
BANK OF CHINA AND ITS RELATIONSHIP WITH US

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General

BOC is the PRC's pre-eminent foreign exchange bank and one of the largest state-owned commercial banks in the PRC. Established in 1912, BOC provides a full range of commercial banking and other financial services through approximately 13,000 domestic branches and subsidiaries and approximately 560 overseas branches and subsidiaries throughout the world. Under BOC's audited financial statements, which were prepared in accordance with Accounting Standards for Business Enterprises and other related financial and accounting regulations stipulated by the Ministry of Finance and the PBOC, at December 31, 2001, BOC had consolidated total assets of approximately RMB3,361,619 million (HK\$3,167,156 million) and consolidated total owner's equity of approximately RMB218,420 million (HK\$205,785 million). For the year ended December 31, 2001, BOC's consolidated after tax profit was approximately RMB7,908 million (HK\$7,451 million).

BOC has restructured its commercial banking operations in Hong Kong in order to improve the profitability of these operations and increase their value for all shareholders. See the section headed "The Restructuring and Merger".

After the Global Offering, we intend to continue cooperating with BOC on an arm's length basis. In particular, we expect to coordinate and cooperate with BOC on both strategic and operational levels where such coordination and cooperation is in our best commercial interests. The coordination and cooperation could include, among other things, leveraging BOC's customer relationships and distribution network in Mainland China to provide more comprehensive services to our customers as well as further expand our business opportunities.

We provide services to, obtain services from, and enter into transactions with, BOC. All of these relationships and transactions are intended to be conducted on an arm's length basis and either on normal commercial terms or on terms that are fair and reasonable so far as our shareholders are concerned and established and conducted within the relevant regulatory requirements. See the section headed "— Connected Transactions".

While we intend to continue coordinating and cooperating with BOC on both strategic and operational levels, we believe that we are financially independent from BOC and operate as a separate legal entity.

Shareholding

BOC will indirectly control, immediately following the completion of the Global Offering, over 70% of our issued Shares (assuming the Over-allotment Option is not exercised). See the corporate structure chart in the section headed "The Restructuring and Merger". Our immediate controlling shareholder is BOC (BVI). BOC (BVI) is incorporated under the laws of the British Virgin Islands and is wholly owned by BOCHKG, a company incorporated under the laws of Hong Kong. BOCHKG is wholly owned by BOC.

As our ultimate controlling shareholder, BOC will be able to elect all of the members of the Board of Directors, may be able to exercise significant influence over our business and will be able to control matters requiring shareholders' approval. See the section headed "Risk Factors — Risks Relating to Our Business — We will be controlled by BOC, whose interests may not always coincide with the interests of our other shareholders." Under Hong Kong law and the Listing Rules, each Director owes fiduciary duties to us, including the duty to act honestly and in good faith in our best interests, notwithstanding that such Director may be

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nominated by our controlling shareholder, BOC, whose interests may not always coincide with those of our other shareholders.

Capital

In a letter dated January 18, 2002 to the Hong Kong Monetary Authority in connection with BOCHK's banking license, BOC stated that its policy is to provide BOCHK with support and assistance as may be required to ensure that BOCHK maintains capital and liquidity levels sufficient to meet its obligations in conformity with standards of prudence generally accepted for its field of business. We have no agreement with BOC regarding any future contribution of capital by BOC to us, including the maintenance of any minimum capital adequacy ratio, or with respect to any future issuance of equity shares or debt securities by us to BOC.

Overlapping and Complementary Business

We and BOC each provide a broad range of financial products and services. In Hong Kong, BOC's subsidiaries (other than the Group) carry on non-commercial banking businesses such as insurance, securities brokerage and investment banking. In addition, BOC maintains a branch which is licensed by the Hong Kong Monetary Authority as a bank in Hong Kong. BOC uses this branch primarily to conduct treasury transactions under the name "BOC Markets". Such transactions are both for BOC's internal asset and liability and liquidity management purposes and for BOC's institutional customers. These transactions involve foreign exchange, money market instruments, fixed income, bullion and derivatives for hedging purposes only.

BOC's Hong Kong branch (also known as BOC Markets) is licensed to conduct a full range of commercial banking activities in Hong Kong and therefore could compete with us. However, BOC has advised the Hong Kong Monetary Authority that it does not intend to engage in commercial banking businesses that may result in direct competition with us, including deposit taking from, or lending to, retail and corporate customers, although some of BOC Markets' operations may involve deposit taking from, or lending to, financial institutions through capital markets instruments, such as purchase of certificates of deposit and placement of inter-bank deposits.

We participate actively in the syndicated loan market in Hong Kong as arranger, underwriter, manager or lender. See the section headed "Business — Our Principal Business Activities — Corporate Banking — Corporate Loan Products — Syndicated Loans" for further information. BOCI Capital, an indirect wholly owned subsidiary of BOC and whose senior management is independent of ours, also participates in the same market. BOCI Capital's operating income for the year ended December 31, 2001 was HK\$175 million. We believe we have built a broad customer base in this market through our commercial banking operations while BOCI Capital focuses on corporate customers through its investment banking business. As syndicated loans often involve a number of parties acting in the same and in different capacities, our involvement may sometimes be complementary to BOCI Capital's business. To the extent that we and BOCI have the same customers, we may compete with BOCI Capital for the role of arranger or manager. In the ordinary course of our business, we have entered, and in the future will continue to enter into, these transactions on normal commercial terms and on arm's length basis with other syndicate members or counterparties which may include BOCI Capital. See the section headed "— Connected Transactions — Capital Markets Transactions" for further information.

As part of the range of investment services offered by us, we offer securities trading services to our customers. We take orders from our customers while trade execution and

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clearing functions are outsourced to third party brokers. BOCI Securities, an indirect wholly owned subsidiary of BOC and whose senior management is independent of ours, offers a full range of securities brokerage services and we utilize BOCI Securities, among others, in executing the trades of our customers. BOCI Securities' total turnover for the year ended December 31, 2001 was HK\$508 million. We believe we have built a leading retail securities brokerage in Hong Kong in terms of transaction volume by leveraging our broad customer base and extensive network. We compete with BOCI Securities with respect to taking retail trade orders.

We currently have 14 branches in Mainland China which are treated as foreign bank branches in Mainland China under the relevant regulations of the PRC and have a restricted scope of business. Most of these branches are currently only allowed to conduct foreign currency businesses to meet the needs of foreign individuals and foreign funded enterprises in Mainland China. Three of these branches have obtained permission to conduct limited Renminbi business. Most of our branches in Mainland China have applied to the PBOC to increase their operating capital to enable us to offer foreign currency products and services to domestic customers in Mainland China.

We believe that a significant portion of our customers are active in Mainland China and our branches in Mainland China meet the cross-border banking needs of our Hong Kong and Mainland China customers. We expect to benefit from BOC's strong relationship with corporate and retail customers in Mainland China. However, we may compete with BOC as we pursue business opportunities in Mainland China.

We believe that our relationship with BOC after the Global Offering will continue to be complementary in respect of key business areas, such as insurance product selling, credit card businesses and, to some extent, capital market and syndicated loan transactions. Pursuant to the Services and Relationship Agreement, BOC has agreed to, and agreed to procure that its Associates, enter into all future arrangements with us on an arm's length basis, on normal commercial terms and at rates no less favorable than those offered to independent third parties. See the section headed "— Connected Transactions — Services and Relationship Agreement".

To the extent that we compete with BOC or its Associates, we believe that our interests are adequately protected by adhering to good corporate governance practices and the involvement of the independent non-executive Directors.

INCIDENTS ATTRACTING ADVERSE PUBLICITY TO BOC

New York Branch Incident

In January 2002, the OCC and the PBOC announced separate actions against BOC New York branch and BOC for alleged misconduct by prior management at the BOC New York branch during the period from 1991 through 1999. The alleged misconduct included showing preferential treatment to certain customers of BOC New York branch who had personal relationships with some members of BOC New York branch's prior management, including the general manager of BOC New York branch from 1988 to 1993 who subsequently became the president of BOC from 1993 to March 2000, with respect to granting loans and letters of credit, and facilitating loan fraud and other suspicious and potentially fraudulent activities conducted by these customers, which included the Chou Group.

BOC New York branch paid a fine of US\$10 million to the OCC, BOC paid a fine of the equivalent of US\$10 million to the PBOC and BOC's branches in the United States consented to an order by the OCC requiring various changes in their operations. These included adopting

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procedures to guard against fraud, to provide for adequate inquiry and analysis of customer information, and to cease doing business with the 34 named individuals and companies in the Chou Group.

The OCC has completed its investigation of BOC New York branch and is considering taking action against a number of individuals involved in the matters covered by its investigation, including certain former senior officers of BOC New York branch. These individuals could make allegations or take other actions adverse to BOC and us although we do not believe there is any basis for such allegations or actions.

