

## Report of the Directors

The directors are pleased to present their report together with the audited consolidated accounts of the Company and its subsidiaries for the first half of 2003.

### Principal Activities

The principal activities of the Group are the provision of banking and related financial services. An analysis of the Group's performance in the first half of 2003 by business segments is set out in Note 39 to the accounts.

### Results and Appropriations

The results of the Group for the first half of 2003 are set out in the consolidated profit and loss account on page 29.

The Board declared an interim dividend of HK\$0.195 per ordinary share for the first half of 2003 on 5 September 2003 amounting to approximately HK\$2,062 million.

### Closure of Register of Members

The Register of Members of the Company will be closed, for the purpose of determining shareholders' entitlement to the interim dividend, from Wednesday, 24 September 2003 to Tuesday, 30 September 2003 (both days inclusive), during which period no transfer of shares will be registered. In order to rank for the interim dividend, shareholders should ensure that all transfer documents, accompanied by the relevant share certificates, are lodged with the Company's Share Registrar, Computershare Hong Kong Investor Services Limited, at Rooms 1901-5, 19th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong, not later than 4:00 p.m. on Tuesday, 23 September 2003.

### Reserves

Details of the reserves of the Group are set out in Note 33 to the accounts.

### Donations

Charitable and other donations made by the Group amounted to HK\$4,678,000 in the first half of 2003.

### Fixed Assets

Details of the movements in fixed assets of the Group are set out in Note 26 to the accounts.

### Distributable Reserve

Distributable reserve of the Company at 30 June 2003, calculated under section 79B of the Hong Kong Companies Ordinance, amounted to approximately HK\$2,248 million.

### Purchase, Sale or Redemption of the Company's Shares

During the period under review, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's shares.

## Report of the Directors (continued)

### Share Options

Pursuant to written resolutions of all the Company's shareholders passed on 10 July 2002, the Company has approved and adopted two share option schemes, namely, the 2002 Share Option Scheme and the 2002 Sharesave Plan. In connection with its listing on the Stock Exchange, the Company has undertaken to the Stock Exchange that for a period of six months from its listing i.e. until 25 January 2003, the Company shall not, among other things, grant or offer or agree to grant options over any shares without the prior consent of the Stock Exchange. No options have been granted by the Company pursuant to the 2002 Share Option Scheme or the 2002 Sharesave Plan during the first half of 2003.

The following is a summary of the 2002 Share Option Scheme and the 2002 Sharesave Plan disclosed in accordance with the Listing Rules:

|   | <b>2002 Share Option Scheme</b>  | <b>2002 Sharesave Plan</b>   |
|---|--|--|
| Purpose of the scheme   | To provide the participants with the opportunity to acquire proprietary interests in the Company, to attract and retain the best available personnel, to encourage and motivate the participants to work towards enhancing the value of the Company and its shares, to allow the participants to participate in the growth of the Company and to align the interests of the shareholders and the participants. | To encourage broad-based employee ownership of the Company's shares, to increase employee awareness and participation in the Company's share price performance, to provide employees with an additional vehicle for asset accumulation and to align the interests of all employees with those of the Company's shareholders. |
| Participants of the scheme  | Subject to compliance with applicable laws, full-time or part-time employee, executive or officer of the Group, executive or non-executive director of the Group, or full-time or part-time employee, executive, officer or director of BOC or any of its subsidiaries serving as a member of any committee of the Group.  | Employee, executive, officer or director of the Group, having such qualifying period of service (if any) as the Board may determine from time to time and not having been granted any options under the 2002 Share Option Scheme.  |
| Total number of shares available for issue under the scheme and percentage of issued share capital as at 30 June 2003 | The maximum number of shares in respect of which options may be granted under the 2002 Share Option Scheme, the 2002 Sharesave Plan and any other share option schemes and savings-based share option plans of any company in the Group (the "Other Schemes and Plans") shall not in aggregate exceed 10% of the shares in issue on 10 July 2002, that is, 1,057,278,026 shares.                               | Same as 2002 Share Option Scheme.  |

