in giving effect thereto in accordance with the

requirements under Article 99 of the Articles of Association of the Company once valid notices are received.

Further shareholder information is set out in the section headed "Investor Relations" of this Annual Report. Shareholders are welcome to send in any written enquiries to the Board for the attention of the Company Secretary either by post to the registered office of the Company at 52nd Floor, Bank of China Tower, 1 Garden Road, Central, Hong Kong or by way of email to [investor\\_relations@bochk.com](mailto:investor_relations@bochk.com). The Company Secretary would direct the enquiries received to appropriate Board Member(s) or the Chairman of the Board Committee(s) who is in charge of the areas of concern referred therein for further handling. The Board, assisted by the Company Secretary, would make its best efforts to ensure that all such enquiries are addressed in a timely manner.

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

The following statement should be read in conjunction with the auditor's statement of their responsibilities as set out in the auditor's report contained in this Annual Report. The

statement aims to distinguish the responsibilities of the Directors and the auditor 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 considers inappropriate. The Directors are responsible for ensuring that the accounting records kept by the Company at any time reasonably and accurately reflect the financial position of the Company, and also ensure that the financial statements comply with the requirements of the Hong Kong Companies Ordinance. The Directors also have duties to take reasonable and practicable steps 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 and supported by reasonable judgements and estimates, and that all accounting standards which they consider to be applicable have been followed.