

# CORPORATE GOVERNANCE

We believe sound corporate governance is crucial to our development in the long term and we aspire to the highest standards of governance. Our governance policy and practices embody a high degree of transparency, responsibility and accountability. To safeguard the interests of shareholders, customers, staff and other stakeholders, we are committed to embracing international best practices and, as a listed financial institution in Hong Kong, complying with the guidelines and rules of the HKMA and the Stock Exchange.

## Governance Structure

Our governance structure is one that is overseen by the Board, with special emphasis on the supervisory role of the Independent Non-executive Directors. At the same time, it also clearly separates the roles and responsibilities of the Board and the Management.

The Board forms the core of our governance structure. It is primarily responsible for formulating the Group's long-term development strategies and plans as well as setting business targets. It takes care of the selection, evaluation and remuneration of the senior management. It also provides guidance and supervision to the Management.

Under the Board, there are three standing committees, namely, Audit Committee, Risk Management Committee, and Nomination and Remuneration Committee. The committees perform distinct roles in accordance with their respective terms of reference and assist the Board in supervising the performance of the Management.

The Management answers to the Board and is responsible for implementing the business strategies and plans agreed by the Board and running the Group on a daily basis. It reports to the Board on both a regular and a needs-be basis on matters relating to the performance of the Group.

The Board is headed by the Chairman whereas the Management is headed by the Chief Executive. The roles of the Chairman and the Chief Executive are clearly separated.

Under this governance structure, all major transactions, acquisitions, investments and disposals of assets must be reviewed and approved by the Board. The Board also reviews and approves the Group's annual budget and business plans.

## The Board

The composition of the Board is such that Non-executive Directors form the majority in order to ensure the highest degree of impartiality and objectivity of the Board in supervising the Management.

As at the end of 2003, the Board comprised 12 Directors, of whom four were Independent Non-executive Directors, seven were Non-executive Directors and one was Executive Director. In addition, the Board is assisted by a highly experienced and reputable person as its Senior Adviser. The Senior Adviser is invited to attend Board meetings and give objective advice to the Board. The term of appointment of the Non-executive Directors and the Senior Adviser is three years from the date of appointment. For detailed information regarding the Directors, please refer to the "Board of Directors and Senior Management" section of this Annual Report.

The following changes occurred in the composition of the Board since the last annual report:

On 28 May 2003, Chairman Liu Mingkang and Vice Chairman and Chief Executive Liu Jinbao resigned from the Board. On the same day, Mr. Xiao Gang was appointed Chairman and Mr. He Guangbei Vice Chairman and Chief Executive.

On 11 July 2003, Independent Non-executive Director Chia Pei-yuan resigned from the Board for personal reasons.

On 12 November 2003, Ambassador Yang Linda Tsao was appointed Independent Non-executive Director of the Board with immediate effect.

On 2 February 2004, Non-executive Director Ping Yue retired from the Board.

To enhance the independence and impartiality of the Board, we will consider appointing more Independent Non-executive Directors.

Except for the Independent Non-executive Directors and Senior Adviser, all the Directors of the Board are also members of the Board of BOC, the Company's ultimate holding company. Mr. Xiao Gang and Mr. Sun Changji are also the Chairman and Vice Chairman of BOC respectively.

The Board held five meetings during 2003. Individual attendance records are as follows:

Director/Senior Adviser	Number of board meetings attended	Attendance rate
<i>Non-executive Directors</i>		
Mr. XIAO Gang (Chairman) (Note 1)	4 out of 4	100%
Mr. SUN Changji (Vice Chairman) (Note 2)	4 out of 5	80%
Mr. PING Yue (Note 3)	5 out of 5	100%
Mr. HUA Qingshan (Note 4)	4 out of 5	80%
Mr. LI Zaohang	5 out of 5	100%
Mr. ZHOU Zaiqun (Note 5)	3 out of 5	60%
Ms. ZHANG Yanling	5 out of 5	100%
<i>Independent Non-executive Directors</i>		
Dr. FUNG Victor Kwok King	5 out of 5	100%
Mr. SHAN Weijian	5 out of 5	100%
Mr. TUNG Chee Chen	5 out of 5	100%
Ambassador YANG Linda Tsao (Note 6)	0 out of 1	0%
<i>Executive Director</i>		
Mr. HE Guangbei (Vice Chairman and Chief Executive) (Note 7)	5 out of 5	100%
<i>Senior Adviser</i>		
Mr. NEOH Anthony Francis	5 out of 5	100%

Notes:

1. Mr. Xiao was appointed Director and Chairman of the Board in May 2003.
2. Mr. Sun could not attend the meeting on 17 June 2003 for business reasons.
3. Mr. Ping retired from the Board with effect from 2 February 2004.
4. Mr. Hua could not attend the meeting on 1 December 2003 for business reasons.
5. Mr. Zhou could not attend the two meetings in May and June for health reasons.
6. Ambassador Yang was appointed to the Board in November 2003. She could not attend the meeting on 1 December due to family bereavement.
7. Mr. He was appointed Vice Chairman and Chief Executive in May 2003.

