

總裁報告

財務概述

財務表現

本集團之綜合財務業績須與2002年7月15日發表的招股書內涉及重組及合併內容一併考慮。本公司的主要營運附屬公司—中銀香港2001年上半年的財務業績僅為各參與合併實體在重組前的綜合財務業績，而由於各合併實體在合併前均為獨立經營，所以在風險和財務控制方面均有差異。本集團在合併後採用了一致的撥備準則及對各合併行的貸款客戶實施統一的貸款分類評級，因此，2001年上半年的財務業績不能完全代表本集團的綜合財務狀況。若將本集團2002年上半年的財務業績與2001年同期比較，請注意前述之差異。

在香港銀行業經營環境仍相當困難及充滿挑戰的情況下，本集團按照既定策略努力發展業務，在2002的首六個月錄得綜合股東應佔溢利34.18億港元，相當於本集團2002年溢利預測的54.4%。

本集團在2002年上半年推出一系列新產品及服務，並透過優化資產負債組合及調整定價策略，進一步提高盈利能力。此外，本集團通過出售貸款（當中包括不履約貸款）予中國銀行開曼群島分行、註銷呆壞帳、加緊催理及實施全面的信貸風險管理機制等措施，本集團的不履約貸款比率有所減低。同時，本集團持續優化分行網絡及提升運作效率，令員工薪酬支出顯著減少。

就兩期數據比較，2002年上半年，本集團之綜合股東應佔溢利較2001年同期減少18.5%；提取準備前的經營溢利則下跌15.7%，而為60.02億港元。

當計及股份合併的影響，2002年上半年經調整的每股盈利為0.323港元，而平均總資產回報率及平均股東資金回報率以年率計分別為0.93%及12.92%。

淨利息收入

2002年上半年的淨利息收入為68.91億港元，較2001年同期下降8.43億港元或10.9%。淨息差上升25點子至1.85%，而淨利息收益率則輕微上升1點子至1.98%。雖然回報較高的證券投資有所增加，令淨利息收益率上升14點子，惟被市場利率顯著下降使無利息成本資金之收益下降23點子，以及樓宇按揭息差收窄使淨利息收益率下降11點子的因素所抵銷。

總裁報告 (續)

財務概述 (續)

其他經營收入

2002年上半年的其他經營收入為20.1億港元，較去年同期下降2.46億港元或10.9%。服務費和佣金收入下降7.6%至17.05億港元。2002年上半年，通過拓展業務，代理基金銷售等項目的收益有顯著增長，但是受市場環境不振及同業間競爭激烈影響，押匯、證券代理及貸款業務的相關服務費和佣金收入均下降。服務費和佣金支出也下跌了7.5%至3.57億港元，使服務費和佣金淨收入較去年同期下跌7.7%。

經營支出

2002年上半年錄得28.99億港元的經營支出，比去年同期上升0.31億港元或1.1%。經營支出上升的主因是重估房產引致折舊費用上升。

2002年上半年折舊費用增加1.46億港元或68.5%而為3.59億港元。若撇除自置固定資產的折舊費用，經營支出則較去年同期下跌1.15億港元或4.3%，此乃重組及合併後帶來的協同效益。

其他經營支出增加0.45億港元或12%而為4.19億港元，主要是廣告開支上升所致。

折舊費用及其他經營支出的增加，部份被員工薪酬支出和房產及設備支出(不包括折舊)的減少所抵銷。員工薪酬支出(包括董事酬金)下跌1.44億港元或7.6%而為17.61億港元，主因是本集團進行理順工作流程令員工人數減少所致。截至2002年6月30日，本集團員工人數為13,191人，較去年同期下跌8.3%。房產及設備支出(不包括折舊)則下降0.16億港元或4.3%至3.6億港元。

由於經營收入下降及經營支出溫和上升，成本對收入比率由2001年上半年的28.7%上升至2002年同期的32.6%。

總裁報告 (續)

財務概述 (續)

資產質素

計提呆壞帳準備淨額

2002年上半年之計提呆壞帳準備淨額(即減去收回款項及撥回特別呆壞帳準備後的淨額)為17.66億港元，較2001年同期減少0.82億港元或4.4%。因為本集團致力加強催理工作及設置專職的特殊資產管理部，所以2002年上半年經催理收回已註銷的貸款達3.5億港元，較去年同期增加52.8%。

