

The Directors have pleasure in presenting their report together with the audited accounts for the year ended 31 December 2000.

principal activities

The Bank and its subsidiaries are engaged in the provision of banking and related financial services.

profits

The consolidated profit of the Bank and its subsidiaries for the year is set out on page 81 together with particulars of dividends which have been paid or declared.

major customers

The Directors believe that the five largest customers of the Bank accounted for less than 30% of the total of interest income and other operating income of the Bank in the year.

subsidiaries

Particulars of the Bank's principal subsidiaries at 31 December 2000 are set out on page 115.

share capital

No change in either the authorised or issued share capital took place during the year.

donations

Charitable donations made by the Bank and its subsidiaries during the year amounted to HK\$11 million.

directors

The Board of Directors is committed to the Bank's objectives of consistently increasing shareholder value and providing superior services.

The Board, which meets regularly, sets strategies and monitors the executive management. It has

delegated authorities to the Executive and Audit Committees, details of which are given below.

The Directors of the Bank who were in office at the end of the year were The Honourable Lee Quo-Wei, Mr D G Eldon, Mr Vincent H C Cheng, Mr John C C Chan, Dr Y T Cheng, Dr Ho Tim, Mr David T C Ho, Mr Jenkin Hui, Dr H C Lee, Dr the Hon Eric K C Li, Dr Vincent H S Lo, Mr Roger K H Luk, Mr W K Mok, Mr Raymond C F Or, Mr S C Penney, Dr David W K Sin and Mr Richard Y S Tang.

Mr C P Langley resigned from the Board with effect from 31 January 2000 consequent upon his retirement from the Board of The Hongkong and Shanghai Banking Corporation Limited.

The Directors retiring by rotation in accordance with the Bank's Articles of Association are Mr David T C Ho, Mr Jenkin Hui and Dr David W K Sin. Mr Jenkin Hui and Dr David W K Sin, being eligible, offer themselves for re-election. After serving the Board for more than 39 years, Mr David T C Ho has given notice that he intends to retire from the Board at the conclusion of the Annual General Meeting to be held on 19 April 2001, and therefore does not offer himself for re-election.

No Director proposed for re-election at the forthcoming Annual General Meeting has a service contract with the Bank which is not determinable by the Bank within one year without payment of compensation (other than statutory compensation).

No contract of significance, to which the Bank or any of its holding companies or any of its subsidiaries or fellow subsidiaries was a party and in which a Director of the Bank had a material interest, subsisted at the end of the year or at any time during the year.

board committees

The Executive Committee and the Audit Committee were established in 1992.

EXECUTIVE COMMITTEE

The Executive Committee meets regularly to review the management and performance of the Bank and operates as a general management committee under the direct authority of the Board. The members of the Executive Committee include Mr Vincent H C Cheng (Chairman), Mr Raymond C F Or, Mr Roger K H Luk and Mr W K Mok (Directors).

AUDIT COMMITTEE

The Audit Committee meets regularly with the senior financial, internal audit and compliance management and the external auditors to review and discuss financial performance, consider the nature and scope of audit reviews and the effectiveness of the systems of internal control and compliance. The Audit Committee will also discuss matters raised by the external auditors and ensure that all audit recommendations are implemented. The members of the Audit Committee are Dr the Hon Eric K C Li (Chairman), Mr Richard Y S Tang and Mr S C Penney, all of whom are non-executive Directors of the Bank.

corporate governance

The Bank is committed to high standards of corporate governance and has followed the requirements of the Guideline on Corporate Governance of Locally Incorporated Authorised Institutions issued by the Hong Kong Monetary Authority in May 2000.

CODE OF BEST PRACTICE

None of the Directors is aware of information that would reasonably indicate that the Bank is not, or

was not for any part of the year, in compliance with the Code of Best Practice adopted by the Bank, which includes all the guidelines set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("the Listing Rules").

INTERNAL CONTROL

The Directors are responsible for internal control in the Bank and its subsidiaries and for reviewing its effectiveness.

The internal control framework of the Bank comprises a well-established organisation structure and comprehensive control policies and standards. Areas of responsibilities of each business and operational unit are clearly defined to ensure effective checks and balances. Internal control procedures have been established based on the risk inherent in the individual businesses and operational units. Their effectiveness is under constant review and assessed in accordance with the changing operating environment.

Internal Audit plays an important role in the Bank's internal control framework. It monitors the effectiveness of internal control procedures and compliance with policies and standards across all business and operational units. It also advises management on operational efficiency and other management issues.

directors' interests

At the end of the financial year, the interests of the Directors in securities of the Bank and its associated corporations disclosed in accordance with the Listing Rules were as set out below.

	PERSONAL INTERESTS	FAMILY INTERESTS	CORPORATE INTERESTS	OTHER INTERESTS	TOTAL INTERESTS
Number of Ordinary Shares of HK\$5 each in the Bank					
The Honourable Lee Quo-Wei	1,091,516	1,094,783	350,990 ⁽¹⁾	158,152 ⁽²⁾	2,695,441
Mr D G Eldon	300	–	–	–	300
Dr Ho Tim	3,480,252	–	–	–	3,480,252
Mr John C C Chan	–	–	–	1,000 ⁽³⁾	1,000
Mr David T C Ho	84,240	–	–	–	84,240
Dr H C Lee	26,325	–	–	–	26,325
Mr Roger K H Luk	1,983	–	–	–	1,983
Mr W K Mok	1,625	–	–	–	1,625