The OCC and PBOC noted the cooperation by BOC's current management with their investigations and the action plans of BOC to correct the prior management's misconduct and prevent future misconduct. In particular, BOC has taken numerous remedial steps, including replacing members of the former senior management of BOC New York branch, establishing and filling new positions dealing with risk management and compliance and hiring an external auditor with substantial review functions. BOC's branches in the United States have already begun implementing the remedial measures required in the OCC consent order. Both the OCC and PBOC recognized BOC's willingness to rectify past problems and the substantial progress it has made. The two regulatory agencies have stated their belief that BOC's reorganization of its branches will better ensure compliance with applicable law and safe and sound banking practices.

BOC has brought actions against members of the Chou Group for nonpayment of borrowings totaling US\$34 million from BOC New York branch and for fraud in the federal court in New York and with ancillary attachment proceedings in courts in the Cayman Islands, London and Switzerland in connection with the incidents that are the subject of the OCC consent order. In January 2002, certain members of the Chou Group filed third party claims against BOC, BOCHK and other branches and affiliates of BOC, alleging that such parties engaged in illegal activities in connection with such incidents. The judge presiding over this case has held that BOC has established a likelihood of success on the merits of its claims for damages against the Chou Group. Based on discussions with its counsel, BOC believes the third party claims are without merit. Based on discussions with our counsel in the litigation, we believe that the counter-claim by the Chou Group against us is without merit and will not result in any material adverse effect on our business, financial condition or results of operations. See the section headed "Business — Legal and Regulatory Proceedings — Incidents in which BOCHK was or was Alleged to be Involved — New York Branch Incident."

Kaiping Incident

From 1993 through 2001, three successive managers of the Kaiping sub-branch of BOC allegedly conspired to embezzle or misappropriate approximately US\$500 million in funds from BOC. The suspected misconduct took various forms, including foreign exchange trading activity in violation of regulations, off-balance sheet loans, and the diversion of bank funds to third parties. BOC discovered these activities in the course of integrating its information technology infrastructure, which was part of BOC's efforts to improve its internal controls. After BOC began its investigation into these matters in October 2001, all three managers fled Mainland China. Their activities are under investigation by enforcement authorities in Mainland China and Hong Kong. BOC is continuing to centralize its information technology systems and improve its risk management controls with a view towards preventing similar occurrences in the future. We believe that the incidents at Kaiping will not result in any material adverse effect on our business, financial condition or results of operations.

NAO Audit

The National Audit Office of the PRC (“**NAO**”), as part of its initial periodic audit of state-owned banks in the PRC, recently completed an examination covering the period from 1992 through 2000 with respect to the head office and seven provincial branches of BOC in Mainland China. The NAO identified 22 possible incidents of fraud or misconduct with respect to transactions totaling RMB2.7 billion. The actual losses incurred by BOC from such incidents were not material to its financial condition and results of operations. BOC has investigated and has dealt with or is dealing with these matters, most of which had been discovered and dealt with by BOC prior to the NAO audit. Officers or employees involved in these incidents were disciplined or dismissed. In addition, some of the individuals involved in these incidents have been referred to enforcement authorities for investigation and possible legal action. We believe that these incidents noted by the NAO will not result in any material adverse effect on our business, financial condition or results of operations.

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Incidents involving embezzlement, misappropriation and bribery by BOC officers and employees, as well as parties outside BOC, have also occurred at certain other BOC branches.

The occurrence of these incidents was primarily attributable to past deficiencies in the managerial and systems infrastructure of BOC as well as changes in the banking environment in Mainland China. Kaiping and certain other such incidents came to light as the new management of BOC adopted and implemented corporate governance, operational risk management and comprehensive information technology infrastructure over the last two years. These organizational and infrastructural improvements are designed to minimize the risk of recurrence of other similar incidents.

It is possible that in connection with investigations and legal actions relating to the above-mentioned incidents, other problems associated with past deficiencies in managerial and systems infrastructure may come to light. Such investigations, legal actions and other incidents may result in adverse publicity for BOC and its affiliates, including us. See the section headed “Risk Factors — Operational Risks at BOC — Recently reported incidents of misconduct by BOC’s officers and customers, and any reports of similar incidents of misconduct in the future, may adversely affect our business prospects as well as our share price, financial condition and results of operations.”

CONNECTED TRANSACTIONS

Restructuring and Merger

The Merger Agreement

On May 31, 2001, the Transferring Banks and BOCHK, then known as Po Sang, entered into the Merger Agreement. See the section headed “The Restructuring and Merger — The Merger Transaction”. The Merger Agreement was amended by the Supplemental Merger Agreement. Under the Merger Agreement (as supplemented), BOC and some of its subsidiaries and the other Transferring Banks, on the one hand, and we and BOCHK, on the other hand, have given various further undertakings, including the following:

- each of the Transferring Banks agrees to indemnify BOCHK against all losses, liabilities and costs which BOCHK may incur for any breach of the representations and warranties given by it under the Merger Agreement, provided: (i) proceedings in respect of such breach are commenced within three years of October 1, 2001 and are for an aggregate amount of the greater of HK\$10 million or 2% of the adjusted net

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asset value of the assets and liabilities transferred by such Transferring Bank, (ii) the maximum claim under each indemnity given is the higher of HK\$1 billion and the aggregate par value of the shares issued by BOCHK in relation to the transfer of such Transferring Bank's assets and liabilities and (iii) in the case of BOC, insofar as the warranties relate to Chiyu, Nanyang or BOC-CC, the higher of HK\$1 billion and the aggregate par value of the shares issued by BOCHK in relation to the transfer of the shares of each of Chiyu, Nanyang or BOC-CC;

- each of the Transferring Banks agrees to use all reasonable endeavors to take all necessary actions to effect and complete the transfers contemplated by the Merger Agreement (as supplemented);
- each of the Transferring Banks and BOC (BVI) undertakes that it will not, without our prior written consent, transfer or create any third party rights over the economic consequence of ownership of any of the Shares until the expiry of six months following the date on which the Shares commence trading on the Stock Exchange; and
- each of the Transferring Banks is responsible for all Liabilities incurred by it at any time in connection with certain Property and Liabilities of such Transferring Bank agreed between BOCHK and such Transferring Bank on or before October 1, 2001 to be excluded from the transfers contemplated by the Merger Agreement (as supplemented) ("**Excluded Property and Liabilities**"). Each of the Transferring Banks shall indemnify BOCHK against each loss, liability and cost which BOCHK may incur as a result of any third party claim relating to the Excluded Property and Liabilities.

The Supplemental Merger Agreement has also made provisions regarding the following matters:

(a) *Non-Transferred Property or Liability*

The Transferring Banks have undertaken with BOCHK to take all necessary steps, including the execution of a declaration of trust, to transfer free from any third party rights or claims of any nature whatsoever (i) any assets and liabilities of the Transferring Banks which are intended to be transferred to BOCHK in due course or (ii) any share in Nanyang, Chiyu or BOC-CC which has not been fully and effectively transferred to and vested in BOCHK on October 1, 2001 ("**Non-Transferred Property or Liability**"). In addition, the Transferring Banks have undertaken to indemnify BOCHK against all losses, liabilities and costs as a result of any Non-Transferred Property or Liability in relation to itself not being fully and effectively transferred to and vested in BOCHK free from any third party rights or claims.

(b) *Intellectual Property Licence*

In addition to the Trademark Licence Agreement described below, each of the Transferring Banks grants to BOCHK a non-exclusive and royalty-free right to use in any part of the world, any intellectual property which has not been transferred to BOCHK pursuant to the Merger Agreement, the Merger Ordinance or the Supplemental Merger Agreement which BOCHK considers desirable for the purpose of operating the businesses of the branches transferred.

(c) *PRC Merger*

As BOC and the PRC organized banks have entered into an agreement to transfer to BOC all of the remaining assets and liabilities of the PRC organized banks which

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have not been transferred to BOCHK (the “**PRC Merger**”), BOC has undertaken that if the PRC Merger takes place, BOC shall automatically assume all obligations and liabilities of the PRC organized banks under the Merger Agreement (as supplemented) and shall indemnify BOCHK and us against all losses, liabilities and costs arising from BOC’s failure to perform such obligations and liabilities.

Deeds of Trust and Indemnity

On September 30, 2001, the Transferring Banks each entered into a deed of trust and indemnity (each a “**Deed of Trust and Indemnity**”) with BOCHK. Under each Deed of Trust and Indemnity, the relevant Transferring Bank declared itself a trustee for BOCHK in respect of property comprising the rights, interests and benefits of such Transferring Bank under certain agreements. These agreements include, among others, loan agreements, debt restructuring agreements, agency agreements, guarantees, shareholders’ undertakings, share mortgages, accounts charges, ship and aircraft mortgages, insurance assignments, assignments of earnings, swap provider agreements, ISDA master agreements and ISDA interest rate and currency exchange agreements, which are not governed by Hong Kong law and the transfer of which may not have been completed or effected on October 1, 2001 by the Merger Ordinance or the Merger Agreement (as supplemented).

Under each Deed of Trust and Indemnity, BOCHK agrees to indemnify the relevant Transferring Bank against all costs, claims, losses, expenses and liabilities incurred by such Transferring Bank in relation to the performance of its obligations under the relevant agreement or which otherwise relate to any of the property under the trust or performance of the Deed of Trust and Indemnity, except as a result of the gross negligence or wilful misconduct of such Transferring Bank.