## The Board Committees

### *Audit Committee*

The Audit Committee consists only of Non-executive Directors, the majority of whom are Independent Non-executive Directors. It is chaired by Independent Non-executive Director Mr. Shan Weijian.

Based on the principle of independence, the Audit Committee assists the Board in monitoring the financial reports, internal control, internal audit and external audit of the Group.

The Committee held 11 meetings during the year. Individual Directors' attendance records are as follows:

Director (Note 1)	Number of committee meetings attended	Attendance rate
Mr. SHAN Weijian (Chairman)	11 out of 11	100%
Mr. PING Yue (Note 2)	11 out of 11	100%
Mr. ZHOU Zaiqun (Note 3)	2 out of 11	18%
Dr. FUNG Victor Kwok King	11 out of 11	100%
Mr. TUNG Chee Chen	11 out of 11	100%

Notes:

1. Ambassador Yang Linda Tsao was appointed Independent Non-executive Director of the Board in November 2003 and became a member of the Audit Committee on 30 January 2004.
2. Mr. Ping resigned from the Board and the Audit Committee on 2 February 2004.
3. Mr. Zhou could not attend nine of the meetings held between May and August 2003 for health reasons.

### *Risk Management Committee*

The Risk Management Committee is responsible for scrutinising, approving and monitoring the Group's risk management policies, procedures and execution. It also evaluates whether the Group's risk management is in line with the established strategies, policies and procedures.

Because the work of the Risk Management Committee is closely related to the Group's operation, we have initiated a number of reforms in 2003, with a view to increasing operational efficiency and mitigate the duplication of roles.

In September, the Risk Control Committee, previously under the Risk Management Committee, was dissolved. The Risk Management Committee was reconstituted to include only Non-executive Directors and the Senior Adviser. The Committee's chairman is Mr. Xiao Gang. The other members are Mr. Anthony Neoh, Mr. Hua Qingshan and Ms. Zhang Yanling. Having regard to the monitoring guidelines of the HKMA and with a view to enhancing corporate governance, we have ensured that the role of the Committee is more clearly defined and comprehensive.

We are pleased to report that after the above reforms, the Committee functions more efficiently and effectively than before, thus further enhancing our capabilities in risk control.

The Committee held four meetings during the year. Individual attendance records are as follows:

Director/Senior Adviser	Number of committee meetings attended	Attendance rate
Mr. XIAO Gang (Chairman) (Note 1)	3 out of 3	100%
Mr. NEOH Anthony Francis (Note 2)	3 out of 3	100%
Mr. HUA Qingshan	3 out of 4	75%
Ms. ZHANG Yanling	3 out of 4	75%

Notes:

1. Mr. Xiao was appointed Director and Chairman of the Board in May 2003 and Chairman of the Risk Management Committee in September 2003.
2. Mr. Neoh was appointed a member of the Committee in September 2003.

### **Nomination and Remuneration Committee**

In September 2003, the Board resolved to expand the terms of reference of the former Remuneration Committee and also renamed it Nomination and Remuneration Committee.

The Committee is responsible for assisting the Board in ensuring that the Group's human resources and remuneration policies as well as the selection of Directors and senior management are in line with the Group's overall development strategies.

The Committee now consists of five members, including Mr. Sun Changji, Vice Chairman of the Board, three Independent Non-executive Directors and one Non-executive Director. It met three times during 2003 and individual members' attendance records are as follows:

Director	Number of committee meetings attended	Attendance rate
Mr. SUN Changji (Chairman)	3 out of 3	100%
Mr. LI Zaohang	3 out of 3	100%
Dr. FUNG Victor Kwok King	1 out of 3	33%
Mr. SHAN Weijian	3 out of 3	100%
Mr. TUNG Chee Chen	3 out of 3	100%

### **Directors' Transactions**

Based on the Model Code for Securities Transactions by Directors of Listed Companies as set out in Appendix 10 of the Listing Rules, the Company has established and been implementing its own "Code for Securities Transactions by Directors" (the "Code"). The Code imposes stricter control than the Model Code on Director's securities transactions. The Company is not aware of any non-compliance with the Code in 2003.