不履約貸款

截至2002年6月30日止，不履約貸款較2001年年底減少70.14億港元或19.8%而為284.98億港元。不履約貸款下跌的原因是本集團於2002年6月出售了帳面總值114.01億港元之貸款(當中包括70.29億港元的不履約貸款)予中國銀行開曼群島分行。除此之外，上半年註銷了10.13億港元的呆壞帳亦有助減低不履約貸款的水平。因此，不履約貸款佔客戶貸款總額之比率由2001年12月底的10.99%下降至2002年6月底的8.97%。

本集團秉持穩健及足夠的撥備政策，並遵照香港金融管理局的標準提撥準備。

特別呆壞帳準備對不履約貸款比率及呆壞帳準備對不履約貸款比率分別由2001年年底的29.8%及48.2%，改善至2002年6月底的31.6%及54.5%。呆壞帳準備對客戶貸款總額比率則從上年底的5.3%下跌至4.9%。

財務狀況

資產

截至2002年6月30日止，資產總額較2001年年底減少283.62億港元或3.7%。中銀香港為本地註冊經營銀行業務的獨立法人，在合併後制訂了本身的流動資金管理政策及機制，期內從中國銀行調回546.35億港元同業拆放資金，致使資產總額有所下降。在2002年上半年，本港貸款市場需求仍然疲乏，本集團的客戶貸款總額較去年底下跌54.04億港元或1.7%，主要是受到本集團於2002年6月出售貸款的影響。若撇除此因素，本集團的客戶貸款總額應錄得1.9%的升幅。

總裁報告 (續)

財務概述 (續)

按地區分類之客戶貸款分析，貸款仍以香港為主。與香港有關的貸款下跌50.61億港元或1.6%，而與中國內地有關的貸款下降14.05億港元或18.1%，其他地區的貸款則上升10.62億港元或24.5%。本集團將繼續穩健地發展中國內地業務。

本集團持續調整資金投放策略，進一步優化資產結構，藉此提升資產回報。因此，本集團從過往側重同業拆放改為增持證券投資。本集團截至2002年6月底持有之存款證、持有至到期日之證券、投資證券及其他證券投資共計1,688.36億港元，佔資產總額的22.9%，總餘額較2001年年底的1,266.75億港元增加421.61億港元，增幅為33.3%。

負債

2002年6月底之負債總額較2001年年底減少298.64億港元，減幅4.2%，下跌原因是中國銀行提回存放於本集團約410億港元的同業拆放資金。

雖然2002年上半年香港整體客戶存款略有下降，但本集團仍能保持穩定的存款客戶基礎。截至2002年6月底，客戶存款總額比2001年年底增加50.42億港元或0.8%。本集團專注控制資金成本，在2002年上半年竭力優化存款結構並修訂存款定價策略，藉以拉近與同業之水平。定期存款與儲蓄存款的利率差距在2002年上半年內仍持續收窄，因而導致定期存款資金流向流動性較高的儲蓄存款，令本集團整體資金成本得以改善。

受香港貸款需求不振及本集團出售貸款的影響，貸存比率從2001年12月底的53.3%降至2002年6月底的52%。

本集團截至2002年6月底的外幣資產及負債並沒有出現重大的錯配情況，因此貨幣風險有限。

流動資金與資本實力

本集團於2002年上半年之平均流動資金比率為41.3%，而2001年10月1日(重組及合併日)至2001年12月31日止三個月的平均流動資金比率則為39.9%，反映資金流動性維持在寬裕水平。本集團保持充裕的資本，2002年6月30日之資本充足比率為14.7%，而去年底則為14.4%。

總裁報告 (續)

業務回顧

2002年上半年，本集團發揮重組合併帶來的優勢和機會，成功地擴展了我們的產品和服務，進一步優化了分行網絡，各項業務皆取得良好進展。

零售銀行業務

為提高分行網絡效益，本集團持續進行網絡優化重整。上半年撤併分行8家，開立新分行1家，分行總數減至358家。本集團正在進行各類「樣板分行」的選點和設計工作，包括全功能分行、投資中心、個人理財中心、自助銀行服務分行及貴賓服務分行等。試點工作將於本年底或明年初完成，並投入營運。