Trademark Licence Agreement

BOC is the owner of a number of registered and unregistered trademarks which we will need to use in conducting our businesses. Under a trademark licence agreement dated September 30, 2001, between us, BOCHK and BOC (the “**Trademark Licence Agreement**”), BOC granted to BOCHK and us a royalty-free, non-exclusive and non-transferable (except as provided therein) licence to use its registered and unregistered trademarks, including the use of the names “Bank of China”, “Bank of China Group”, “BOC” and its logos, in conducting our businesses anywhere in the world, including the right to grant a sub-licence to any associated company. The licence is for an unlimited term until termination by any party if the other party: (i) commits a material breach which remains unremedied within thirty days after written notice is given or (ii) ceases to do business, becomes insolvent or bankrupt or is subject to liquidation or dissolution proceedings. We and BOCHK have given certain further customary undertakings to BOC regarding the use of the licensed marks and other matters.

Deed of Copyright Assignment

Under a deed of copyright assignment dated September 30, 2001, between BOC and BOCHK (the “**Deed of Copyright Assignment**”), BOC transferred and assigned to BOCHK on October 1, 2001, for a nominal consideration, all its existing and future copyright and all other rights, interests and title in and to the drawings, plans, designs, diagrams, specifications, printing plates and other connected materials related to the design, production and printing of the various bank notes of BOC currently in circulation and/or planned to be circulated in Hong Kong. BOC has further agreed to take all necessary steps reasonably within its power so as to vest such rights in BOCHK.

Derivatives Agreement

Under an agreement dated July 4, 2002 and effective from October 1, 2001 (the “**Derivatives Agreement**”), BOC Hong Kong branch and BOCHK agreed to declare certain derivatives transactions Excluded Property and Liabilities for the purposes of the Restructuring and Merger. Under the Derivatives Agreement, the economic benefits and liabilities in respect of these derivatives transactions are passed through to BOCHK, while all legal interest in them is retained by BOC following the Restructuring and Merger. BOC has undertaken to assist in the transfer of these derivatives transactions to BOCHK and not to amend or terminate such transactions in the period following October 1, 2001, and prior to their transfer.

Pre-merger Disposals

In connection with the Restructuring and Merger, the Hong Kong branches of the Transferring Banks as well as BOCHK and some of their subsidiaries (the “**Sellers**”) transferred:

- their shareholdings in an aggregate of 25 companies and subsidiaries (the “**Disposed Subsidiaries**”) which are not primarily engaged in commercial banking business;
- where relevant, any outstanding debts between the Disposed Subsidiary and the relevant Seller; and
- any interests in other companies held by the Disposed Subsidiary, in particular interests in joint ventures in the PRC,

to Gold Fortune, whose ultimate parent company is BOC, for approximately HK\$352 million under various sale and purchase agreements and assignments all dated September 28, 2001. On September 28, 2001, Hua Chiao also assigned the debts of a Disposed Subsidiary to Honour Plus Enterprises Limited, a wholly owned subsidiary of BOC Investment, for approximately HK\$1.1 million.

Under these sale and purchase agreements, the Sellers have given representations and warranties to Gold Fortune. As a result of the Restructuring and Merger, BOCHK has assumed, in relation to the Transferring Banks, any outstanding liabilities they had for breach of these representations and warranties. Claims under these warranties are not limited, except for the statutory limit on the time within which a claim may be made.

In connection with the Restructuring and Merger, BOCHK, Nanyang, Chiyu, certain of the Transferring Banks and certain of their subsidiaries disposed of their interests in the share capital of, and in certain cases the shareholder’s loan to, certain companies, including BOC Insurance, to BOC Investment in September 2001. The total consideration received from BOC Investment in relation to these disposals, including that of BOC Insurance and other companies, was approximately HK\$249 million. In September 2001, certain subsidiaries of BOCHK, Nanyang, Chiyu and the Transferring Banks also disposed of their interests in BOCI Securities to a subsidiary of BOCI for a total consideration of approximately HK\$252 million. BOCHK, Nanyang, Chiyu and Hua Chiao also disposed of their interest in Xiamen United Development (Group) Company Limited to a subsidiary of BOC in September 2001 for a nominal consideration.

Acquisition of Sin Chiao and Perento Limited

On July 6, 2002, BOCHK, BOC Investment and Kawell Investments Limited (“**Kawell**”), a wholly owned subsidiary of BOC Investment, entered into a sale and purchase agreement,

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pursuant to which BOCHK acquired the whole of the issued share capital of Sin Chiao and Perento Limited (“**Perento**”) and the shareholder loans from Kawell to Sin Chiao and Perento, for a total consideration of HK\$1 billion. The consideration, which was based on the estimated net book value of Sin Chiao and Perento at June 30, 2002, is subject to post-completion adjustments based on the net book value of Sin Chiao and Perento to be determined based on an independent valuation of the properties of Sin Chiao and Perento and an audit of Sin Chiao’s and Perento’s accounts as of June 30, 2002. On completion, BOCHK paid HK\$470 million as part payment of the consideration and the balance subject to such post-completion adjustments. We do not expect any adjustment to the purchase price to have a material effect on our financial position. Kawell used part of the consideration received to settle a debt owing from BOC Investment to BOCHK. The primary business of Sin Chiao and Perento is the holding of properties, many of which are used by us. BOCHK purchased Sin Chiao and Perento in order to assist in discharging the inter-company debts of BOC Investment and in the elimination of certain connected transactions relating to our leasing a number of premises from both Sin Chiao and Perento.

Classified Loans

Sale and Purchase Agreement

On June 26, 2002, BOCHK and BOC Cayman entered into the 2002 Sale Agreement. See the section headed “Financial Information — Overview — Recent Developments” for further details.

Deed in Relation to the 1999 Portfolio and the 2002 Portfolio

On June 25, 2002, BOCHK, the Transferring Banks, Nanyang and Zhong Gang entered into a deed in relation to the 1999 Portfolio and the 2002 Portfolio (the “**Loan Deed**”), pursuant to which Nanyang, certain of the Transferring Banks and BOCHK confirm and declare that to the extent they hold the legal title to the 1999 Portfolio, they are holding such legal title on trust for Zhong Gang and agree with Zhong Gang and BOCHK that where the 1999 Portfolio and the loans retained by those Transferring Banks shared any loan security, they will now rank equally in relation to that loan security. Each of the Transferring Banks also declares that to the extent it holds any interest in the 2002 Portfolio, it holds such interest on trust for BOCHK, and in the event that BOCHK transfers its beneficial interest in the 2002 Portfolio to BOC Cayman, they authorize BOCHK and BOC Cayman to appoint BOCHK or such other person as may be agreed between BOCHK and BOC Cayman as loan servicer. BOCHK confirms to the other parties to the Loan Deed that it provides servicing and administration for Zhong Gang in relation to the 1999 Portfolio (excluding the part that was transferred by Nanyang) and agrees to pay to the Transferring Banks on demand all costs and expenses reasonably and properly incurred by them as a result of their acting as trustee pursuant to the Loan Deed and in relation to the 1999 Portfolio.

Loan Servicing Agreements

On July 6, 2002, BOCHK entered into a loan servicing agreement with BOC Cayman. In consideration of a servicing fee based on the cost of provision of the services plus a margin to be paid by BOC Cayman on a quarterly basis, BOCHK agreed to provide servicing, collection, account opening and reporting services in respect of the 2002 Portfolio for BOC Cayman.

The 1999 Portfolio was originally serviced under the terms of the relevant loan sale and purchase agreements entered into between Zhong Gang and certain of the Transferring Banks and Nanyang in 1999. These arrangements have been superseded by (a) a loan servicing agreement dated July 6, 2002 between Nanyang and Zhong Gang, pursuant to which Nanyang

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has agreed to provide servicing, collection, account opening and reporting services in respect of those loans and their related loan security in the 1999 Portfolio which were originally sold by Nanyang to Zhong Gang and (b) a loan servicing agreement dated July 6, 2002 between BOCHK and Zhong Gang, pursuant to which BOCHK has agreed to provide servicing, collection, account opening and reporting services in respect of the remaining loans and their related security in the 1999 Portfolio for Zhong Gang, in each case for a servicing fee based on the cost of provision of the services plus a margin.

Inter-bank Transactions

Inter-bank Lending

In the ordinary and usual course of our inter-bank business, we accept inter-bank deposits from BOC and its Associates on normal commercial terms with reference to prevailing market rates. Approximately HK\$86,529 million, HK\$117,911 million and HK\$48,386 million of inter-bank deposits were placed with us by BOC and its Associates at December 31, 1999, 2000 and 2001, respectively. The interest expense attributable to these deposits in 1999, 2000 and 2001 was approximately HK\$5,497 million, HK\$4,925 million and HK\$2,620 million, respectively.

In the ordinary and usual course of our inter-bank business, we also place inter-bank deposits with and make inter-bank loans to BOC and its Associates, including placing short term funds and longer term loans and purchasing certificates of deposit and securities of banks and financial institutions on normal commercial terms with reference to prevailing market rates. Approximately HK\$141,244 million, HK\$146,205 million and HK\$82,788 million of inter-bank deposits and loans were placed by us to BOC and its Associates at December 31, 1999, 2000 and 2001, respectively. The interest income attributable to these deposits and loans in 1999, 2000 and 2001 was approximately HK\$7,985 million, HK\$8,153 million and HK\$3,984 million, respectively.

