

CHAIRMAN'S STATEMENT



XIAO Gang

*Chairman and President, Bank of China
Chairman, BOC Hong Kong (Holdings) Limited and
Bank of China (Hong Kong) Limited*

The theme of this Annual Report “Growing with Stronger Foundations” is the embodiment of the Group’s continued commitment to maximising shareholder value and enhancing corporate governance. This commitment, we firmly believe, is crucial to enable us to be our customers’ premier bank wherever we are.

The focus of our business in 2003 was growth through innovation. This was evidenced by our launch of new products and services, the achievement of profit growth notwithstanding an extremely challenging operating environment, further improved asset quality, and our out-performance of our peers in some key businesses. At the same time, we kept on enhancing our corporate governance framework, having regard to international best practices that can ensure a higher degree of accountability to shareholders, customers and staff. With greater investor confidence in the Group’s prospects, our shares recorded outstanding price performance.

For the year ended 31 December 2003, the results of the Group were as follows:

- operating income of HK\$17,253 million, down 4.75%;
- profit attributable to shareholders of HK\$7,963 million, up 17.33%;
- earnings per share of HK\$0.7532, up 17.34%.

The Board is recommending a final dividend of HK\$0.320 per share at the Annual General Meeting on Friday, 21 May 2004. That, together with the interim dividend of HK\$0.195 per share, results in a total dividend of HK\$0.515 per share for the whole year.

The Group’s business performance last year was a reflection of our sustained efforts in maximising shareholder value.

Profit attributable to shareholders grew on the back of our focused efforts on business development and effective cost management, increasing our return on shareholders’ funds and total assets respectively and leading to a high level of shareholder return. We have also

been paying particular attention to asset quality, which was reflected in significantly lowered NPL and classified loan ratios. This is one of the most effective means for achieving healthier growth in the long term.

We have identified and followed a focused business development strategy that establishes priorities and encourages innovation for continuous business growth. Details of this and the results so far will be discussed in the following sections of this Annual Report. It is, however, worth mentioning here that our wealth management business as a whole and our residential mortgage operation registered strong growth last year, especially in the second half. These are clear indicators of how innovation and customisation have generated good results for the Group.

In our 2003 Interim Report, we reported on the findings and recommendations of the Special Committee set up after the New Nongkai Loan incident to review the Group's corporate governance, credit approval procedures, risk management and internal control mechanism. We have embarked on a series of reforms, some of which will further enhance our existing corporate governance structure. We believe these are part and parcel of a strong foundation for the Group's long-term development.

Given the improved market sentiment, the benefits of CEPA and other conducive factors, we believe 2004 is going to be another exciting year in a more positive sense. Apart from our priorities of wealth management, consumer credit and corporate lending, we will be actively growing our China business. Towards the end of 2003 BOCHK was appointed as the Clearing Bank for personal RMB business in Hong Kong and our RMB banking services were launched in late February 2004. We are uniquely positioned to take advantage of new business opportunities generated from these developments in the vast Mainland market. Furthermore, with the injection of state capital in late 2003, the Bank of China, the Group's parent company, has been enhancing its corporate governance, operations and management system as well as business development activities to be an even stronger entity. All these are geared towards facilitating fair and mutually beneficial co-operation between BOC and the Group, and in turn, creating an enlarged and solid platform for the development of our China business. To capture the opportunities that are emerging, we will continue to build upon our branch network and resources in both Hong Kong and the Mainland. In order to accomplish further growth with stronger foundations, we will implement coherent and pragmatic business strategies, enhance our management and corporate

governance, focus on asset quality, and strengthen our competitive edge.

Finally, I wish to thank the Board of Directors and the Senior Adviser for their wise counsel during a challenging year, in particular Mr. Chia Pei-yuan and Mr. Ping Yue who retired from the Board in July 2003 and February 2004 respectively. In November 2003, Ambassador Yang Linda Tsao was appointed an Independent Non-executive Director of the Board. The Board would like to extend a warm welcome to Ambassador Yang who, with her expertise in corporate governance, will surely contribute much to the Group.

My gratitude also goes to shareholders and customers for their continued trust and support. They are our source of inspiration for growth and innovation. Last but not least, I would like to express my heartfelt thanks to our staff, for their ongoing commitment and putting forth only their best efforts regardless of the circumstances.

XIAO Gang

Hong Kong, 22 March 2004