



BOC

中銀香港(控股)有限公司

LIMITED

| Directors' Report |

# REPORT OF THE DIRECTORS

The directors are pleased to present their report together with the audited consolidated accounts of BOC Hong Kong (Holdings) Limited (the “Company”) and its subsidiaries (together with the Company hereinafter referred to as the “Group”) for the year ended 31 December 2002.

## Principal Activities

The principal activities of the Group are the provision of banking and related financial services. An analysis of the Group’s performance for the year by business segments is set out in note 40 to the accounts.

## Results and Appropriations

The results of the Group for the year are set out in the consolidated profit and loss account on page 66.

On 28 June 2002, the shareholders of the Company approved a special dividend of HK\$0.0366 per share (without taking into account the share consolidation on 10 July 2002) or HK\$0.183 per share (after taking into account the said share consolidation) with respect to the period from 1 January 2002 to 18 June 2002. The total amount of this special dividend was HK\$1,935 million, which was paid by cash generated from our operation.

The Board has recommended a final dividend of HK\$0.215 per share, amounting to approximately HK\$2,273 million, subject to the approval of shareholders at the forthcoming Annual General Meeting to be held on Thursday, 29 May 2003. If approved, the final dividend will be paid on Friday, 30 May 2003 to shareholders whose names appear on the Register of Members of the Company on Friday, 16 May 2003.

## Closure of Register of Members

The Register of Members of the Company will be closed, for the purpose of determining shareholders’ entitlement to the final dividend, from Friday, 2 May 2003 to Friday, 16 May 2003 (both days inclusive), during which period no transfers of shares will be registered. In order to rank for the final 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 Wednesday, 30 April 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 during the year amounted to HK\$5,625,000 (2001: HK\$372,000).

### **Fixed Assets**

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

### **Share Capital**

Details of the movements in share capital of the Company are set out in note 32 to the accounts.

### **Distributable Reserves**

Distributable reserves of the Company at 31 December 2002, calculated under section 79B of the Hong Kong Companies Ordinance, amounted to approximately HK\$2,583 million (2001: Nil).

### **Four-year Financial Summary**

A summary of the results, assets and liabilities of the Group for the last four years commencing from 1 January 1999 (being the earliest year of the track record period for the purpose of listing of the Company on 25 July 2002) is set out on page 2.

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

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

### **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 6 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. Accordingly, no options have been granted by the Company pursuant to the 2002 Share Option Scheme or the 2002 Sharesave Plan for the year ended 31 December 2002.

## Share Options (continued)

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

	2002 Share Option Scheme	2002 Sharesave Plan
<b>Purpose of the scheme</b>	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.
<b>Participants of the scheme</b>	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.
<b>Total number of shares available for issue under the scheme and percentage of issued share capital as at 31 December 2002</b>	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.
<b>Maximum entitlement of each participant under the scheme</b>	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 12-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 12-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.
<b>The period within which the shares must be taken up under an option</b>	Such period as shall be prescribed by the directors and specified in the letter of offer.	The 30-day period (excluding the anniversary days) immediately after the 1st and 2nd anniversary days from the date of grant or such other date as determined by the Board, or the 30-day period immediately after the 3rd 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.
<b>The minimum period for which an option must be held before it can be exercised</b>	Such minimum period as shall be prescribed by the directors and specified in the letter of offer.	One year.
<b>(a) The amount payable on acceptance of the option</b>	(a) HK\$1.00	(a) HK\$1.00
<b>(b) The period within which payments or calls must or may be made</b>	(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.
<b>(c) The period within which loans for such purposes must be repaid</b>	(c) Not applicable.	(c) Not applicable.
<b>The basis of determining the exercise price</b>	The exercise price is determined on the date of grant by the directors and shall not be less than the highest of: (a) the nominal value of the Company's shares; (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 (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.	Same as 2002 Share Option Scheme.
<b>The remaining life of the scheme</b>	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' and Chief Executive's 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 29:

All directors were appointed on 17 June 2002 except Messrs. LIU Mingkang and SUN Changji who were appointed on 17 September 2001.

In accordance with Article 98 of the Company's Articles of Association, apart from the Chairman, Vice-chairman and Chief Executive, all the directors are subject to retirement by rotation and re-election at Annual General Meetings of the Company. Accordingly, Messrs. LI Zaohang, HE Guangbei and SHAN Weijian shall retire by rotation and, being eligible, offer themselves for re-election at the forthcoming Annual General Meeting.

## Biographical Details of Directors and Senior Management

Biographical details of the directors and senior management are set out on pages 31 to 37 of this Annual Report.

## Directors' Service Contracts

No director offering for re-election at the forthcoming Annual General Meeting has a service contract with the Company or any of its subsidiaries which is not determinable by the employing company within one year without payment of compensation other than the normal statutory compensation.

## 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 year or at any time during the year.

## Directors' and Chief Executive's Rights to Acquire Shares

On 5 July 2002, the following directors and chief executive 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 31 December 2002. 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.