## Report of the Directors (continued)

### Share Options (continued)

|  | 2002 Share Option Scheme  | 2002 Sharesave Plan   |
|--|---|---|
| Maximum entitlement of each participant under the scheme                       | The total number of shares issued and to be issued upon the exercise of the options granted and to be granted to any one participant under the 2002 Share Option Scheme and the Other Schemes and Plans (including exercised, cancelled and outstanding options) in any twelve-month period up to and including the date of grant shall not exceed 1% of the shares in issue from time to time. | The maximum number of shares (rounded down to the next whole number) which can be paid for at the exercise price with monies equal to the aggregate of the savings contributions the participant has undertaken to make by the Maturity Date (defined as below) and interest which may be accrued thereon. Provided that the total number of shares issued and to be issued upon the exercise of the options granted and to be granted to any one participant under the 2002 Sharesave Plan and the Other Schemes and Plans (including exercised, cancelled and outstanding options) in any twelve-month period up to and including the date of grant shall not exceed 1% of the shares in issue from time to time. The amount of the monthly contribution to be made by a participant shall not be less than 1% and not more than 10% of the participant's monthly salary. |
| The period within which the shares must be taken up under an option            | Such period as shall be prescribed by the directors and specified in the letter of offer.   | The thirty day period (excluding the anniversary days) immediately after the first and second anniversary days from the date of grant or such other date as determined by the Board, or the thirty day period immediately after the third anniversary of the date of grant or such other date as determined by the Board (the "Maturity Date"), or such other period(s) as may be determined by the Board.  |
| The minimum period for which an option must be held before it can be exercised | Such minimum period as shall be prescribed by the directors and specified in the letter of offer.   | One year.   |
| (a) The amount payable on acceptance of the option                             | (a) HK\$1.00  | (a) HK\$1.00  |
| (b) The period within which payments or calls must or may be made              | (b) Payment or an undertaking to make payment on demand of the Company must be received by the Company within the period open for acceptance as set out in the letter of offer which shall not be less than 7 days after the offer date.  | (b) Payment or an undertaking to make payment on demand of the Company must be received by the Company not later than the date specified in the letter of invitation as the directors may determine.  |
| (c) The period within which loans for such purposes must be repaid             | (c) Not applicable.   | (c) Not applicable.   |

## Report of the Directors (continued)

### Share Options (continued)

|   | 2002 Share Option Scheme  | 2002 Sharesave Plan  |
|---|---|--|
| The basis of determining the exercise price | <p>The exercise price is determined on the date of grant by the directors and shall not be less than the highest of:</p> <p>(a) the nominal value of the Company's shares;</p> <p>(b) the closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheet on the date of grant, which must be a business day; and</p> <p>(c) the average closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant.</p> | Same as 2002 Share Option Scheme.  |
| The remaining life of the scheme            | The 2002 Share Option Scheme shall remain in force for a period of ten years commencing on the first day of dealings in the Company's shares on the Stock Exchange which was 25 July 2002.  | The 2002 Sharesave Plan shall remain in force for a period of ten years after the date of approval and adoption of the 2002 Sharesave Plan by the Company's shareholders which was 10 July 2002. |

Please refer to the section "Directors' Rights to Acquire Shares" for details of the options granted by BOC (BVI) over shares of the Company pursuant to the Pre-Listing Share Option Scheme.

### Directors

The present directors of the Company are set out on page 16.

On 28 May 2003, Mr. Xiao Gang replaced Mr. Liu Mingkang as Chairman of the Company and Mr. He Guangbei replaced Mr. Liu Jinbao as Vice Chairman, Executive Director and Chief Executive of the Company. Further, on 11 July 2003, Mr. Chia Pei-Yuan resigned as Independent Non-executive Director of the Company.

### Biographical Details of Directors and Senior Management

Biographical details of the directors and senior management are set out on pages 17 to 20 of this Interim Report.

### Directors' Interests in Contracts of Significance

No contracts of significance, in relation to the Group's business to which the Company, its holding companies or any of its subsidiaries or fellow subsidiaries was a party and in which a director had a material interest, whether directly or indirectly, subsisted at the end of the period or at any time during the period.