在樓按業務方面，本集團持續推出多樣化的產品和服務。上半年，本集團在香港的私人樓宇按揭放款餘額(不計居屋放款)取得3.9%的增長。我們還推出了一些新的或經改良的私人信貸產品，如「重建搬遷易用錢」、「備用錢」及「裝修貸款」，以方便客戶資金週轉。此外，亦為投資理財客戶提供了基金抵押服務，使客戶可靈活調動資金處理各項投資理財計劃。

為更好地服務客戶，我們在上半年內推出了多種嶄新的投資理財產品和服務，包括「保本基金」、「零售債券」、與股票期權掛鈎的「股權寶」、「月供股票投資計劃」等。除此之外，本集團已開始研究引進客戶關係管理系統(CRM)，同時培養和擴大理財隊伍，以配合未來業務發展需要。

本集團上半年代售零售債券24.87億港元，另外代售8種保本基金共30.81億港元。其中由本集團獨家代售的「中銀香港 中銀保誠 澳元保證基金」，是以非美元的外幣作為結算貨幣的保證基金，在本港乃屬首創，客戶反應熱烈。而另一產品「期權寶」業務量也較去年同期增加一倍。

總裁報告 (續)

業務回顧 (續)

信用卡業務繼續成為本集團核心業務之一。上半年在發卡量、卡戶應收帳及簽帳額方面，比去年同期錄得雙位數的增長。上半年成功推出迎合女士需要的「Y-not」卡，吸納了約25,000新卡戶；另一重點產品——長城國際卡，發卡量更較去年同期升逾110%。本集團率先在港發行人民幣信用卡。透過本集團清算的商戶交易量，香港地區比去年同期增長2%；中國地區保持市場領先地位，比去年同期強勁增長17%。

受持續疲弱的經濟環境及個人破產個案不斷增加的影響，本集團2002年上半年信用卡撇帳年率升至7.45%。為提高資產質量，我們檢討和收緊了信用卡信貸政策。

企業銀行業務

本集團在本港企業貸款市場佔有重要地位。除拓展雙邊貸款業務外，本集團積極發揮重組合併及強大客戶關係網絡的優勢，更有效地發展銀團貸款。本集團在銀團貸款業務方面從參與行的角色轉移至以擔任安排行為重點，以增加非利息收益，提升市場地位。

對於中小企業客戶，本集團推出了「中小型企業特惠貸款計劃—中小企無抵押貸款」，並與政府合作，參與推行由政府作出部份擔保資助的「中小企業營運設備及器材信貸保證計劃」，協助中小企業客戶提升生產力。

本集團上半年與母公司中國銀行在多項領域建立了合作關係，包括企業貸款、金融機構服務、清算支付、資金業務、貿易融資及託管項目等。部份合作計劃已取得了良好進展。

金融機構業務

本集團在原有深圳—香港港幣支票單向結算業務的基礎上，於近期分別與深圳及廣州外管局簽訂了業務協議；並與深圳金融電子結算中心及廣州銀行電子結算中心簽訂了服務協議，開展了三地港幣支票雙向結算業務，成為此項業務的代理銀行。

本集團繼續與內地金融機構擴大業務往來，並加快發展深、港即時支付結算系統(RTGS)聯網項目，以便爭取為香港與內地銀行間的資金劃撥建立起一套即時、安全、低成本的電子渠道。

總裁報告 (續)

業務回顧 (續)

資金業務

重組合併後，本集團建立了一個以客戶為導向的平台，強化了資金業務的隊伍，向目標客戶提供市場營銷、銷售、支援和專業服務，成功地提高了財資產品和服務的交叉銷售水平。截至2002年6月底，資金業務客戶數目較2001年年底有1倍多的增長。通過增加與內地有關的產品及服務，至今年6月底，內地中小金融機構存於本集團的資金較2001年年底上升6%。

中國業務及內地分行業務

本集團在內地共有14家分行，其中12家分行已獲准經營全面外匯業務，向各類客戶(包括內地居民和內地企業)提供外匯服務。現在，本集團有3家國內分行可經營部份人民幣業務，另外5家分行亦在申辦經營外國人、港澳台人士及三資企業的人民幣業務牌照。