### Directors' and Chief Executive's Rights to Acquire Shares (continued)

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

	Date of grant	Exercise price (HK\$)	Exercisable period	Number of share options				
				Balances at 1 January 2002	Granted on 5 July 2002	Exercised during the year	Lapsed during the year	Balances at 31 December 2002
LIU Mingkang	05 July 2002	8.50	25 July 2003 to 04 July 2012	–	1,735,200	–	–	1,735,200
SUN Changji	05 July 2002	8.50	25 July 2003 to 04 July 2012	–	1,590,600	–	–	1,590,600
LIU Jinbao	05 July 2002	8.50	25 July 2003 to 04 July 2012	–	1,735,200	–	–	1,735,200
PING Yue	05 July 2002	8.50	25 July 2003 to 04 July 2012	–	1,446,000	–	–	1,446,000
HUA Qingshan	05 July 2002	8.50	25 July 2003 to 04 July 2012	–	1,446,000	–	–	1,446,000
LI Zaohang	05 July 2002	8.50	25 July 2003 to 04 July 2012	–	1,446,000	–	–	1,446,000
HE Guangbei	05 July 2002	8.50	25 July 2003 to 04 July 2012	–	1,446,000	–	–	1,446,000
ZHOU Zaiqun	05 July 2002	8.50	25 July 2003 to 04 July 2012	–	1,446,000	–	–	1,446,000
ZHANG Yanling	05 July 2002	8.50	25 July 2003 to 04 July 2012	–	1,446,000	–	–	1,446,000
<b>Total:</b>				–	<b>13,737,000</b>	–	–	<b>13,737,000</b>

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

### Directors' and Chief Executive's Interests in Shares

As at 31 December 2002, none of the directors or the chief executive or their respective associates has any interests in the shares of the Company or any of its associated corporations within the meaning of the SDI Ordinance, which are required to be recorded in the register kept by the Company under section 29 of the SDI Ordinance or which are otherwise required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

### Directors' Interests in Competing Businesses

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 Shareholders

As at 31 December 2002, the register of substantial shareholders maintained under section 16(1) of the SDI Ordinance showed that the following shareholders had an interest of 10% or more in the issued share capital of the Company:

Name of Shareholder	No. of shares beneficially held	% of total issued shares
BOC	8,136,861,766 (note (a))	76.96%
BOCHKG	8,118,861,766	76.79%
BOC (BVI) (note (b))	8,118,861,766	76.79%
Hua Chiao (note (c))	1,379,575,062	13.05%

Notes: (a) The number of shares shown includes an aggregate of 18,000,000 shares in the Company beneficially held by BOC Insurance and BOC Life, both of which are wholly owned subsidiaries of BOC.

(b) 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 SDI Ordinance.

(c) BOC (BVI) beneficially owns 93.64% of Hua Chiao. Accordingly, BOC (BVI) is deemed to have the same interests in the shares of the Company as Hua Chiao for the purpose of the SDI Ordinance.

## 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 year.

## Major Customers

During the year, 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.

## Connected Transactions

The Independent Non-executive Directors have reviewed the transactions for which the Stock Exchange has granted a waiver and confirmed that these transactions were:

- (i) entered into in the ordinary and usual course of business of the Group;
- (ii) conducted either on normal commercial terms or, if there were not sufficient comparable transactions to judge whether they were on normal commercial terms, were on terms that were fair and reasonable so far as the Company's shareholders are concerned;
- (iii) entered into either in accordance with the terms of the agreements governing such transactions or (where there were no such agreements) on terms no less favourable than those available to or from independent third parties, as applicable; and
- (iv) in each case where an annual cap had been agreed with the Stock Exchange, that such caps were not exceeded.

Details of the connected transactions are set out on pages 132 to 137.

## 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.

### **Audit Committee (continued)**

The Audit Committee provides an important link between the Board and the Company'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. Major accounting policies and important financial policy papers of the Group were discussed during the year. The Committee comprises four Independent Non-executive Directors, namely, Mr. Shan Weijian (Chairman), Mr. Chia Pei-Yuan, Dr. Fung Victor Kwok King, Mr. Tung Chee Chen and three Non-executive Directors, namely Mr. Ping Yue, Mr. He Guangbei and Mr. Zhou Zaiqun. Six meetings were held during the current financial year.

### **Budgetary Discipline and Reporting**

Annual budget of the Group is reviewed and approved by the Board of Directors prior to its implementation by the Management. After the Board of Directors approves the annual budget, 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.

### **Compliance with the guideline on "Financial Disclosure by Locally Incorporated Authorized Institutions"**

The accounts for the year ended 31 December 2002 fully comply with the requirements set out in the guideline on "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 from 25 July 2002 (being the date of the Company's listing on the Stock Exchange) until 31 December 2002.

### **Auditors**

The accounts have been audited by PricewaterhouseCoopers. A resolution for their re-appointment as auditors for the ensuing year will be proposed at the forthcoming Annual General Meeting.

On behalf of the Board



**LIU Mingkang**

*Chairman*

Hong Kong, 20 March 2003