Derivatives Transactions

We enter into derivatives transactions with BOC and its Associates in the ordinary and usual course of our businesses, including interest rate and currency interest rate swaps, currency and bond options, and will in future include equity derivatives transactions. All of these transactions are entered into on an arm's length basis and on normal commercial terms with reference to prevailing market rates. The volume of such derivatives transactions between us and BOC and its Associates in 1999, 2000 and 2001 was approximately HK\$748 million, HK\$1,503 million and HK\$508 million, respectively.

Foreign Exchange Transactions

We also enter into foreign exchange transactions with BOC and its Associates. These transactions are all executed on an arm's length basis and normal commercial terms with reference to prevailing market rates. The total volume of foreign exchange transactions, including spot, forward and outright transactions, and exercised currency options for the same periods was approximately HK\$173,002 million, HK\$261,084 million and HK\$298,828 million, respectively.

BOCHK provides, through the Margin Dealing System (the "**MDS System**"), foreign exchange transaction services to BOC Macau branch and Tai Fung Bank, a subsidiary of BOC, as well as to an independent third party, on a principal to principal basis on normal commercial terms. Due to the wider spread on prices in the MDS System and depending on currency type, BOCHK currently offers a rebate of between HK\$20 and HK\$300 per US\$0.1 million of transaction volume for transactions conducted through the MDS System. The rebates paid to BOC Macau branch and Tai Fung Bank are no more favourable than those paid to independent

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third parties. The aggregate amount of foreign exchange transactions through the MDS system with BOC Macau branch and Tai Fung Bank in 1999, 2000 and 2001 was approximately HK\$17,757 million, HK\$10,901 million and HK\$14,223 million, respectively, while the aggregate rebate paid to them was approximately HK\$4.8 million, HK\$2.5 million and HK\$2.9 million, respectively.

BOCHK also conducts inter-bank foreign currency exchange transactions with BOC on normal commercial terms. The total amount of such transactions with BOC in 1999, 2000 and 2001 was approximately HK\$27,758 million, HK\$32,881 million and HK\$32,953 million, respectively.

Inter-bank Capital Markets Transactions

In the ordinary and usual course of our inter-bank business, we have entered, or will enter, into the following types of transactions with BOC and its Associates:

- buying and selling debt securities (both those issued by independent third parties and those issued by BOC and its Associates) and equities from and to BOC and its Associates on issue and in the secondary market;
- buying and selling debt securities and equities on behalf of BOC's Associates; and
- acting as custodian for BOC and its Associates and BOC acting as custodian for us.

All such transactions will be entered into on normal commercial terms with reference to prevailing market rates, where applicable.

Bullion Trading

BOCHK enters into physically settled bullion transactions with BOC Macau branch and BOC Singapore branch so that they may enter into corresponding transactions with their respective customers. Due to the wider spread on prices BOCHK quotes in these transactions, BOCHK currently offers a rebate on normal commercial terms to these BOC branches in relation to these transactions. The rebate is based on a percentage of the profits arising from transactions with that branch, with BOC Macau branch and BOC Singapore branch receiving 65% and 50%, respectively. The total rebate paid to these two branches in 1999, 2000 and 2001 was less than HK\$160,000 per annum.

BOCHK also enters into deferred settlement bullion transactions with BOC Macau branch and Tai Fung Bank and bullion spot transactions with normal settlement with BOC. These transactions are entered into on an arm's length basis and on normal commercial terms with reference to prevailing market rates.

The total volume of bullion transactions between BOCHK and BOC and Tai Fung Bank in 1999, 2000 and 2001 was approximately HK\$508 million, HK\$423 million and HK\$360 million, respectively. With the PRC's accession to the WTO and potential regulatory changes in the PRC, we anticipate that in future BOCHK will also enter into bullion transactions with local banks in the PRC, including BOC's branches in the PRC. In such event, any transactions with BOC will be entered into on normal commercial terms with reference to market rates prevailing at such time.

Loans and Guarantees

Loans to BOC's Associates

In the ordinary and usual course of our business, we extend loans and credit facilities to Associates of BOC on normal commercial terms with reference to prevailing market rates,

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typically charging fees as well as interest on the amount drawn. Historically, we also advanced loans to certain companies which are Associates of BOC, other than on normal commercial terms. Save for the shareholder loans set out below, all of these loans have been repaid, cancelled or transferred to BOC Cayman under the 2002 Sale Agreement, as described in the section headed “Financial Information — Overview — Recent Developments”.

At December 31, 1999, 2000 and 2001, we had loans with a total principal amount of approximately HK\$6,477 million, HK\$5,726 million and HK\$5,552 million, respectively, outstanding to BOC and its Associates (excluding provisions). In 1999, 2000 and 2001, interest income from such loans was approximately HK\$340 million, HK\$425 million and HK\$314 million, respectively.

Shareholder Loans

We have also extended shareholder loans to certain of our non-wholly owned subsidiaries and other companies in which we hold an equity interest (“**shareholder loans**”). The shareholder loans we have extended are either in proportion to, or approximately in proportion to, our equity interest in the relevant company. Certain of the companies to which we have made shareholder loans are also Associates of BOC. We have outstanding shareholder loans to (a) Eversound, in which we hold an equity interest of 99%, (b) Wealthy Full Enterprises Limited (“**Wealthy Full**”), in which we hold an equity interest of 35%, and (c) Yithan Company Limited (“**Yithan**”), in which we hold an equity interest of 10%. Wealthy Full and Yithan are Associates of BOC. At December 31, 1999, 2000 and 2001, the total principal amount of shareholder loans extended by us to Eversound, Wealthy Full and Yithan was approximately HK\$324 million, HK\$319 million and HK\$313 million, respectively.

Deposits by BOC’s Associates

In the ordinary and usual course of our business, we also accept deposits from BOC’s Associates on normal commercial terms with reference to prevailing market rates. The total principal amount outstanding on such deposits from BOC’s Associates at December 31, 1999, 2000 and 2001 was approximately HK\$3,355 million, HK\$3,806 million and HK\$3,852 million, respectively. The total interest expense attributable to these deposits with us in 1999, 2000 and 2001 was approximately HK\$177 million, HK\$234 million and HK\$166 million, respectively.

Guarantees

In the ordinary and usual course of our business, we have provided, and will continue to provide, guarantees for the obligations of Associates of BOC and certain of our non-wholly owned subsidiaries on normal commercial terms, typically involving a fee payable for such guarantee in favor of independent third parties. We also provided guarantees to BOC and third parties for the obligations of companies which are Associates of BOC on terms other than normal commercial terms. While the majority of such guarantees have now either been called in accordance with their terms, terminated or amended so that they are now on normal commercial terms, we are currently negotiating the termination of such guarantees of the obligations of one Associate of BOC. The total amount of outstanding obligations of this Associate of BOC guaranteed by BOCHK at December 31, 2001 was approximately HK\$0.5 million. In addition, we provide guarantees to BOC for the obligations of our customers on normal commercial terms and in the ordinary and usual course of our business. At December 31, 2001, our outstanding obligations for Associates of BOC and certain of our non-wholly owned subsidiaries under letters of guarantee were approximately HK\$297 million, of which approximately HK\$125 million were obligations to BOC.

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Trade Finance and Correspondent Banking Services

We provide to our customers certain trade finance and banking services, which include, among others, letters of credit, import loans, outward bills, collections and performance guarantees. These services may also be provided to Associates of BOC as our customers. All of these services, for which we receive fees from the customer (including BOC's Associates), are conducted on normal commercial terms in the ordinary and usual course of our business.

We intend to provide factoring services to our customers in relation to which we either receive from or make to other obligations to pay in certain circumstances. BOC may be either the provider or recipient of such payment obligations to and from BOCHK on normal commercial terms and in the ordinary and usual course of business.

BOCHK also enters into forfaiting transactions, to buy and sell interests in certain trade finance products, including with BOC. All such transactions with BOC are entered into on normal commercial terms and only in relation to bills of exchange secured under a letter of credit.

Certain banking services that we provide to our customers involve correspondent banks, including BOC, its branches in Mainland China and elsewhere. Such services include, among others, advising on and collecting letters of credit issued by BOC to our customers and remittances. BOC provides similar services to its customers including remittances and advising on and collecting letters of credit issued by BOCHK. We have operated fee-sharing programs for remittances and letters of credit, on normal commercial terms, with BOC New York branch, BOC Tokyo branch and BOC Osaka branch under which we share the fees paid by their or our respective customers. In 1999, 2000 and 2001, we received approximately HK\$1.1 million, HK\$11.2 million and HK\$7.8 million, respectively, in shared fees from the BOC branches.

BOCHK also cooperates, on normal commercial terms, with BOC in relation to issuing letters of credit for Taiwan related business, for which BOCHK receives from BOC a fee based on a portion of the overall fees paid by BOC's customers for such facilities.