## Report of the Directors (continued)

### Directors' Rights to Acquire Shares

On 5 July 2002, the following directors were granted options by BOC (BVI), the immediate holding company of the Company, pursuant to a Pre-Listing Share Option Scheme to purchase from BOC (BVI) an aggregate of 13,737,000 existing issued shares of the Company at a price of HK\$8.50 per share. The option shares represent approximately 0.13% of the Company's issued share capital as at the date of grant and as at 30 June 2003. None of these options may be exercised within one year from 25 July 2002. These options have a vesting period of four years from 25 July 2002 with a valid exercise period of ten years. 25% of the number of shares subject to such options will vest at the end of each year. No offer to grant any options under the Pre-Listing Share Option Scheme may be made on or after 25 July 2002, the date on which dealings in the Company's shares commenced on the Stock Exchange.

Particulars of the options granted to the directors under the Pre-Listing Share Option Scheme are set out below:

|               | Date of grant | Exercise price (HK\$) | Exercisable period          | Number of share options |                               |                             |                               |                          |                             |
|---------------|---------------|-----------------------|-----------------------------|-------------------------|-------------------------------|-----------------------------|-------------------------------|--------------------------|-----------------------------|
|               |               |                       |                             | Granted on 5 July 2002  | Balances as at 1 January 2003 | Exercised during the period | Surrendered during the period | Lapsed during the period | Balances as at 30 June 2003 |
| SUN Changji   | 5 July 2002   | 8.50                  | 25 July 2003 to 4 July 2012 | 1,590,600               | 1,590,600                     | —                           | —                             | —                        | 1,590,600                   |
| HE Guangbei   | 5 July 2002   | 8.50                  | 25 July 2003 to 4 July 2012 | 1,446,000               | 1,446,000                     | —                           | —                             | —                        | 1,446,000                   |
| PING Yue      | 5 July 2002   | 8.50                  | 25 July 2003 to 4 July 2012 | 1,446,000               | 1,446,000                     | —                           | —                             | —                        | 1,446,000                   |
| HUA Qingshan  | 5 July 2002   | 8.50                  | 25 July 2003 to 4 July 2012 | 1,446,000               | 1,446,000                     | —                           | —                             | —                        | 1,446,000                   |
| LI Zaohang    | 5 July 2002   | 8.50                  | 25 July 2003 to 4 July 2012 | 1,446,000               | 1,446,000                     | —                           | —                             | —                        | 1,446,000                   |
| ZHOU Zaiqun   | 5 July 2002   | 8.50                  | 25 July 2003 to 4 July 2012 | 1,446,000               | 1,446,000                     | —                           | —                             | —                        | 1,446,000                   |
| ZHANG Yanling | 5 July 2002   | 8.50                  | 25 July 2003 to 4 July 2012 | 1,446,000               | 1,446,000                     | —                           | —                             | —                        | 1,446,000                   |
| LIU Mingkang* | 5 July 2002   | 8.50                  | 25 July 2003 to 4 July 2012 | 1,735,200               | 1,735,200                     | —                           | 1,735,200                     | —                        | —                           |
| LIU Jinbao*   | 5 July 2002   | 8.50                  | 25 July 2003 to 4 July 2012 | 1,735,200               | 1,735,200                     | —                           | —                             | —                        | 1,735,200**                 |
| Total:        |               |                       |                             | 13,737,000              | 13,737,000                    | —                           | 1,735,200                     | —                        | 12,001,800                  |

\* Resigned with effect from 28 May 2003.

\*\* According to the terms of the Pre-Listing Share Option Scheme, these options will remain exercisable before the expiration of three months after Mr. Liu's cessation as an employee of the Group and of BOC or any of its subsidiaries.