Number of Ordinary Shares of US\$0.50 each in HSBC Holdings plc

The Honourable Lee Quo-Wei	1,623,019	1,215,355	70,474 ⁽¹⁾	1,616,051 ⁽²⁾	4,524,899
Mr D G Eldon	2,570	1,249	–	–	3,819
Mr Vincent H C Cheng	23,115	42,192	–	–	65,307
Mr John C C Chan	14,283	–	–	3,000 ⁽³⁾	17,283
Dr Ho Tim	100,277	–	–	–	100,277
Mr Jenkin Hui	8,452	24,342	953,514 ⁽⁴⁾	–	986,308
Dr H C Lee	37,193	–	–	–	37,193
Dr the Hon Eric K C Li	–	17,706	77,754 ⁽⁵⁾	–	95,460
Mr Roger K H Luk	46,960	–	–	–	46,960
Mr Raymond C F Or	13,927	28,494	–	–	42,421
Mr S C Penney	10,468	–	–	–	10,468

Notes:

- (1) The Honourable and Mrs Lee Quo-Wei together were entitled to control no less than one-third of the voting power at general meetings of a private company which beneficially held all of those shares referred to above as his corporate interests.
- (2) 1,555,743 shares in HSBC Holdings plc were held by a charitable foundation which is exempt from tax under section 88 of the Inland Revenue Ordinance and of which The Honourable and Mrs Lee Quo-Wei were members of the Board of Trustees. 158,152 shares in the Bank and 60,308 shares in HSBC Holdings plc were held by two trusts of which Mrs Lee was one of the two trustees. Neither The Honourable Lee Quo-Wei nor Mrs Lee was a beneficiary of the shareholdings mentioned in this note.
- (3) 1,000 shares in the Bank and 3,000 shares in HSBC Holdings plc were held by a trust of which Mr and Mrs John C C Chan were beneficiaries.
- (4) Mr Jenkin Hui was entitled to control no less than one-third of the voting power at general meetings of a private company which beneficially held all of those shares referred to above as his corporate interests.
- (5) Dr the Hon Eric K C Li was entitled to control no less than one-third of the voting power at general meetings of a private company which beneficially held all of those shares referred to above as his corporate interests.

At the end of the financial year, The Honourable Lee Quo-Wei had a family interest in HK\$2,500,000 Subordinated Collared Floating Rate Notes 2003 issued by The Hongkong and Shanghai Banking Corporation Limited.

At the end of the financial year, the undermentioned Directors held options to acquire the number of ordinary shares of US\$0.50 each in HSBC Holdings plc set against their respective names. These options were granted for nil consideration by HSBC Holdings plc.

	OPTIONS HELD AT 31 DECEMBER 2000	OPTIONS EXERCISED DURING THE YEAR	EXERCISE PRICE PER SHARE IN PENCE	DATE GRANTED	EXERCISABLE FROM	EXERCISABLE UNTIL
Mr D G Eldon	36,000	–	217.27	7 Mar 1995	7 Mar 1998	7 Mar 2005
	40,500	–	333.34	1 Apr 1996	1 Apr 1999	1 Apr 2006
Mr Vincent H C Cheng	–	18,000 ⁽¹⁾	217.27	7 Mar 1995	7 Mar 1998	7 Mar 2005
	–	3,819 ⁽²⁾	180.60	10 Apr 1995	1 Aug 2000	31 Jan 2001
	–	24,000 ⁽³⁾	333.34	1 Apr 1996	1 Apr 1999	1 Apr 2006
	1,875	–	539.80	1 Apr 1999	1 Aug 2004	31 Jan 2005
	1,119	–	602.99	10 Apr 2000	1 Aug 2005	31 Jan 2006
Mr Roger K H Luk	1,248	–	539.80	1 Apr 1999	1 Aug 2004	31 Jan 2005
	1,679	–	602.99	10 Apr 2000	1 Aug 2005	31 Jan 2006
Mr W K Mok	3,126	–	539.80	1 Apr 1999	1 Aug 2004	31 Jan 2005
Mr Raymond C F Or	–	3,819 ⁽⁴⁾	180.60	10 Apr 1995	1 Aug 2000	31 Jan 2001
	21,000	–	333.34	1 Apr 1996	1 Apr 1999	1 Apr 2006
	21,000	–	501.60	24 Mar 1997	24 Mar 2000	24 Mar 2007
	21,000	–	627.67	16 Mar 1998	16 Mar 2001	16 Mar 2008
	1,875	–	539.80	1 Apr 1999	1 Aug 2004	31 Jan 2005
	1,119	–	602.99	10 Apr 2000	1 Aug 2005	31 Jan 2006
Mr S C Penney	–	15,135 ⁽⁵⁾	283.76	8 Mar 1994	8 Mar 1997	8 Mar 2004
	18,000	–	217.27	7 Mar 1995	7 Mar 1998	7 Mar 2005
	–	3,819 ⁽⁶⁾	180.60	10 Apr 1995	1 Aug 2000	31 Jan 2001
	21,000	–	333.34	1 Apr 1996	1 Apr 1999	1 Apr 2006
	22,500	–	501.60	24 Mar 1997	24 Mar 2000	24 Mar 2007
	20,250	–	627.67	16 Mar 1998	16 Mar 2001	16 Mar 2008
	1,875	–	539.80	1 Apr 1999	1 Aug 2004	31 Jan 2005
	1,119	–	602.99	10 Apr 2000	1 Aug 2005	31 Jan 2006

Notes:

- (1) As at the date of exercise, 16 May 2000, the market value per share was 735.50p.
(2) As at the date of exercise, 1 August 2000, the market value per share was 879p.
(3) As at the date of exercise, 4 December 2000, the market value per share was 957p.

- (4) As at the date of exercise, 1 August 2000, the market value per share was 879p.
(5) As at the date of exercise, 3 November 2000, the market value per share was 1,037p.
(6) As at the date of exercise, 1 August 2000, the market value per share was 879p.