Capital Markets Transactions

In the ordinary and usual course of our business, we have entered, and in the future will continue to enter, into various capital markets transactions on normal commercial terms with BOC or its Associates, in particular BOCI Capital. These transactions include participation in syndicated loans, sub-participation of our loans, acquiring and disposing of interests in syndicated loans, subscription and/or issuance of debt securities and tax efficiency financing in which BOC, its Associates or BOCI Capital are or may be an agent bank, reference and paying agent, lead arranger, lead manager, a member of the syndicate, the sub-participant, the buyer or seller of the interests in syndicated loans, a partner in a partnership established for tax efficiency reasons or tax efficiency advisor. We may, as arranger or lead manager, invite BOC, its Associates or BOCI Capital to participate in a syndicated loan or debt securities offering at arm's length and on normal commercial terms with reference to prevailing market rates.

Insurance

Provision of Insurance Cover by BOC Insurance

BOC Insurance, a subsidiary of BOC, and its subsidiaries, provide general and life insurance to us in the ordinary and usual course of their business on an arm's length basis, on normal commercial terms and at market rates. The insurance cover provided includes cash and cash transit insurance, group medical insurance, group life insurance, employee compensation insurance, public liability insurance and accidental damage to property insurance. The total

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premiums paid by our group amounted to approximately HK\$52.9 million, HK\$50.5 million and HK\$50.9 million in 1999, 2000 and 2001, respectively.

Insurance Agency Agreements

We provide insurance agency services to BOC Insurance and BOC Life, a subsidiary of BOC Insurance, under their standard form agency agreements. These agreements were negotiated on an arm's length basis, are on normal commercial terms and are terminable by either party on 30 days advance written notice. Under these agreements, we act as the marketing agents for BOC Insurance and BOC Life and collect the premiums on insurance policies issued or renewed through our agency. We may not act in the same capacity for any other party without BOC Insurance's or BOC Life's prior written consent. We have agreed to indemnify BOC Insurance and BOC Life against all losses, claims, demands, expenses and other liabilities incurred by them as a result of any breach of these agency agreements. We receive commission payments from BOC Insurance or BOC Life in respect of policies issued or renewed as a result of our agency. We received approximately HK\$182.3 million, HK\$160.7 million and HK\$133.8 million, respectively, in gross commissions from BOC Insurance and BOC Life in 1999, 2000 and 2001.

Securities Brokerage

BOCI Securities, a subsidiary of BOC, provides securities brokerage services to us from time to time in the ordinary and usual course of its business and on normal commercial terms under its standard form client agreement. This agreement contains customary terms and conditions, including the indemnification of BOCI Securities against all losses, costs, fees and expenses resulting from our failure to settle transactions executed on our behalf. We pay BOCI Securities a commission of 0.25% to 0.5% for its services. Prior to December 1, 2001, we had an arrangement with BOCI Securities under which we received rebates if certain volumes of business were conducted with BOCI Securities. Since that date, we receive rebates from BOCI Securities at a fixed proportion of the gross commission paid to BOCI Securities, regardless of the volumes of business we refer to them. In 1999, 2000 and 2001, we paid approximately HK\$142 million, HK\$190 million and HK\$119 million, respectively, in commission payments, net of rebates, to BOCI Securities.

Credit Card Services

International Card

The International Card, the only foreign currency credit card offered by BOC, is issued by BOC under either the VISA or MasterCard brand for use within and outside Mainland China and settles in either U.S. dollars or Hong Kong dollars. BOC-CC is responsible for providing operational, administrative and technical support services to BOC in respect of the International Card, including:

- processing of card issuance and accounting data;
- provision of administrative and accounting information to BOC and its branches (at which cardholders are customers);
- production of monthly information on the income and expenses of the International Card;
- monitoring the status of debt collection;
- production of bi-annual profit and loss figures;

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- provision of information on outstanding credit card balances for inclusion in monthly statements sent to cardholders;
- the issuance of demand notes and suspension notices on behalf of BOC; and
- co-operation and co-ordination with VISA and MasterCard on behalf of BOC,

while BOC is responsible for:

- advertising, marketing and promoting the International Card in Mainland China;
- card application and credit approval processing;
- general and customer enquiries;
- over-the-counter payment services; and
- collection and debt management.

BOC-CC retains 50% of the profits from income arising from the operations of the International Card, excluding annual fees and after deductions of losses arising from fraud, legal fees, interest expense, payment to international organizations and operational costs. If an account of a cardholder in default is terminated, any losses arising from such account, except those arising as a result of false information in the application, are shared between BOC-CC and the relevant BOC branch. BOC-CC bears any losses in excess of the credit limit, unless an extension of such credit limit has been requested by the relevant BOC branch, and all other losses are shared equally. Losses arising from false application information are borne solely by the relevant BOC branch. BOC-CC paid BOC approximately HK\$1.3 million, HK\$3.9 million and HK\$8.4 million and retained approximately HK\$2.5 million, HK\$7.0 million and HK\$12.0 million in income in 1999, 2000 and 2001, respectively, for services in relation to the International Card.

Renminbi Card

Since September 2000, BOC-CC has promoted the Renminbi Card to our customers, processed and approved applications from Hong Kong residents, performed account opening and data management procedures and made payment demands and performed debt collection in respect of amounts overdue from Hong Kong residents. In return, BOC-CC receives two-thirds of the annual fees of any cards issued as a result of its agency as well as 50% of any card replacement charges, interest on amounts outstanding and commissions net of administration charges levied on each transaction. Any loss incurred in relation to a Renminbi Card issued as a result of our agency is borne equally between BOC-CC and BOC. In 2000 and 2001, BOC-CC received approximately HK\$0.2 million and HK\$0.7 million, respectively, from BOC for its services in relation to Renminbi Card.

BOC-CC Business in Macau

BOC Macau branch and Tai Fung Bank promote BOC-CC's Hong Kong dollar and Macau pataca settled credit cards, bearing their respective name and logo, to their customers in Macau, process and approve applications received and collect payments for these cards. In return, BOC Macau branch now receives 70% of the profits arising from cards issued on or after July 1, 1995, bearing its name, although prior to June 1, 2002, BOC Macau branch received 100% of the profits arising from these cards. Tai Fung Bank receives a commission payment from BOC-CC based on applications received from Tai Fung Bank and the use of cards bearing its name. In addition to their card issuing services, BOC Macau branch and Tai Fung Bank provide services for BOC-CC's merchant acquiring business in Macau. In return, they receive commissions ranging from 0% to 0.25%, depending on the commission charged to

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merchants by BOC-CC. In 1999, 2000 and 2001, BOC-CC paid BOC Macau branch and Tai Fung Bank approximately HK\$4.4 million, HK\$4.1 million and HK\$7.7 million, respectively, for their card issuing and merchant acquiring business services.

BOC-CC Business in Mainland China

BOC-CC has agreements with agent banks in Mainland China, including BOC, to enter into agreements in connection with BOC-CC's merchant acquiring business in Mainland China. These agent banks, including BOC, retain a portion of the commission charged to merchants for credit card transactions, between 0% and 1.5% of the transaction amount, depending on the merchant. BOC-CC receives a net commission (excluding the fees paid to the credit card issuer) of between 0.3% and 1.5%, depending on the merchant. BOC-CC and BOC have entered into similar agreements in the ordinary course of their businesses that are on terms no more favorable to BOC than those between BOC-CC and the other agent banks in Mainland China. In 1999, 2000 and 2001, the volume of merchant transactions handled by BOC was approximately HK\$3,509 million, HK\$4,116 million and HK\$4,587 million, respectively.

BOC has separately agreed to promote BOC-CC's acquiring business to merchants in Mainland China, including direct marketing to potential merchants and promotion to BOC's existing corporate customers. For these services, BOC receives a commission of 0.2% of the merchant transaction amount, receiving approximately HK\$4 million in 2001.

BOC-CC has also entered into agreements with BOC relating to over-the-counter cash withdrawals in Mainland China on terms that are no more favorable to BOC than those between BOC-CC and the other agent banks in Mainland China. The cardholder is charged a transaction handling fee of 3% of the amount withdrawn for the provision of the over-the-counter cash withdrawal service by the agent bank. Under the terms of these agreements, BOC-CC receives a portion of this handling fee, generally 1.5% of the amount withdrawn, from the agent banks, including BOC. The remainder of the transaction handling fee is retained by the agent bank. In 1999, 2000 and 2001, BOC paid BOC-CC approximately HK\$9.4 million, HK\$6.0 million and HK\$7.2 million, respectively, in transaction handling fees for cash advances.

Credit Card Support Services to BOC Singapore Branch

Pursuant to a service level agreement with BOC Singapore branch effective from January 1, 2002 and certain operating guidelines agreed between BOC Singapore branch and BOC-CC from time to time, BOC-CC has agreed to provide business support services, such as business and product development, information technology services, customer support services and training services to BOC Singapore branch in relation to its credit card business. BOC-CC have agreed to indemnify BOC Singapore branch against any losses arising from a breach by BOC-CC or its staff of the service level agreement or the operating guidelines agreed between BOC-CC and BOC Singapore branch. For the provision of these services BOC-CC will be paid on the basis of cost plus a margin of 5% and in the future may share in the profits and losses arising from cards issued by BOC Singapore branch.