### **Auditors' Fees**

The Group's 2003 accounts were audited by PricewaterhouseCoopers at a total fee of HK\$29 million that was approved by the Audit Committee and the Board.

The Group also paid PricewaterhouseCoopers a fee of HK\$9 million for non-audit services.



### Shareholders' Rights

The Company ensures that shareholders can enjoy the rights as prescribed in prevailing laws and regulations as well as the Company's Memorandum and Articles of Association, including but not limited to the following.

1. Shareholders holding not less than 5 percent of the issued share capital of the Company may request the Board to call an extraordinary general meeting. The said request must be made in writing specifying the purpose of the meeting, signed by the party who makes the request and delivered to the Company's registered office.
2. The following persons (the "requisitionists") are entitled to put forward a proposal (which may properly be put to the meeting) for consideration by the shareholders at a general meeting:
  - (a) any shareholders holding together at least 2.5% of the Company's issued share capital; or
  - (b) any group of at least 50 shareholders holding together at least 20,000 shares of the Company.

The request must be made in writing, signed by the requisitionists and received by the Company not less than six weeks before the meeting if it is proposed to pass a resolution or not less than one week before the meeting in all other cases. The requisitionists must deposit a sum reasonably sufficient to meet the Company's expenses in complying with such request.

Shareholders who have any questions for the Board may write to the Company Secretary. The address is 52nd Floor, Bank of China Tower, 1 Garden Road, Central, Hong Kong.

### Disclosure and Investor Relations

As a listed company, we are in compliance with the requirements as stipulated in the laws and regulations of Hong Kong as well as the Listing Rules in connection with the disclosure of price sensitive information to enable the public to appraise the position of the Group. We also try to enhance such disclosure on a continuous basis. (Please refer to the Investor Relations section for additional information in this regard).

During 2003, there was no major change to the Company's Memorandum and Articles of Association. However, in order to bring the Company's Articles of Association in line with changes to the Companies Ordinance and amendments to the Listing Rules that came into effect in February and March 2004 respectively as well as the draft Code on Corporate Governance Practices released by the Stock Exchange in January 2004, the Directors propose to amend the Company's Articles of Association at the 2004 AGM. For details, please refer to the notice of the meeting.

As at 31 December 2003, the senior management (means those individuals whose biographical details are disclosed in this Annual Report and includes the Chief Executive) has outstanding options to subscribe a total of 4,879,000 shares of the Company.

As at 31 December 2003, BOC was holding, through its subsidiaries, approximately 66.25% of the issued share capital of the Company. Other than BOC, we are not aware of any party that holds more than 5% of the Company's issued shares.

As at 31 December 2003, the number of shares held by the public was approximately 3,568 million or 33.75% of the issued share capital of the Company that was valued at HK\$52 billion (based on the closing price of HK\$14.60 on 31 December 2003).

The Company's first AGM after public listing was held on 29 May 2003. All the resolutions were passed by a large majority of votes at the meeting.

### **Project Tian Xing Jian and Enhancement of Corporate Governance**

In June 2003, the Board set up a Special Committee to undertake a comprehensive review of the credit approval process, risk management and corporate governance of the Group in light of a loan to New Nongkai Global Investments Limited in 2002. The members of the Special Committee included the Senior Adviser to the Board and two Independent Non-executive Directors. The audit firms of KPMG and Moores Rowland were engaged to conduct the review and a specialist from overseas was appointed to give expert advice. The Special Committee's review was completed and its full report published in September 2003.

Based on the recommendations of the Special Committee, we soon launched Project Tian Xing Jian that aims at improving the Group's systems and mechanisms relating to top-level control, credit risk management and control, interest risk management, legal and compliance, internal control and so on.

Ensuring good corporate governance is our strategic goal and continuous task. Project Tian Xing Jian gives us an excellent opportunity to conduct an internal review and improve ourselves further. In the coming year, we will continue to implement the Project and enhance the Group's corporate governance in accordance with established regulations, guidelines and international best practices, with special emphasis on enhancing the Board's functions, building a corporate culture and perfecting information disclosure. As Project Tian Xing Jian continues to make progress, we believe we can attain higher standards in our corporate governance.