為把握中國加入世界貿易組織後所帶來的巨大商機，本集團率先與中國銀行深圳分行等合作推出國內樓按供款自動轉帳(AFT)服務，為本港市民在內地置業提供「任選供款方式、任選港幣供款或任選人民幣供款」服務，提供了更方便靈活的供款選擇。

後勤營運

本集團通過進一步提高後台操作的標準化。通過改進業務流程、提升系統功能、實現檔案集中化管理，提高了後線業務的管理水平和工作績效，降低了費用開支。上半年進行了環球資金收付系統及資料處理集中化系統兩個項目的市場調研分析，規劃了今後的發展藍圖，同時還啟動了放款流程電子化系統第一階段的開發工作，預計將於今年第四季度實現第一階段的投產，屆時放款操作的自動化程度將大為提高。

總裁報告 (續)

業務回顧 (續)

資訊科技基礎建設

本集團落實資訊科技的組織轉型，對當前的資訊科技基礎設施實行大規模升級，以更好地配合當前的業務運作和未來的業務策略。上半年若干重大項目取得了實質進展。

人力資源管理

配合上市，本集團在上半年完成了認股權計劃及股份儲蓄計劃的設計工作，並積極探索改革現有薪酬激勵機制的方案。為改善員工隊伍的質素，本集團同時加大了對中高層人員及前線營銷人員的培訓力度，亦積極向外招聘具經驗的專門人才，以配合業務發展的需要。

截至2002年6月30日，本集團人數共減少237人而為13,191人。

總裁報告 (續)

展望

隨著全球股票市場在2002年7月份的下滑，香港經濟前景進入了不明朗階段。今年初市場普遍預計美國及香港會加息，現在可能不會出現，取而代之的是減息的可能，這將對淨息差及無息資金回報帶來進一步的壓力。在這一環境下，下半年銀行的經營環境仍將困難。

儘管面對這困境，本集團仍會繼續發揮現有優勢，開拓重組及上市帶來的新的商機，提高股東回報。

本集團計劃與中國銀行、中銀集團聯營公司及其他第三方密切合作，開發並提供更多多元化的產品及服務，以提高我們的市場滲透率及交叉銷售率。本集團將注重高回報業務，並不斷開發創新業務，特別是財富管理服務。

本集團將會透過採用更有效的信貸控制及風險管理系統，致力改善資產質素。

本集團將會不斷提升資訊科技系統、優化分行網絡及後勤營運效率，從而大幅提高經營效率和協同效應。

本集團將會繼續改善資產負債管理，以優化資產負債組合、資本金來源，提高回報。

藉著龐大的香港客戶基礎及14家設於內地的分行，本集團將充分利用中國內地進一步開放金融及銀行業市場帶來的商機。而在內地擁有龐大的分行網絡的中國銀行，將為中銀香港拓展內地市場方面提供獨具的優勢。

本集團將竭力為客戶提供高效優質的銀行服務。在股東、客戶及員工的不斷支持下，我們有信心在未來創造更佳的成績。



劉金寶

副主席兼總裁

香港，二零零二年八月廿七日

Chief Executive's Report

Financial Overview

Financial Performance

Our consolidated financial results must be viewed in light of the Restructuring and Merger as described in our Prospectus dated 15 July 2002. The results of BOCHK, our principal operating subsidiary, for the first half of 2001 were the combined results of the merging entities before the reorganisation. As these entities were previously operating autonomously with different risk and financial control systems, these results may not be representative of the consolidated results of the Group. After the merger, we have adopted common provisioning standard and alignment of classification to all accounts of the merging entities. **When drawing comparisons of the financial results of the Group for the first half of 2002 with those of the corresponding period last year, we would like to draw your attention to the above-mentioned differences.**

In the first six months of 2002, we strove to develop our business as planned against the backdrop of a difficult and challenging operating environment, and achieved a consolidated profit attributable to shareholders of HK\$3,418 million. This results represented 54.4% of our profit forecast for the year 2002.

