

CORPORATE GOVERNANCE

The Company believes in the upholding of the principles and practices of good corporate governance as the best means to ensure effective internal control and safeguard the interests of shareholders, customers and staff. It is also crucial to the healthy development of the Company in the long term. The Company strictly abides by the laws and regulations of the jurisdiction where it operates, and observes the guidelines and rules issued by regulatory authorities such as the HKMA, the Hong Kong Securities and Futures Commission and the Stock Exchange of Hong Kong. It also strives to follow the latest international and local corporate governance best practices.

Corporate Governance Framework

With the Board at the core, the Company's corporate governance structure operates to high standards and is kept under constant review and reinforcement to maintain such standards. Under this governance structure, the role of the Board is to provide high-level guidance and oversight and is separate from that of the Management, which is devoted to the day-to-day



operation and administration of the Company. The Board provides strategic guidance for the Company and maintains effective oversight over the Management. The Board acts honestly and in good faith. Its decisions are made objectively and in the best interests of the Company, with a view to maximising long-term shareholder value and fulfilling its corporate responsibility to other stakeholders of the Company.

To assist the Board in fulfilling its responsibilities and in accordance with best corporate governance practices, three standing committees have been established under the Board, namely, Audit Committee, Risk Committee, and Nomination and Remuneration Committee. A sub-committee known as Compliance Committee is also established under the Audit Committee. Ad hoc committees will be set up to undertake special assignments as and when necessary. The ad hoc committees will report to the Board or a designated standing committee. The standing committees and ad hoc committees perform their respective roles and functions as mandated by the Board, and subject to the oversight and guidance of the Board. The Board and all Board committees will assess their respective work procedure and effectiveness on a regular basis in accordance with their mandate.

The Board delegates to the Chief Executive and his Management team the power to manage and administer the day-to-day affairs of the Company. At the same time, the Board gives clear guidance as to the powers of the Management, in particular with respect to the circumstances under which the Management shall report back to and obtain prior approval from the Board before making a decision or entering into any commitment on behalf of the Company. Such delegation and guidance are subject to review by the Board on a regular basis. Furthermore, the overall strategic role of the Board and the day-to-day management function of the Management are clearly delineated within the Company in order to ensure the proper allocation of authority, responsibility and accountability. While the Chairman leads the Board, the Chief Executive is the head of the Management. The roles of the Chairman and the Chief Executive are separated and are performed by different individuals so that power is not concentrated in any one individual. In addition, the division of responsibilities between the Chairman and the Chief Executive is expressly set out in the Board's mandate.

In order to enhance the transparency of the Company's corporate governance, a new corporate governance web-page is included in the Company's corporate website. Information provided on the web-page includes the Company's corporate governance principles and framework, the composition of the Board and its Committees and a summary of their respective terms of reference, shareholders' rights and the Company's Fair Disclosure Policy. The Company's corporate website is at www.bochk.com.

Board of Directors

The majority of the Board is made up of Non-executive Directors and Independent Non-executive Directors and the Board is assisted by a Senior Adviser. This ensures the independence and objectivity of the Board's decision-making process and the thoroughness and impartiality of the Board's oversight of the Management. The Board has established and been implementing effective procedures for the appointment of new directors. All Non-executive Directors, Independent Non-executive Directors and the Senior Adviser are appointed for a fixed term, with formal letters of appointment setting out the key terms and conditions relative to their appointment. Furthermore, in order to reinforce the accountability of Directors, the Company has passed a shareholders' resolution at the 2004 annual general meeting to amend the Company's Articles of Association. Pursuant to the amended Articles, 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.

The Board currently comprises eleven Directors, of whom four are Independent Non-executive Directors, six are Non-executive Directors and one is Executive Director. Independent Non-executive Directors comprise more than one-third of the Board and include Directors with appropriate financial management expertise. The Company is therefore in full compliance with Rules 3.10(1) and (2) of the Listing Rules. In addition, the Company has received from each of the Independent Non-executive Directors an annual confirmation of his/her independence and hence still considers each of them to be independent. Apart from Board members, the Board has also appointed an experienced and reputable Senior Adviser. The Senior Adviser attends Board meetings and offers his objective and professional advice and recommendations to the Board. Biographical details of the Directors and Senior Adviser are set out in the section "Board of Directors and Senior Management" of this Annual Report and the Company's website at www.bochk.com.