Pursuant to the Credit Card Cooperation and Services Agreement, these services may be extended on similar terms to such other branches of BOC outside of Mainland China as BOC-CC and BOC may agree from time to time.

Credit Card Training Subsidy

Pursuant to an agreement dated July 6, 2002 between, among others, BOC-CC and BOC (the "**Credit Card Cooperation and Services Agreement**"), which governs the provision by BOC-CC of services in relation to the International Card, the Renminbi Card and the future

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provision of support services to BOC's overseas branches, as well as BOC's marketing of BOC-CC's merchant acquiring business in Mainland China, as described above, BOC-CC has agreed to pay BOC a training subsidy. The training subsidy of HK\$2 million per annum, or such other amount as may be agreed between BOC-CC and BOC from time to time, is paid by BOC-CC for the provision of training by BOC to its provincial branches throughout Mainland China in connection with BOC-CC's business in Mainland China. This subsidy has been provided to BOC since January 1, 2001, and BOC received a training subsidy of HK\$2 million from BOC-CC in 2001.

Other ATM Services

Under the terms of a number of arrangements between us and branches of BOC in Mainland China, our customers may use their ATM cards issued by us to make cash withdrawals of Renminbi from BOC's ATMs in Mainland China. The relevant customer pays a handling fee of HK\$10 for each withdrawal, which is passed through to BOC. We have also entered into an arrangement with BOC Guangdong branch, under which our customers may use the ATM cards we issue to withdraw Hong Kong dollars from its ATMs. The customer pays an administration fee of HK\$10 for each withdrawal, which is passed through to BOC Guangdong branch. We do not pay a service fee for these withdrawals.

Zhejiang Bank Joint Venture

BOC, Nanyang, the Bank of Communications and Zhejiang International Trust and Investment Corporation, pursuant to a joint venture agreement dated February 24, 1993, established Zhejiang Bank, a Sino-foreign joint venture bank in the PRC. Zhejiang Bank's scope of business includes, among other things, providing foreign exchange banking services and conducting other foreign exchange transactions. BOC and Nanyang have equity interests of 40% and 25%, respectively, in Zhejiang Bank.

The profits of Zhejiang Bank are distributed to its shareholders based on their equity interests in the joint venture bank. Each shareholder also has preemptive rights on the transfer and allotment of Zhejiang Bank's shares. In addition, each shareholder has agreed not to compete with Zhejiang Bank, to the extent practicable. If Zhejiang Bank's registered capital needs to be increased, the shareholders are required to make their pro rata contribution to such increase in capital. Nanyang does not currently anticipate a situation arising where such an additional capital contribution would be required. We believe the financial results of Zhejiang Bank will not have a material impact on our financial position.

Property, Property Management and Letting Agency

Office Leases and Licences

BOCHK leases to Associates of BOC on fixed term leases office premises on the 24th, 27th, 29th, 33rd, 34th, 35th and 43rd floors of the Bank of China Tower, as well as a shop on the 1st floor in the Hua Chiao Commercial Centre in Kowloon and part of the 3rd floor in the Luen Fung Building, Tai Po and has granted a licence in respect of part of the 7th floor at 102-108 Castle Peak Road, New Territories. All of these leases and the licence are on normal commercial terms and entered into on an arm's length basis. These leases and the licence are due to expire between August 15, 2002 and March 31, 2005 and have an aggregate area of approximately 91,000 square feet. They have an aggregate monthly rental and licence fees of approximately HK\$2.2 million and management fees of approximately HK\$0.5 million.

Wealthy Full, Central Ocean Investment Limited, Hua Cheong Enterprises Company Limited, Charleston Investment Company Limited, which are all Associates of BOC, and Cia. De

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Investimento E Fomento Predial Nam Tung (Macau), S.A.R.L. (on behalf of BOC Macau branch) (each a “**Connected Lessor**”) lease a branch or office premises to BOCHK. These leases, which are all on normal commercial terms and entered into on an arm’s length basis, are due to expire between August 31, 2002 and June 30, 2005. The monthly rental payable to each of the Connected Lessors is HK\$450,000, HK\$68,000, HK\$170,000, HK\$16,000 and approximately HK\$25,800, respectively.

In 1999, 2000 and 2001, BOCHK received aggregate annual rental and licence fees of approximately HK\$18.9 million, HK\$23.1 million and HK\$25.1 million, respectively, from, and paid aggregate annual rental fees of approximately HK\$17.2 million, HK\$59.9 million and HK\$60.5 million, respectively, to BOC and its Associates. Chesterton Petty Limited, an independent valuer, has confirmed that the rental and licence fees paid and payable by BOC and its Associates to us and the rentals paid and payable by us to BOC’s Associates were and are at market rates and fair and reasonable to us.

Property Management and Letting Agency

Sun Chung, an indirect subsidiary of BOC Investment, provides management and letting services to us on normal commercial terms in respect of Bank of China Tower, Bank of China Building and Everrise Mansion, for which it receives:

- a monthly management fee, which is partially paid by our tenants with the remainder paid by us in respect of the office space we use;
- a commission payment based on the total rents for the buildings, which includes notional rents in respect of office space we use; and
- commission payments if Sun Chung either finds new tenants for the buildings or if existing tenants renew their leases.

In 1999, 2000 and 2001, Sun Chung’s parent company, which formerly provided these services, received approximately HK\$13 million, HK\$13.3 million and HK\$12.9 million, respectively, in management fees and commission payments for its services in relation to these three buildings.

Kiu Kwong Property Agency and Management Company Limited (“**Kiu Kwong**”) provides building management services to BOCHK on normal commercial terms in respect of the Yien Yieh Building, the Po Sang Bank Building, the Kincheng Commercial Centre, Kiu Fai Mansion and Sin Hua Bank Building, for which Kiu Kwong received approximately HK\$78,000 annually in 1999, 2000 and 2001.

BOCI-Prudential Trustee Limited

BOCI-Prudential Trustee Shareholders’ Agreement

BOC Group Trustee, our non-wholly owned subsidiary, and a wholly owned subsidiary of Prudential, by a shareholders’ agreement dated August 12, 1999, established BOCI-Prudential Trustee. BOCI-Prudential Trustee’s scope of business is, amongst others, the provision of trust and fund administration in relation to provident, retirement and unit trust funds. BOC Group Trustee and Prudential hold equity interests of 64% and 36%, respectively, in BOCI-Prudential Trustee.

The shareholders’ agreement contains customary provisions restricting the transfer of shares and, at the option of the board of BOCI-Prudential Trustee, requiring the shareholders to make further capital contributions, in the event of funding difficulties. In addition, BOC Group Trustee and Prudential, subject to certain exemptions, and their Associates have agreed not to

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compete with the business of BOCI-Prudential Trustee in Hong Kong as long as they remain shareholders of that company, and subject to certain exemptions, not to compete in Hong Kong in the area of trustee services and products and related activities in relation to unit trusts and in the area of institutional and private client portfolios until June 30, 2003.

BOC Group Trustee has delegated to BOCI-Prudential Trustee the provision of its services in relation to, among others, provident and retirement funds, including the ORSO schemes of the Group described below. An Associate of Prudential and BOCI-Prudential Trustee entered into an administration agreement dated September 28, 2000, pursuant to which BOCI-Prudential Trustee provides administration services on normal commercial terms in relation to, among others, provident and retirement funds established by that Associate, including the Prudential Hong Kong Staff Provident Fund, in return for a fee. In 2001, BOCI-Prudential Trustee received approximately HK\$3.8 million in fees from Prudential's Associate for the provision of these services.

Selling of Funds Products

We promote and sell BOCI-Prudential Trustee's MPF products and, since November 2001, BOCI-Prudential Manager's guaranteed fund products to our clients as their intermediary on normal commercial terms. For our services in respect of MPF products, we receive commissions based on the number of new members joining the MPF schemes. In respect of the guaranteed fund products, we receive as a commission a portion of the service fees received by BOCI-Prudential Manager in respect of the units we sell. In 2001, we received approximately HK\$29 million in commission payments in respect of the sale of MPF products.

Mandatory Provident Fund and Occupational Retirement Schemes

As required by Hong Kong law, we have established an MPF scheme for our employees. We participate in the BOC-Prudential Easy Choice Mandatory Provident Fund Scheme (the "**BOC-Prudential MPF Scheme**"), the trustee of which is BOCI-Prudential Trustee and the investment manager of which is BOCI-Prudential Manager. We participate in this scheme on the same terms as independent third parties and by entering into the standard form participation agreement of BOCI-Prudential Trustee and BOCI-Prudential Manager, we have participated in the scheme with effect from December 1, 2000.

Prior to joining our MPF scheme, certain members of the Group had established ORSO schemes for our employees, with some of them participating in the pooling arrangements of the BOC Group Sister Banks Provident and Retirement Fund or the BOC Group Affiliated Banks Staff Provident and Retirement Fund (the "**Pooling Funds**"), in respect of their ORSO schemes. BOCI-Prudential Trustee provides trustee services for the ORSO schemes and the Pooling Funds, while BOCI-Prudential Manager acts as the investment manager and the guarantor. BOCI-Prudential Manager also acts as investment manager for certain other investment funds of the Group.