In the first half of 2002, the Group launched a range of new products and services and improved profitability through optimising our asset-liability mix and adjusting our pricing. We reduced our non-performing loan ratio through a combination of disposal of loans (including non-performing loans) to Bank of China Grand Cayman Branch, write-off of bad and doubtful debts, aggressive collection efforts, and the implementation of a comprehensive credit risk management system, etc. In addition, we continued to place emphasis on the rationalisation of our branch network and improvement in efficiency, which have significantly reduced our staff costs.

Our Group's net profit attributable to shareholders in the first half of 2002 represented a decrease of 18.5% as compared with the first half of 2001. Operating profit before provisions decreased by 15.7% to HK\$6,002 million in the first half of 2002.

After taking the effect of the share consolidation into account, earnings per share as adjusted for the six months ended 30 June 2002 was HK\$0.323. Return on average total assets and return on average shareholders' funds on an annualised basis were 0.93% and 12.92%, respectively.

Net interest income

Net interest income was HK\$6,891 million for the first half of 2002, a decrease of HK\$843 million or 10.9% from the corresponding period in 2001. Net interest spread rose by 25 basis points to 1.85%, while net interest margin rose marginally by 1 basis point to 1.98%. Increased holdings of higher yielding securities helped improve net interest margin by 14 basis points. This was offset by a 23 basis points reduction in contribution from cost free fund as a result of the drastic fall in market interest rates, coupled with an 11 basis points reduction in contribution from mortgages as a result of reduction in mortgage yield.

Chief Executive's Report (*continued*)

Financial Overview (*continued*)

Other operating income

Other operating income totalled HK\$2,010 million in the first half of 2002, a fall of HK\$246 million or 10.9% from the first half of 2001. Fees and commission income declined by 7.6% to HK\$1,705 million. In the first half of 2002, we explored business opportunities and accomplished significant growth in return from sale of funds, etc. However, the increased contribution from our investment product services was offset by a drop in fees and commission income generated from bills, stock brokerage and loan origination due to poor market conditions and more intense competitions. Fees and commission expenses fell by 7.5% to HK\$357 million. As a result, net fees and commission income declined by 7.7% as compared with the same period in 2001.

Operating expenses

Operating expenses in the first half of 2002 amounted to HK\$2,899 million, representing an increase of HK\$31 million or 1.1% as compared with the same period in 2001. The increase in operating expenses was primarily due to the increase in depreciation expenses arising from the revaluation of our premises.

The depreciation expenses rose by HK\$146 million or 68.5% to HK\$359 million in the first half of 2002. If we excluded the depreciation expenses related to our own fixed assets, the operating expenses would have recorded a decrease of HK\$115 million or 4.3% as compared with the corresponding period in 2001. This decline was largely due to cost synergies from the merger and ongoing restructuring.

Other operating expenses also increased by HK\$45 million or 12% to HK\$419 million, mainly attributable to the rise in advertising expenses.

The increase in depreciation and other operating expenses was partially offset by the decline in staff costs and premises and equipment expenses (excluding depreciation). Staff costs (including directors' emoluments) declined by HK\$144 million or 7.6% to HK\$1,761 million, due to a reduction in number of staff as part of our rationalisation initiatives. The number of staff was 13,191 as at 30 June 2002, representing a decrease of 8.3% as compared with the end of first half of 2001. Premises and equipment expenses (excluding depreciation) fell by HK\$16 million or 4.3% to HK\$360 million.

As a result of a decrease in operating income and a modest increase in operating expenses, the cost to income ratio rose from 28.7% for the first half of 2001 to 32.6% for the same period of 2002.

Chief Executive's Report (*continued*)

Financial Overview (*continued*)

Asset Quality

Net charge for bad and doubtful debts

In the first half of 2002, the net charge for bad and doubtful debts (net of recoveries of advances and releases of specific provisions) decreased by HK\$82 million or 4.4% to HK\$1,766 million, as compared with that over the same period in 2001. Total recoveries of advances previously written off were HK\$350 million for the first half of 2002, 52.8% more than those in the same period in 2001. This improvement stemmed from our focus on loan recoveries and setting up of our Special Assets Management Department.