There is no relationship (including financial, business, family or other material/relevant relationship(s)) among the Board members. Messrs. Xiao Gang, Hua Qingshan and Li Zaohang are directors of BOC and Mr. Anthony Neoh, the Senior Adviser to the Board, is an Independent Non-executive Director of BOC. Mr. Zhou Zaiqun and Mdm. Zhang Yanling are members of the senior management of BOC. BOC is the Company's controlling shareholder, which was re-organised into a joint stock company and changed its name to Bank of China Limited in August 2004. Messrs. Sun Changji, He Guangbei and Zhou Zaiqun and Mdm. Zhang Yanling were directors of BOC prior to its re-organisation. 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, the matter shall not be dealt with by way of written resolutions, but 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.

Six board meetings were held during the year with an average attendance rate of 97%. Individual attendance records of the Directors are set out as follows:

Director	Number of board meetings attended	Attendance rate
<i>Non-executive Directors</i>		
Mr. XIAO Gang (Chairman)	6 out of 6	100%
Mr. SUN Changji (Vice Chairman)	5 out of 6	83%
Mr. HUA Qingshan	5 out of 6	83%
Mr. LI Zaohang	6 out of 6	100%
Mr. ZHOU Zaiqun	6 out of 6	100%
Mdm. ZHANG Yanling	6 out of 6	100%
<i>Independent Non-executive Directors</i>		
Dr. FUNG Victor Kwok King	6 out of 6	100%
Mr. SHAN Weijian	6 out of 6	100%
Mr. TUNG Chee Chen	6 out of 6	100%
Mdm. YANG Linda Tsao	6 out of 6	100%
<i>Executive Director</i>		
Mr. HE Guangbei (Vice Chairman and Chief Executive)	6 out of 6	100%

Audit Committee

The Audit Committee currently has five members comprising one Non-executive Director and four Independent Non-executive Directors (representing 80% thereof). The Committee is chaired by Mr. Shan Weijian, an Independent Non-executive Director.

The Committee assists the Board to fulfill its oversight role over the Company and its subsidiaries in, among others, the following areas:

- integrity of accounts and financial reporting process;
- internal control systems;
- effectiveness of internal audit function and performance appraisal of head of internal audit;
- appointment of external auditors and assessment of their qualifications, independence and performance;
- periodic review and annual audit of the Company's and the Group's accounts; and
- compliance with applicable accounting standards and legal and regulatory requirements on financial disclosures.

In August 2004, the Audit Committee undertook a thorough investigation into the events surrounding the judicial investigation by Mainland Chinese authorities of two former deputy chief executives of the Company in connection with alleged unauthorised distribution for personal purposes of certain funds belonging to BOC.

With the proactive participation of all the Independent Non-executive Directors and based on available information from internal audit and the Company's external auditors, the Committee concluded the investigation and confirmed to the Board that the funds involved are beneficially owned by BOC and have never formed part of the assets of the Group or customers other than BOC and that the incident does not impact on the financial position and operating results of the Company.

Apart from the investigation aforesaid, five scheduled 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. SHAN Weijian (Chairman)	5 out of 5	100%
Mr. ZHOU Zaiqun	4 out of 5	80%
Dr. FUNG Victor Kwok King	4 out of 5	80%
Mr. TUNG Chee Chen	5 out of 5	100%
Mdm. YANG Linda Tsao	5 out of 5	100%

Risk Committee

For better corporate governance and to reflect more accurately its role and responsibilities as well as the authorities and obligations of its members, the name of the Committee was changed from Risk Management Committee to Risk Committee in September 2004.

Mr. Anthony Neoh, the Senior Adviser to the Board, attends Committee meetings as an adviser to offer his advice.

The Risk Committee currently has three members, all of whom are Non-executive Directors. It is chaired by Mr. Xiao Gang, the Chairman of the Board.

The Committee assists the Board to fulfill its oversight role over the Company and its subsidiaries in, among others, the following areas:

- establishment of the risk appetite, risk profile and risk management strategy of the Group;
- identification, assessment and management of the material risks faced by the various business units of the Group;
- review and assessment of the adequacy of the Group's risk management process, system and internal control; and
- review and monitoring of compliance with the Group's risk management process, system and internal control including compliance with prudential, legal and regulatory requirements governing the business of the Group.

During the year, the Committee reviewed the Proposal on Segmenting Risk Management Policies by Tiers, Risk Management Policy Statement and various other risk-related policies and recommended the same for adoption by the Board. The Committee also deliberated on the Group's preparation for Basel II implementation. To enhance the Group's risk monitoring, the Committee has been receiving key risk indicators prepared by the Management on a monthly basis.