Save as disclosed above, at no time during the period was the Company or its holding companies, or any of its subsidiaries or fellow subsidiaries a party to any arrangements to enable the directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

### Directors' Interests in Shares, Underlying Shares and Debentures

Save as disclosed above, as at 30 June 2003, none of the directors of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

## Report of the Directors (continued)

### Directors' Interests in Competing Business

Save and except the Independent Non-executive Directors, all other directors are also directors of BOC, the ultimate holding company of the Company, at the same time. BOC is a state-owned commercial bank in the Mainland of China and provides a full range of commercial banking and other financial services through its associates throughout the world. Certain of the Group's operations overlap with and/or are complementary to those of BOC and its associates. To the extent that BOC or its associates compete with the Group, the directors believe that the Group's interests are adequately protected by adhering to good corporate governance practices and the involvement of the Independent Non-executive Directors.

Save as disclosed above, none of the directors is interested in any business apart from the Group's business, which competes or is likely to compete, either directly or indirectly, with the Group's business.

### Substantial Interests in Share Capital

The register maintained by the Company pursuant to section 336 of the SFO recorded that, as at 30 June 2003, the following corporations had interests (as defined in the SFO) in the Company set opposite their respective names:

| Name of Corporation | Number of shares interested | % of total issued shares |
|---------------------|-----------------------------|--------------------------|
| BOC                 | 8,090,852,266               | 76.53%                   |
| BOCHKG              | 8,072,852,266               | 76.36%                   |
| BOC (BVI)           | 8,072,852,266               | 76.36%                   |

Note:

BOC (BVI) is a wholly owned subsidiary of BOCHKG, which in turn is a wholly owned subsidiary of BOC. Accordingly, BOCHKG and BOC are deemed to have the same interests in the shares of the Company as BOC (BVI) for the purpose of the SFO.

All the interests stated above represent long positions. Save as disclosed above, as at 30 June 2003, no other interests or short positions were recorded in the register maintained by the Company under section 336 of the SFO.

### Management Contracts

No contracts concerning the management or administration of the whole or any substantial part of the business of the Company were entered into or existed during the period under review.

### Major Customers

In the first half of 2003, the five largest customers of the Group accounted for less than 30% of the total of interest income and other operating income of the Group.

### Audit Committee

The written terms of reference which describe the authority and duties of the Audit Committee were prepared and adopted with reference to "A Guide for the Formation of An Audit Committee" published by the Hong Kong Society of Accountants.

The Audit Committee provides an important link between the Board and the Bank's auditors in matters coming within the scope of the Group audit. It also reviews the effectiveness of both the external and internal audit and of internal controls and risk evaluation. The Committee comprises three Independent Non-executive Directors, namely, Mr. Shan Weijian (Chairman), Dr. Fung Victor Kwok King, Mr. Tung Chee Chen and two Non-executive Directors, namely Mr. Ping Yue and Mr. Zhou Zaiqun. Two meetings were held during the period.

## Report of the Directors (continued)

### Budgetary Discipline and Reporting

The annual budget of the Group is reviewed and approved by the Board of Directors prior to its implementation by the Management. After the annual master budget is adopted, financial and business targets will be decomposed to departments. There are defined procedures for the appraisal, review and approval of major capital and recurrent expenditures. Proposed significant expenditures outside the approved budget will be referred to the Board or the relevant Board committee for decision. Results of operations against budget will be reported quarterly to the Board and the Audit Committee. If there are significant changes in relation to the operations, a revised budget will be submitted to the Board for review in a timely manner.

### Compliance with the guideline on “Interim Financial Disclosure by Locally Incorporated Authorized Institutions”

The accounts for the first half of 2003 fully comply with the requirements set out in the guideline on “Interim Financial Disclosure by Locally Incorporated Authorized Institutions” under the Supervisory Policy Manual issued by the HKMA.

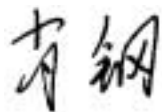
### Compliance with the Code of Best Practice of the Listing Rules

The directors confirm that save and except that Independent Non-executive Directors are not appointed for a specific term but are subject to retirement by rotation and re-election at Annual General Meetings of the Company in accordance with the Company’s Articles of Association, the Company has complied with the Code of Best Practice as set out in Appendix 14 of the Listing Rules throughout the period ended 30 June 2003.

### Auditors

The accounts for the first half of 2003 have been audited by PricewaterhouseCoopers.

On behalf of the Board



XIAO Gang  
Chairman  
Hong Kong, 5 September 2003