Under all of the ORSO schemes, including the Pooling Funds, the other investment funds of the Group and the MPF scheme, the trustee and the investment manager charge their expenses to, and draw their fees from, the assets of the funds. In 1999, 2000 and 2001, the trustees of our ORSO schemes and MPF schemes have drawn approximately HK\$8.8 million, HK\$10.5 million and HK\$12.1 million, respectively, from the assets of those funds, while the investment manager has drawn approximately HK\$21 million, HK\$25 million and HK\$28 million, respectively, over the same periods. All of the arrangements for the investment funds, the ORSO schemes and the MPF scheme are on normal commercial terms and entered into on an arm's length basis.

Services and Relationship Agreement

On July 6, 2002, we entered into a services and relationship agreement with BOC, BOCHK, BOC (BVI) and Hua Chiao for the mutual provision of services and to regulate the relationship between us (the “**Services and Relationship Agreement**”). Under this agreement, BOC has agreed to, and agreed to procure that its Associates, enter into all future arrangements with us on an arm’s length basis, on normal commercial terms and at rates no less favourable than those offered to independent third parties, in relation to the areas of, amongst others, inter-bank lending, loans, correspondent banking arrangements, treasury transactions, provision of insurance and syndicated loans. We have agreed to, and agreed to procure that our subsidiaries, enter into all future arrangements on the same basis, save that the rates we offer to BOC and its Associates will be no more favorable than those offered to independent third parties. The Services and Relationship Agreement also covers the provision of the services set out below.

Administrative Services

BOCHK will provide administrative support and company secretarial services to BOC (BVI), BOCHK and Hua Chiao. These services will be provided on the basis of cost plus a margin of 5%.

Audit Services

BOCHK will carry out audit services for BOC on various branches and subsidiaries of BOC located in the Asia-Pacific region, except for BOC’s branches in Mainland China. The scope of the services will be set by BOC. These services will be provided on the basis of cost plus a margin of 5%.

Information Technology Services

We will provide information technology services to BOC’s branches and Associates in Hong Kong, Macau, the Asia-Pacific region and Mainland China under either the Services and Relationship Agreement or an information technology services contract. These services will include, amongst others, technical consultancy, specific computer systems and software development, systems maintenance, operation, support, network installation, user training and support and control and supervision of system security and safety services. All of these services to BOC, its branches and Associates will be provided on the basis of cost plus a margin of 5%. Prior to July 2002, we charged BOC, its branches and Associates for our information technology services only at cost. In 1999, 2000 and 2001, we received an aggregate of HK\$7.5 million, HK\$6.8 million and HK\$13.8 million, respectively, for providing these information technology services.

Training Services

We provide training services to BOC’s employees, including training in the areas of risk management, business development, marketing, internal management and banking law and practice in Hong Kong. We will also arrange accommodation and meals for training course delegates from BOC. We provide these services on the basis of direct cost plus a margin of 5%. Prior to October 1, 2001, these services were provided at no cost to BOC. In 1999, 2000 and 2001, we have provided training to approximately 290, 280 and 400 delegates from BOC, respectively, which represented approximately 1.1%, 2.3% and 1.1%, respectively.

Secondments from BOC

We have, and will in future, continue to second management level and supervisory staff from BOC to our branches in Mainland China. We pay the salaries of the seconded staff directly to them and in some cases we also pay a management fee to BOC. At present, we have 11 staff seconded from BOC.

Services to BOC Markets

Under the terms of an agreement dated July 6, 2002 (the “**BOC Markets Services Agreement**”) between BOCHK and BOC Hong Kong branch, BOCHK provides a number of services to BOC in relation to its BOC Markets operations based in Hong Kong, including information technology support services, human resources support services, financial, accounting and legal support services, provision of office premises, together with office support services. A small number of BOCHK’s employees are also seconded to BOC Markets pursuant to the BOC Markets Services Agreement. The provision of office premises is charged at market rents while all other services are provided on the basis of cost plus a margin of 5%.

We have provided similar services to BOC since January 2000 for which we received from BOC (including reimbursement of direct expenses) approximately HK\$20.3 million and HK\$20.8 million in 2000 and 2001, respectively.

The Global Offering

Underwriting Agreements

We entered into the Hong Kong Underwriting Agreement on July 12, 2002, and we expect to enter into the International Purchase Agreement on or about July 20, 2002. See the section headed “Underwriting” for details of such underwriting arrangements including details of fees, commissions, undertakings and indemnities. BOCI, a wholly owned subsidiary of BOC, is one of the Joint Global Coordinators and BOCI Asia, a wholly owned subsidiary of BOCI, is one of the Joint Sponsors.

Indemnities

By a deed of indemnity dated July 12, 2002 (the “**Deed of Indemnity**”), conditional upon completion of the Global Offering, BOC and the Selling Shareholder have given joint and several indemnities in connection with, among other things, any liability for Hong Kong estate duty by reason of any transfer of property (within the meaning of Section 35 of the Estate Duty Ordinance) to any member of the Group made or deemed to have been made on or before the date of completion of the Global Offering and any taxation of the Group arising on or before the date of completion of the Global Offering, except for any taxation or taxation claim:

- (a) to the extent that provision has been made in the audited consolidated financial statements of the Group or the audited financial statements of any member of the Group as at December 31, 2002 for such taxation or taxation claim; or
- (b) for which any member of the Group is liable in respect of or in consequence of any event occurring or income, profits or gains earned, accrued or received or alleged or deemed to have been earned, accrued or received in the ordinary course of business since 31st December, 2001 and which is not interest or a penalty, surcharge or fine in connection with taxation in relation to an event which took place prior to 31st December 2001; or

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- (c) to the extent that such taxation or such taxation claim arises, is incurred or is increased as a result of any retrospective change in the law or an increase in rates of taxation coming into force after the date of completion of the Global Offering; or
- (d) to the extent that such taxation or taxation claim would not have arisen, incurred or increased but for the consequence of any failure or omission by any member of the Group to claim any relief from taxation, make any election or comply with its obligations under the Deed of Indemnity; or
- (e) to the extent that any taxation or taxation claim has been made good by insurers or otherwise made good without cost to any member of the Group.

In addition, BOC and the Selling Shareholder have agreed, pursuant to an indemnity agreement dated July 12, 2002 (the “**Indemnity Agreement**”), to indemnify us and the Directors on demand from and against any liabilities, losses, claims, costs and expenses arising from certain statements or representations made in this prospectus and the offering circular relating to the International Offering for which BOC and/or the Selling Shareholder are bearing responsibility, being or being alleged to be untrue, incorrect or misleading in any material respect.

Loans and Other Transactions with Directors and their Associates

In the ordinary and usual course of our business, we extend loan facilities to, accept deposits from and issue credit cards to the directors of the Group as well as providing other services available to our customers to them and their Associates. Unless otherwise disclosed below, all such loans, facilities and commercial banking services and products have been and will be offered on normal commercial terms and at market rates.

Loans and Credit Facilities

The directors of the Group who are our employees are entitled to participate in our staff housing loan scheme, which is applicable to our staff generally depending on their seniority and years of service, among other things, for the purchase of residential property. Loans, at preferential interest rates, of up to 80% of the value of the residential property (or 100 times the amount of the employee’s monthly salary, if less) will be advanced to eligible staff and will be secured by a first charge over the relevant property. The directors of the Group currently pay interest of between 3% and 5% per annum on the loans advanced under the staff housing loan policy. There was approximately HK\$98.6 million, HK\$93.6 million and HK\$63.5 million outstanding principal on loans advanced to the directors of the Group under the staff housing loan policy at December 31, 1999, 2000 and 2001, respectively.

In addition, we advance other loans, such as mortgages on our standard terms and overdraft facilities, in the ordinary and usual course of our business to the directors of the Group and their Associates. The aggregate outstanding principal amount of such loans to directors of the Group was approximately HK\$21.9 million, HK\$18.1 million and HK\$8.1 million at December 31, 1999, 2000, 2001, respectively.

Deposits

In the ordinary and usual course of our business, we accept deposits from the directors of the Group and their Associates. Hong Kong dollar fixed deposits of over 1 month’s duration and up to a maximum of HK\$5 million in total from the directors of the Group who are our employees carry interest rates at normal deposit rates for the relevant periods plus 1% per annum. The preferential interest rate is applicable to all our staff. Our normal deposit rates

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apply to current, saving and other accounts opened by the directors of the Group and their Associates. At December 31, 1999, 2000 and 2001, we held total deposits from the directors of the Group, including fixed deposits at preferential rates, of approximately HK\$204.6 million, HK\$218.6 million and HK\$276.4 million, respectively.

Credit Card Services

In the ordinary and usual course of its business, BOC-CC issued credit cards to the directors of the Group and their Associates. Except for certain benefits and preferences available to all our staff generally, including the waiving of credit card annual fees, which currently range between HK\$110 and HK\$2,500 per card per year, or in connection with staff and other promotion schemes from time to time, all transactions between BOC-CC and the directors of the Group and their Associates are conducted on normal commercial terms.