Seven committee meetings were held during the year with an average attendance rate of 86%. Individual attendance records of the relevant Directors are set out as follows:

Director	Number of committee meetings attended	Attendance rate
Mr. XIAO Gang (Chairman)	6 out of 7	86%
Mr. HUA Qingshan	7 out of 7	100%
Mdm. ZHANG Yanling	5 out of 7	71%

Nomination and Remuneration Committee

The Nomination and Remuneration Committee currently has five members comprising two Non-executive Directors and three Independent Non-executive Directors (representing 60% thereof). It is chaired by Mr. Sun Changji, Vice-chairman of the Board and a Non-executive Director.

The Committee assists the Board to fulfill its oversight role over the Company and its subsidiaries in, among others, the following areas:

- overall human resources and remuneration strategies of the Group;
- identification and nomination of Directors, Board committee members and certain senior management members as designated by the Board from time to time;
- skills, experience and knowledge of Directors and Board committee members;
- remuneration of Directors, Board committee members and Senior Management;
- effectiveness of the Board and Board committees; and
- corporate governance framework of the Group and implementation thereof.

With a view to improving the overall human resources management, the Group launched a human resources management reform in July 2004, after reviews and inputs by the Nomination and Remuneration Committee. The Committee also reviewed the key performance indicators of the Group and senior management and the performance appraisal manual for senior management and recommended the same for approval by the Board.

Four committee meetings were held during the year with an average attendance rate of 90%. Individual attendance records of the relevant Directors are set out as follows:

Director	Number of committee	
	meetings attended	Attendance rate
Mr. SUN Changji (Chairman)	4 out of 4	100%
Mr. LI Zaohang	3 out of 4	75%
Dr. FUNG Victor Kwok King	4 out of 4	100%
Mr. SHAN Weijian	4 out of 4	100%
Mr. TUNG Chee Chen	3 out of 4	75%

Ad Hoc Committees

Three ad hoc committees, namely, Search Committee, Independent Board Committee and Budget Committee, were established by the Board during the year to deal with specific matters delegated by the Board.

Search Committee

Following the judicial investigation by Mainland Chinese authorities in August 2004 of two former deputy chief executives of the Company, the Board, in accordance with prior approved Board policy, set up the Search Committee to conduct a global and open recruitment of candidates for the positions at deputy chief executive level and to recommend to the Nomination and Remuneration Committee and the Board for final approval.

The Committee was chaired by Dr. Victor Fung Kwok King, an Independent Non-executive Director and comprised Mr. Sun Changji, Mr. He Guangbei and Independent Non-executive Directors Mr. Shan Weijian, Mr. Tung Chee Chen and Mdm. Linda Tsao Yang.

The Committee met seven times from August to December 2004 and, with the assistance of SpencerStuart, an international search consultant, succeeded in recruiting Mr. Gao Yingxin as the Deputy Chief Executive in charge of corporate banking, Mr. Alex Cheung Yau Shing as the Chief Risk Officer, and Mr. Peter Liu Yun Kwan as the Chief Information Officer before the end of the year. Throughout the search process, the Committee maintained a close dialogue with the regulators and the Company issued timely announcements to keep the public informed of the progress.

Independent Board Committee

Pursuant to the Board's mandate, an Independent Board Committee was set up in August 2004 to review and approve the continuing connected transactions between the Company and its subsidiaries on the one hand and members of the BOC Group (other than the Company and its subsidiaries) on the other hand. The Committee comprised all the Independent Non-executive Directors of the Company and was chaired by Mr. Tung Chee Chen.

Although it was not required under the Listing Rules, the Independent Board Committee retained NM Rothschild & Sons (Hong Kong) Limited ("Rothschild") as the independent financial adviser to the Committee for the purpose of reviewing the continuing connected

transactions. On the basis of Rothschild's affirmative advice and its own review, the Independent Board Committee was satisfied that the continuing connected transactions had been entered into in the ordinary and usual course of the Group's business on normal commercial terms.

The Company will comply strictly with the relevant reporting and annual review requirements under the Listing Rules. An announcement on this subject was made by the Company on 5 January 2005. Detailed disclosure is also included in the section "Connected Transactions" in this Annual Report.

