



## Statement by the Board on the Special Committee's Report

The Board met today to consider the Report of the Special Committee it established on 17 June 2003.

Since our restructuring and merger on an unprecedented scale in October 2001 and our public listing last year, we have been going through a rigorous process of transformation, during which we have strived to harmonise various systems and upgrade our standards, thus paving the way for BOCHK to become a first class international bank. To realise synergies generated by the restructuring and merger to improve operational efficiencies, we have been closely following the principles and practices of good corporate governance, which we firmly believe to be essential ingredients for BOCHK as a leading banking corporation and for Hong Kong as an international financial and commercial centre.

The New Nongkai episode was unfortunate. We regret that this episode stifled the incremental progress that we were achieving across all our operations. However, as an accountable and responsible company, we are determined to take immediate and proactive measures to ensure we remain on track with our transformation. At the same time, we recognise the importance of restoring public confidence and rebuilding our image in both the local and international arenas.

In response to the Special Committee's findings and recommendations, the Board met this morning and decided on the following:

- The Board notes that the Special Committee is satisfied with the continuing integrity of the credit approval, risk management and internal control processes of the Bank but wishes to make use of the opportunity to enhance the Bank's management and corporate governance structure.** Accordingly, Management has been instructed:
  - To rectify the deviations of Bank policies from the Hong Kong Monetary Authority's guidelines identified by KPMG, against a timetable agreed with HKMA. Progress will be monitored by the Audit Committee and reported to the Board on a quarterly basis; and
  - To take forward the further enhancements in credit and risk management and internal control processes recommended by KPMG. It will produce an implementation plan and timetable, which should recognise that some enhancements are more urgent or easier to introduce than others. Management will be expected to make a quarterly report to the Board, and justify the reasons for not implementing any recommendations which it disagrees with.
- The Board has tasked the Audit Committee to commission a more detailed review of the internal audit process in the Bank against international banking best practice, to ensure that the Internal Audit function delivers the highest possible added value in addition to complying with best international practice.
- The Board has accepted the Special Committee's recommendation, which it notes is supported by the Chief Executive, that a Chief Operating Officer and Director of Risk should be appointed. The Board has decided that these posts should be filled by suitable world-class candidates, either from inside the Bank or outside, including the wider Bank of China Group. It has tasked the Chief Executive with managing a competitive selection process on the Board's behalf, prior to Board approval of the selected candidates. **In approving the recruitment of the two posts of Chief Operating Officer and Director of Risk, the Board wishes to make it clear that this does not imply any criticism or should in any way reflect adversely on the staff performing similar functions within the Bank.**
- The Board wishes to increase the number of independent non-executive directors. It endorses the Special Committee's view as to what would be useful experience at present. It has identified a candidate who will be appointed to replace Mr. Chia Pei-yuan who retired in July as soon as regulatory clearance is obtained and has also short-listed a few more potential candidates.
- To enable the Board and its other committees to focus more on strategy and oversight of the business, and improve communication between the Board and Management, the Board has tasked the Chief Executive to conduct a study of the need and feasibility of an executive committee of the Board.

6. The Board has considered the criticisms made by the Special Committee of Mr. Liu Jinbao and Mr. Or Man Ah and accepts the Special Committee's findings. As Mr. Liu Jinbao is no longer working for the Bank, the Board will address a note of the findings of the Special Committee to the Bank of China. Mr. Or has applied for early retirement, and the Board has decided to accept his application, in view of his long service and previous contribution to the Bank. The Board wishes to place on record that Mr. Or readily accepted responsibility. This is a commendable display of a strong sense of personal accountability to the Bank that is entirely consistent with the high regard held by his colleagues for him. The Bank wishes him a happy retirement.

The Board believes that the work of the Special Committee has brought the episode to a close. The Bank should now continue to forge ahead with breaking new grounds and growing its business while progressing towards achieving its aim to become a first class international bank. **The Board would like to put it on record that the staff has been very understanding, committed and supportive during the Bank's restructuring and merger exercise and has remained so during this difficult period.** Together we have come through the New Nongkai episode, the SARS crisis and its economic ramifications as a stronger and better organisation. We would like to thank our staff for their good work. The Board also wishes to express its gratitude to the Special Committee and everybody involved for their energy, commitment, and wise counsel.

(Sd.) Xiao Gang

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Xiao Gang

Chairman

5 September 2003