Waivers from the Stock Exchange

In respect of the transactions described in the section headed “— Restructuring and Merger” (except the Trademark Licence Agreement), and in the section headed “— Classified Loans” (except the loan servicing agreements), the joint venture agreement relating to Zhejiang Bank and the shareholders’ agreement relating to BOCI-Prudential Trustee, except for indemnification provisions and certain further undertakings surviving completion of the relevant transactions, to the extent these agreements have been performed and completed prior to the listing of the Shares on the Stock Exchange, they will not be subject to any disclosure or shareholders’ approval requirements relating to connected transactions under the Listing Rules.

As the intellectual property licence in the Supplemental Merger Agreement, the Trademark Licence Agreement, the ATM services provided by BOC’s branches in Mainland China to our customers and the functions of the trustee and the investment managers of the MPF and ORSO schemes and other investment funds of the Group are all at no cost to us and are otherwise on normal commercial terms, such transactions will fall under an exemption under the Listing Rules and will therefore not be subject to any disclosure or shareholders’ approval requirements. In respect of transactions involving the granting of loans to, accepting deposits from, issuing credit cards and providing other banking facilities to the directors of the Group and their Associates, to the extent that they are on our standard terms and conditions, these transactions will fall under an exemption under the Listing Rules and will therefore not be subject to any disclosure or shareholders’ approval requirements. Furthermore, the granting of staff housing loans to, and the waiving of credit card annual fees of, our directors who are also employees, the leasing and licensing of property to and from BOC’s Associates, the property letting and management services provided to us by Associates of BOC and the rebates on physical bullion transactions and MDS System transactions entered into will fall under an exemption under the Listing Rules and will therefore not be subject to any disclosure or shareholders’ approval requirements. In addition, the granting of loans to, accepting deposits from and providing guarantees for the obligations of BOC and its Associates on normal commercial terms will fall under an exemption under the Listing Rules and will therefore not be subject to any disclosure or shareholders’ approval requirements. The guarantees of the obligations of an Associate of BOC which are not on normal commercial terms will also fall under an exemption under the Listing Rules and will therefore not be subject to any further disclosure or shareholders’ approval requirements.

Except as discussed above, the remaining on-going transactions will constitute connected transactions for us under the Listing Rules once the Shares are listed on the Stock Exchange and for so long as BOC (BVI) remains our substantial shareholder and BOC remains the

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ultimate parent of BOC (BVI) and where relevant persons who are directors or chief executives of members of the Group remain as such (and for 12 months after they cease to be directors of the Group). Under the Listing Rules, we are required, subject to certain exemptions thereunder, to disclose and to obtain prior approval of independent shareholders for each connected transaction. In the opinion of the Directors, including our independent non-executive Directors, save as disclosed above, the connected transactions described above are either (i) entered into in our ordinary and usual course of business and on normal commercial terms or (ii) on terms that are fair and reasonable so far as our shareholders are concerned. As we believe that full disclosure of and/or, where required under the Listing Rules, prior approval from independent shareholders of these connected transactions in full compliance with the Listing Rules would be impracticable and add additional administrative costs to us, we have applied to the Stock Exchange for, and the Stock Exchange has indicated that it will grant, a waiver from strict compliance with the requirements of the Listing Rules in respect of these connected transactions for a period of three financial years ending December 31, 2004, subject to the following conditions:

- Such transactions shall be:
 - entered into in the ordinary and usual course of our business;
 - conducted either on normal commercial terms or, if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms that are fair and reasonable so far as our shareholders are concerned;
 - entered into either in accordance with the terms of the agreements governing such transactions or (where there are no such agreements) on terms no less favorable than those available to or from independent third parties, as applicable.
- If applicable, the annual aggregate value of each of the relevant categories of connected transactions shall not exceed the relevant annual caps (described below).
- Our independent non-executive directors, who are not involved in the management of the Company and not interested in the relevant transactions, shall review the transactions annually and confirm in our annual report and accounts covering that year that such transactions have been conducted in the manner set out above.
- Our auditors shall review the transactions annually and provide the Directors with a letter (a copy of which will be provided to the Listing Division of the Stock Exchange) stating whether:
 - the transactions received the approval of the Directors;
 - the transactions have been entered into at amounts in accordance with the relevant prices and/or pricing policies stated in the relevant agreements;
 - the transactions have been entered into in accordance with the terms of the relevant agreements governing such transactions or (where there are no such agreements) on terms no less favorable than those available to or from independent third parties, as applicable; and
 - if applicable, the value of the transactions have not exceeded the relevant annual caps (described below).
- Brief details of the transactions in each financial year shall be disclosed as required under Rule 14.25(1)(A) to (D) of the Listing Rules in our annual report and accounts for that financial year together with a statement of the opinion of the independent non-executive Directors referred to above.

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- For the purpose of the above review by our auditors, BOC has undertaken to us that it will provide our auditors with access to its accounting records, as well as (where possible) those of its subsidiaries and associated companies.
- The aggregate value of certain transactions will not exceed the proposed annual caps set out below:

<u>Type of transaction</u>	<u>Proposed annual cap</u>
Loan Servicing Agreements	HK\$11 million per annum
Derivatives Transactions	No annual cap
Foreign Exchange Transactions	No annual cap
Inter-Bank Capital Markets Transactions	No annual cap
Bullion Trading (save in relation to physical bullion transaction rebates)	No annual cap
Forfaiting transactions	No annual cap
Correspondent Banking Fee-Sharing Programs	No annual cap
Capital Markets Transactions	No annual cap
Provision of Insurance Cover by BOC Insurance	2002 HK\$67 million 2003 HK\$82 million 2004 HK\$97 million
Insurance Agency Commission Income	2002 HK\$221 million 2003 HK\$286 million 2004 HK\$372 million
Securities Brokerage Commission Payments, Net of Rebates	2002 HK\$266 million 2003 HK\$320 million 2004 HK\$384 million
International Card	2002 HK\$19 million 2003 HK\$32 million 2004 HK\$55 million
Renminbi Card	2002 HK\$3 million 2003 HK\$6 million 2004 HK\$9 million
BOC-CC Business in Macau	2002 HK\$11 million 2003 HK\$13 million 2004 HK\$15 million
BOC-CC Business in Mainland China — Payments retained by and to BOC	2002 HK\$83 million 2003 HK\$99 million 2004 HK\$119 million
Credit Card Support Services to BOC Overseas branches	2002 HK\$17 million 2003 HK\$40 million 2004 HK\$52 million
Credit Card Training Subsidy	2002 HK\$2 million 2003 HK\$3 million 2004 HK\$4 million

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<u>Type of transaction</u>	<u>Proposed annual cap</u>
Funds Selling Commission Income	2002 HK\$128 million 2003 HK\$149 million 2004 HK\$173 million
Administrative Services (under the Services and Relationship Agreement and the BOC Markets Services Agreement)	HK\$4 million per annum
Audit Services	2002 HK\$15 million 2003 HK\$20 million 2004 HK\$25 million
Information Technology Services	2002 HK\$67 million 2003 HK\$117 million 2004 HK\$167 million
Training Services	2002 HK\$15 million 2003 HK\$23 million 2004 HK\$25 million
Secondments from BOC — Management Fee	2002 HK\$1 million 2003 HK\$1 million 2004 HK\$2 million
Human Resources Support Services and Secondments to BOC Markets	2002 HK\$11 million 2003 HK\$14 million 2004 HK\$18 million
Staff Preferential Rate Deposits of Directors	HK\$50 million per director (including his or her Associates)

- In the event that any of the annual caps applicable to the specified type of connected transaction is exceeded or if we enter into any new agreement with any connected persons in the future, we will comply with the provisions of Chapter 14 of the Listing Rules dealing with connected transactions unless we apply for, and obtain, a separate waiver from the Stock Exchange.
- Based on the documents, information and historical figures provided by us relating to the connected transactions for which a waiver is sought and relying upon (a) the representations made by the Directors that such transactions are either (i) entered into in our ordinary and usual course of business and on normal commercial terms or (ii) on terms that are fair and reasonable so far as our shareholders as a whole are concerned and (b) confirmations from Chesterton Petty Limited that the rentals and licence fees payable under the various leases and licences set out under the section headed “— Property, Property Management and Letting Agency — Office Leases and Licences” are fair and reasonable, the Joint Sponsors are of the view that the terms of such connected transactions for which a waiver is sought are fair and reasonable so far as our shareholders as a whole are concerned. It should be noted that (a) the Joint Sponsors have assumed and relied very significantly, without independent verification, upon the accuracy and completeness of the documentation, information, historical figures, representations and confirmations provided to them and reviewed by them for the purposes hereof, (b) no independent valuations, appraisals or investigations of our assets and liabilities have been

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performed by the Joint Sponsors nor have they been furnished with any such appraisals and (c) the view of the Joint Sponsors referred to above represents their view as at the date of this prospectus and such view is necessarily based on, and assumes no change in, the economic, market and other conditions in effect on, and the information made available to them for the purposes hereof and as at, the date of this prospectus.