Non-performing loans

As at 30 June 2002, non-performing loans decreased by HK\$7,014 million or 19.8% to HK\$28,498 million, as compared with 31 December 2001. The decline was a result of the disposal of loans with total gross book value of HK\$11,401 million (of which HK\$7,029 million are non-performing loans) to Bank of China Grand Cayman Branch in June 2002. The write-off of the bad and doubtful debts amounting to HK\$1,013 million also helped lower our non-performing loans. As a result, the percentage of non-performing loans to total gross advances to customers reduced from 10.99% as at 31 December 2001 to 8.97% as at 30 June 2002.

Our Group has employed a prudent and conservative policy in making provision for bad and doubtful debts, complying with the guidelines set by the Hong Kong Monetary Authority.

Specific provisions coverage ratio for non-performing loans and loan loss provision ratio improved from 29.8% and 48.2% as at 31 December 2001 to 31.6% and 54.5% respectively as at 30 June 2002. The ratio of total provisions for bad and doubtful debts to gross advances to customers fell to 4.9%, as compared with 5.3% at the end of last year.

Financial Position

Assets

As at 30 June 2002, total assets decreased by HK\$28,362 million or 3.7% as compared with 31 December 2001. After the merger, operating as a locally incorporated independent entity, BOCHK has its own liquidity management policies and mechanism. Consequently, it withdrew the inter-bank placement of HK\$54,635 million with Bank of China, resulting in a drop in total assets. During the first half of 2002, the Hong Kong market continued to experience sluggish loan demand. Our gross advances to customers decreased by HK\$5,404 million or 1.7% as compared with 31 December 2001. This fall was primarily due to our loan disposal in June 2002. However, excluding the loan disposal in June 2002, the Group's advances to customers would have recorded a rise of 1.9%.

Chief Executive's Report (*continued*)

Financial Overview (*continued*)

In terms of geographical dispersion of our loan portfolio, Hong Kong related loans accounted for the majority, down by HK\$5,061 million or 1.6%. Loans in connection with Mainland China fell by HK\$1,405 million or 18.1% and loans to other geographical areas grew by HK\$1,062 million or 24.5%. We will continue to develop our Mainland China business solidly.

The Group has further optimised the asset structure by revising its investment strategies to enhance yield on assets. The Group increased its exposure to debt securities relative to inter-bank placements. Certificates of deposit held, held-to-maturity securities, investment securities and other investments in securities as at 30 June 2002 amounted to HK\$168,836 million, representing 22.9% of total assets, and the total balance increased by HK\$42,161 million from HK\$126,675 million as at 31 December 2001, an increase of 33.3%.

Liabilities

As at 30 June 2002, total liabilities decreased by HK\$29,864 million or 4.2% as compared with 31 December 2001. This decline was attributable to the withdrawal of inter-bank funds of approximately HK\$41,000 million by Bank of China.

Despite the fall in customer deposits in Hong Kong during the first half of 2002, the Group was able to maintain a stable customer deposit base. Deposit balance increased by HK\$5,042 million or 0.8% from 31 December 2001. In an effort to manage the cost of funding, the Group sought to optimise the deposit structure and revised the deposit pricing strategy to be in line with our peers during the first half of 2002. The tightening of the interest rate gap between fixed deposits and savings deposits persisted in the first half of 2002, resulting in fixed deposits funds shifting to more liquid savings deposits. This lowered our overall cost of funding.

Lackluster loan demand in Hong Kong together with the loan disposal resulted in a decrease of the loans to deposits ratio from 53.3% as at 31 December 2001 to 52% as at 30 June 2002.

As at 30 June 2002, the Group had no significant mismatches between assets and liabilities in all foreign currencies and hence the exposure to currency risks was limited.

Liquidity and capital strength

The Group maintained ample liquidity with the average liquidity ratio of 41.3% for the first half of 2002, as compared with 39.9% for the 3 months from 1 October 2001 (the date of the Restructuring and Merger) to 31 December 2001. We remained well capitalised with a capital adequacy ratio of 14.7% as at 30 June 2002, as compared with 14.4% as at 31 December 2001.

Chief Executive's Report (*continued*)

Operations Review

In the first half of 2002, we continued to leverage our strengths and capitalise on the opportunities arising from the Restructuring and Merger. We successfully introduced a broad range of new products and services, further rationalised our branch network, and made good progress in our business.

