

Press Release

June 6, 2003

Announcement on the New Nongkai Loan

The board of directors (the "Board") of BOC Hong Kong (Holdings) Limited ("the Company", stock code "2388") issued an announcement today to appraise shareholders and potential investors of the position of the Company and its subsidiaries (the "Group") relating to a loan granted by Bank of China (Hong Kong) Limited ("BOCHK"), the main operating subsidiary of the Company, to New Nongkai Global Investments Limited ("New Nongkai"), a company wholly-owned by Mr Chau Ching-ngai ("Mr Chau").

According to the announcement, "The Audit Committee (comprising all the independent non-executive directors) of the Company has reviewed the approval process of the New Nongkai Loan and related matters. The approval of the granting of the New Nongkai Loan was conducted in compliance with the internal credit risk management policies and procedures of BOCHK and was properly approved by the Credit Committee of BOCHK. The Audit Committee will continue to closely monitor this incident."

"Based on information available so far, the Company believes that the New Nongkai Loan shall not have material adverse impact on the financial position of the Group as a whole", added the announcement.

As stated in the announcement, BOCHK granted a HK\$2.107 billion one-year bridging loan facility to New Nongkai in June 2002 for the purpose of financing its acquisition of equity interest in Shanghai Land Holdings Limited ("Shanghai Land"), which is a company listed on The Stock Exchange of Hong Kong Limited and its major assets include a number of property investment projects in Shanghai. The actual amount of loan ultimately drawn down by New Nongkai was approximately HK\$1.77 billion ("New Nongkai Loan"). The total outstanding principal amount of the New Nongkai Loan as at 5 June 2003 amounted to HK\$741 million. The assets of Shanghai Land include cash deposited with BOCHK which as at 6 June 2003 amounting to US\$153 million (equivalent to HK\$1.19 billion). Based on the closing price per share of Shanghai Land of HK\$0.345 as at 30 May 2003 (the closing price immediately before its suspension of trading), the market value of the 75% shareholding mortgaged to BOCHK amounted to HK\$789 million.

In view of the recent events and reports concerning Shanghai Land and Mr Chau and after taking legal advice, BOCHK has applied to and has been granted an order by the High Court of Hong Kong for the receivership of New Nongkai and to appoint two representatives from Messrs. Kennic L. H. Lui & Co., Certified Public Accountants, to be the receivers and managers of New Nongkai in order to receive and protect the business and assets of New Nongkai and its subsidiaries and to protect the interests of BOCHK.

Based on the preliminary assessment by the Board, the value of the shares in Shanghai Land mortgaged to BOCHK appears to exceed the outstanding amount of the New Nongkai Loan. This is however subject to further investigation and verification by the Group.

The Company has noted the recent investigations made by the relevant authorities

regarding Mr Chau and his affiliates and will procure BOCHK to fully co-operate with the relevant authorities in their investigations. The Company is not aware that BOCHK itself is presently subject to any investigation in respect of this matter.

In response to the recent media reports on and investors' concern with the Company's credit risk management, the Board reiterates its commitment to the sound corporate governance and prudent risk management. As a locally incorporated bank in Hong Kong, BOCHK has been subject to strict banking regulations. An independent Risk Management Department was set up after BOCHK's restructuring and merger. The Department reports directly to the Board of Directors and the Risk Management Committee. The new credit risk management systems and practices seek to meet the primary goal by establishing an appropriate credit risk environment; enforcing prudent procedures for approving credits; maintaining an appropriate credit administration, measurement and monitoring process; and ensuring adequate independent oversight and control over credit risk. As a result of such mechanism, BOCHK's new non-performing loans ratio has been low ever since its restructuring and merger in October 2001. This reflects that the new risk management and control mechanism, policies and procedures are effective in assisting BOCHK to control its asset quality.

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[Encl. Announcement](#)