Budget Committee

The Budget Committee was set up in August 2004 for the purpose of overseeing the budgeting and business planning process for 2005. The Committee, comprising Mr. Zhou Zaiqun, a Non-executive Director and Mdm. Linda Tsao Yang, an Independent Non-executive Director, adopted an interactive approach in its review by engaging in open dialogue with the heads of all major business departments and principal subsidiaries of the Company. Recommendations made by the Committee was reviewed and accepted by the Board when finalising the Group's 2005 budget and business plan.

Directors' Securities Transactions

The Company has adopted a "Code for Securities Transactions by Directors" to govern securities transactions by Directors. The terms of the said Code are no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 of the Listing Rules. Having made specific enquiry of all Directors, the Directors confirmed that they have complied with the required standard set out in both the said Code and the Model Code throughout the year of 2004.

Auditors' Fees

The Company's 2004 accounts were audited by PricewaterhouseCoopers at a total audit fee of HK\$24 million. The said audit fee was approved by the Audit Committee and endorsed by the Board.

The Company incurred a fee of HK\$16 million for non-audit services provided by PricewaterhouseCoopers in 2004. The Audit Committee has been briefed of the non-audit services and fees and was satisfied that such non-audit services did not (in terms of the nature of the services and the amount of fees charged relative to the audit fees) affect the independence of PricewaterhouseCoopers. The non-audit services mainly comprised tax-related services, internal control review services in relation to the Tian Xing Jian Project and accounting consultations.

Communication with Shareholders and Shareholders' Rights

The Board regards continuous communication with shareholders as an important part of its role. For such purpose, the Company's annual general meetings offer a valuable forum for the Board to communicate directly with shareholders who are encouraged to actively participate at such meetings.

The Chairmen of the Board, the Risk Committee and the Nomination and Remuneration Committee respectively, members of the Audit Committee and representatives of PricewaterhouseCoopers were present at the Company's 2004 annual general meeting held on 21 May 2004 at the Hong Kong Convention and Exhibition Centre to respond to questions and comments raised by shareholders.

Resolutions passed at the aforesaid meeting included: adoption of the Company's and the Group's 2003 accounts, declaration of 2003 final dividend, re-election of Directors, payment of additional remuneration to Board and Committee members and secretaries, re-appointment of auditors, amendment of the Company's Articles of Association and grant of a general mandate to the Board to issue and repurchase shares of the Company.

The Board also announced at the 2004 annual general meeting certain internal policies for the exercise of the powers granted to the Board under the aforesaid general mandates to issue and repurchase shares as follows:

- The Board will not exercise the mandate to issue shares for cash in excess of 10% of the Company's issued share capital or at a discount that will result in significant dilution of shareholder 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, 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
- 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.

In order to enhance the transparency of shareholders' voting, all the resolutions proposed at the Company's 2004 annual general meeting were 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 were published in the press and on the Company's website on the next following business day, i.e., 24 May 2004.

The Company has also provided additional information on the 2005 annual general meeting in a circular to shareholders. This includes background information to the proposed resolutions, information on the retiring Directors and information on voting and other issues relating to the 2005 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 the shareholders at a general meeting). This is done to ensure that shareholders have a better understanding of their rights and can make informed decisions in relation to the subject matters of the 2005 annual general meeting.

Further shareholder information is set out in the section "Investor Relations" 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.

Project Tian Xing Jian

The “Tian Xing Jian Project” was launched in September 2003 pursuant to the recommendations of the Special Committee and relevant external institutions. In this connection, the Company has conducted a comprehensive and systematic review of its corporate governance, risk management, credit approval and internal control mechanisms with a view to implementing the recommendations made by all those concerned. As a result of the Project, the standard of the Company’s corporate governance, risk management, credit approval and internal control mechanisms have been significantly enhanced. The Company’s image and reputation as well as the staff’s confidence in the long-term development of the Company have also been reinforced. The Company is therefore pleased to announce that the Tian Xing Jian Project has been substantially completed. The completion of the Tian Xing Jian Project represents an important milestone in the Company’s corporate governance and serves as the foundation on which the Company can continue to reinforce its corporate governance to attain even higher standards of excellence.

Directors’ Responsibility Statement in relation to Accounts

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 accounts.

The Directors are required by the Hong Kong Companies Ordinance to prepare accounts, which give a true and fair view of the state of affairs of the Company. The accounts 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 accounts 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 accounts contained in this Annual Report, the Company has used appropriate accounting policies, consistently applied, and supported by reasonable and prudent judgements and estimates, and that all accounting standards which they consider to be applicable have been followed.