Retail Banking

To improve distribution efficiency, we continued to reengineer our distribution channels. In the first half of 2002, we combined 8 branches with their neighboring branches, established a new branch, and reduced the number of branches to 358. We began our "Model branches" pilot program for different types of branches, including Full Service Branches, Investment Centers, Personal Financial Service Centers, Self Service Branches and VIP Branches. We are now working on site selection and layout design. We will complete the pilot program and commence operation by the end of this year or early next year.

We have continued to provide diversified mortgage products and services. In the first half of 2002, our residential mortgages in Hong Kong, excluding those under the Home Ownership Scheme, rose by 3.9%. We have also launched a number of new or improved personal loan products, such as "Urban Renewal Authority Home Bridging Loan", "Standby Overdraft" and "Decoration Loan", which will further facilitate cash management of our customers. We have also offered credit facilities secured by investment funds to our investment customers to allow greater flexibility in managing their investments.

To better serve our customers, we have introduced a broader range of wealth management products and services, including "Guaranteed Fund", "Retail Bonds", "Equity Linked Deposit" (a product combining the features of term deposit and stock option), "Monthly Stocks Savings Plan", etc. In addition, we have begun to introduce the Customer Relationship Management ("CRM") System. We are currently expanding our financial consulting team to meet future needs.

During the first half of 2002, sale of retail bonds amounted to HK\$2,487 million. In addition, the sale of 8 guaranteed funds amounted to HK\$3,081 million. Among those, "BOCHK BOCI-Prudential AUD Australia Growth Guaranteed Fund" was the first non-US dollar denominated guaranteed fund in Hong Kong and was warmly received by the market. Another product — the "Currency Option Deposit" doubled in transaction volume when compared with that in the first half of last year.

Chief Executive's Report (*continued*)

Operations Review (*continued*)

The credit card business continues to be one of our core businesses. For the first half of 2002, the number of cards, credit card receivables and cardholder spending experienced double-digit growth as compared with the same period last year. We successfully launched the "Y-not" credit card to target our female customers, which increased our customer base by about 25,000 cards. The Great Wall International Card is another focus product of our credit card business. We achieved over 110% growth in the number of Great Wall International Card issued as compared with that in the same period of last year. We were the first in the market to provide RMB credit cards to our customers. Our merchant acquiring business remains healthy with a 2% growth in Hong Kong and 17% rapid growth in China. We continue to maintain our leading position in Mainland China.

In light of the persistent sluggish economic environment, and rising personal bankruptcies in Hong Kong, our annualised credit card charge-off ratio increased to 7.45% in the first half of 2002. To safeguard our asset quality, we have reviewed and tightened our credit policies.

Corporate Banking

We have a strong position in the local corporate and commercial lending markets. In addition to continuously building close bilateral banking relationships with our corporate customers, we are actively leveraging our restructuring and merger and our extensive corporate customer network to develop our syndicated loan business more effectively. By shifting our focus to an arranger role rather than a participant role in syndicated loan transactions, we intend to increase our non-interest income and enhance our position in the syndicated loan market.

For our small and medium-sized enterprise ("SME") customers, we have introduced unsecured financing schemes. We have also joined and launched the SME installations and Equipment Loan Guarantee Scheme introduced by the HKSAR Government to help enhance productivity and competitiveness of our SME customers.

We have established a very cooperative relationship with our parent, Bank of China, in a variety of areas, including corporate lending, financial institution services, settlement, treasury, trade finance and custodian services, etc. Some of these areas have already shown good progress.

Financial Institution Services

In addition to the unilateral clearing for HK dollar cheque for Shenzhen, we have been mandated as the HK dollar cheque bilateral clearing agency for both Guangzhou and Shenzhen in Mainland China after the signing of business and service agreements with the local authorities.

We have actively taken part in developing the Shenzhen-Hong Kong Real Time Gross Settlement ("RTGS") System in order to provide real time, safe and low cost electronic means of fund transfer between Shenzhen and Hong Kong.

Chief Executive's Report (*continued*)

Operations Review (*continued*)

Treasury

We have developed a customer-driven treasury platform and set up dedicated treasury teams to provide marketing and sales support and expertise to our key customers for sophisticated treasury products. Benefiting from our large customer base, extensive distribution channels and synergies created by the restructuring, we have successfully enhanced the cross selling of our treasury products and services. By the end of June 2002, the number of our treasury customers doubled when compared with the end of last year. By expanding Mainland China related products and services, our deposits from small to medium sized Mainland China financial institutions increased 6% in the first half of 2002.

China Related Business and Mainland Branches

The Group has a total of fourteen Mainland branches. Twelve of these branches are eligible for conducting full foreign currency services to all kinds of customers including local individuals and locally funded enterprises in China. Three of our Mainland branches are eligible to conduct RMB business on a limited scope. Another five branches have applied for the license to provide RMB business to foreign individuals and foreign funded enterprises.

As a result of the China's entry into the World Trade Organisation, we are cooperating closely with Mainland China to fully exploit the potential of future business opportunities. We have recently joined hands with Bank of China Shenzhen Branch to provide Automated Fund Transfer ("AFT"), a service for Hong Kong residents who have purchased properties in Mainland China. A variety of mortgage repayment plans with currency options were introduced to increase payment flexibility for our customers.

Back-office Operations

We have further standardised our back-office operations. Through improving our workflow and upgrading our system functions, we have enhanced our operational efficiency, manpower and thus achieved cost savings. Also by centralising the loans documentary management, we have saved storage space and hence reduced our operating costs. During the first half of the year, we completed the feasibility study and finalised the blueprint of the Global Payment System Project and Information Processing Centralisation Project. For the Credit Workflow System Project, the first phase of system development has kicked off and it will be scheduled to launch in the fourth quarter this year. We expect most of our loan processes will be automated upon completion.

Chief Executive's Report (*continued*)

Operations Review (*continued*)

Information Technology

We have begun to transform our information technology organisation and significantly upgrade our current information infrastructure to allow us to better support our current business operations as well as our business strategies. During the first half of 2002, a number of key projects made solid progress.

Human Resources

In alignment with the initial public offering, we have designed the Stock Option Scheme and Sharesave Plan in the first half of this year, and are actively seeking to reform the existing compensation and incentive mechanism. At the same time, we have initiated work on enhancing our employee profile within our organisational structure. To improve the quality of employees, we have expanded the training efforts for senior to middle management and front-line staff. Coupled with this is our recruitment activity, which targets experienced professionals in the market to cater for business development needs.

In the first half of 2002, the number of employees of the Group reduced by 237 to 13,191.

Chief Executive's Report (*continued*)

Prospects

The outlook for Hong Kong's economy enters into a phase of uncertainty following the tumble of the world equity markets in July 2002. The interest rate hike in the U.S. and Hong Kong anticipated earlier this year might not come about. Instead, speculation is building up for a lowering of interest rates, which would put further pressure on the interest rate margin and return from cost free funds. Against this background, the banking environment in the second half of 2002 will remain difficult.

Despite the difficult operating environment, we will continue to build on our core strengths and exploit new opportunities arising from our restructuring and the initial public offering so as to enhance shareholders' value.

Working with Bank of China, Bank of China Group affiliates and leading third parties, we plan to develop and distribute a broader portfolio of products and services to increase our penetration rate and cross-selling ratio. We will focus on higher ROE and innovative business, particularly in the areas of wealth management.

We will continue to improve our asset quality by adopting more effective credit control and risk management systems.

We will continue to capture significant efficiency and synergy gains by upgrading information technology systems and streamlining our branch network and back offices.

We will continue to improve our overall balance sheet management so as to optimise our asset liability mix, capital sourcing and yield.

By leveraging our customer base in Hong Kong and our existing 14 Mainland branches, we will fully exploit the business opportunities resulting from the further opening of the financial and banking markets in Mainland China. With extensive branch network in Mainland China, Bank of China's franchise will give BOCHK a unique international gateway into China.

We are committed to providing efficient and quality financial services to our customers. With the continued support of our shareholders, customers and staff, we are confident that we can achieve better results in the years to come.



LIU Jinbao

Vice Chairman and Chief Executive

Hong Kong, 27 August 2002