

## Report of the Directors

The Directors have pleasure in presenting their report together with the audited accounts for the year ended 31 December 2002.

### Principal activities

The Bank and its subsidiary and associated companies are engaged in the provision of banking and related financial services.

### Profits

The consolidated profit of the Bank and its subsidiary and associated companies for the year is set out on page 93 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 2002 are set out on page 135.

### 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\$9 million.

### Directors

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 Jenkin Hui, Mr Peter T 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.

Dr H C Lee resigned from the Board with effect from 23 April 2002.

Mr Peter T C Lee was appointed a Director of the Bank with effect from 3 August 2002. He retires under the provisions of the Bank's Articles of Association and, being eligible, offers himself for re-election.

The Directors retiring by rotation in accordance with the Bank's Articles of Association are Dr Y T Cheng and Mr Richard Y S Tang, who, being eligible, offer themselves 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 Board has set up two committees, namely the Executive Committee and the Audit Committee.

#### **Executive Committee**

The Executive Committee meets regularly 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 consider the Bank's financial reporting, the nature and scope of audit reviews and the

effectiveness of the systems of internal control and compliance. 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.

#### **Code of Best Practice and Supervisory Policy Manual on Corporate Governance of Locally Incorporated Authorised Institutions**

The Bank has complied throughout the year 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"), and has followed the module on "Corporate Governance of Locally Incorporated Authorised Institutions" under the Supervisory Policy Manual issued by the Hong Kong Monetary Authority in September 2001. Information about the Bank's Corporate Governance is given on pages 86 to 88.

**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
<b>Number of Ordinary Shares of HK\$5 each in the Bank</b>					
The Honourable Lee Quo-Wei	1,091,516	1,124,783	350,990 <sup>(1)</sup>	158,152 <sup>(2)</sup>	2,725,441
Mr D G Eldon	300	–	–	–	300
Mr John C C Chan	–	–	–	1,000 <sup>(3)</sup>	1,000
Dr Ho Tim	3,480,252	–	–	–	3,480,252
Mr Roger K H Luk	1,983	2,500	–	–	4,483
Mr W K Mok	1,625	–	–	–	1,625
<b>Number of Ordinary Shares of US\$0.50 each in HSBC Holdings plc</b>					
The Honourable Lee Quo-Wei	1,704,306	1,286,224	75,320 <sup>(1)</sup>	1,696,986 <sup>(2)</sup>	4,762,836
Mr D G Eldon	–	13,679	–	–	13,679
Mr Vincent H C Cheng	24,658	49,620	–	–	74,278
Mr John C C Chan	14,283	–	–	3,000 <sup>(3)</sup>	17,283
Dr Ho Tim	102,687	–	–	–	102,687
Mr Jenkin Hui	9,037	24,342	1,001,269 <sup>(4)</sup>	–	1,034,648
Dr the Hon Eric K C Li	–	18,132	79,622 <sup>(5)</sup>	–	97,754
Mr Roger K H Luk	51,711	2,400	–	–	54,111
Mr Raymond C F Or	60,719	30,939	–	–	91,658
Mr S C Penney	92,469	–	–	–	92,469

**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) 1,633,660 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 63,326 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 2002	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	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	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	–	18,000 <sup>(1)</sup>	217.27	7 Mar 1995	7 Mar 1998	7 Mar 2005
	–	21,000 <sup>(1)</sup>	333.34	1 Apr 1996	1 Apr 1999	1 Apr 2006
	–	22,500 <sup>(1)</sup>	501.60	24 Mar 1997	24 Mar 2000	24 Mar 2007
	–	20,250 <sup>(1)</sup>	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) At the date of exercise, 17 December 2002, the market value per share was 708p.

At the end of the financial year, there were conditional awards of shares under the HSBC Holdings plc Restricted Share Plan made in favour of the undermentioned Directors for the number of ordinary shares of US\$0.50 each in HSBC Holdings plc set against their respective names:

Mr D G Eldon	221,883
Mr Vincent H C Cheng	114,129
Mr Roger K H Luk	48,639
Mr W K Mok	45,005
Mr Raymond C F Or	81,553
Mr S C Penney	46,575

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

No right to subscribe for equity or debt securities of the Bank has been granted by the Bank to, nor have any such rights been exercised by, any person during the year ended 31 December 2002.

#### **Directors' interests in competing businesses**

Pursuant to Rule 8.10 of the Listing Rules, at the end of the year, the following Directors had declared interests in the following entities which compete or are likely to compete, either directly or indirectly, with the businesses of the Bank:

The Honourable Lee Quo-Wei is a Director of New World Finance Co. Ltd., which conducts money lending business.

Mr D G Eldon is a Director of HSBC Holdings plc, the ultimate holding company of the Bank, and certain of its

subsidiaries, including The Hongkong and Shanghai Banking Corporation Limited, the immediate holding company of the Bank.

Mr Vincent H C Cheng is a Director of The Hongkong and Shanghai Banking Corporation Limited and HSBC Insurance (Asia-Pacific) Holdings Limited, a subsidiary of The Hongkong and Shanghai Banking Corporation Limited.

Mr Roger K H Luk is a Director of AXA General Insurance Hong Kong Limited, which conducts general insurance business.

Mr W K Mok is a Director of HSBC Asset Management Hong Kong Limited and HSBC Investment Funds Hong Kong Limited, subsidiaries of The Hongkong and Shanghai Banking Corporation Limited.

Mr Raymond C F Or is a Director of HSBC Insurance (Asia-Pacific) Holdings Limited, a subsidiary of The Hongkong and Shanghai Banking Corporation Limited.

Mr S C Penney is a Director of HSBC Asia Holdings BV, the immediate holding company of The Hongkong and Shanghai Banking Corporation Limited, and certain of its subsidiaries.

HSBC Holdings plc, through its subsidiaries and associated undertakings, is engaged in providing a comprehensive range of banking, insurance and related financial services.

The entities in which the Directors have declared interests are managed by separate Boards of Directors and management, which are accountable to their respective shareholders.

The Board of the Bank includes seven independent non-executive Directors whose views carry significant weight in the Board's decisions. The Audit Committee of the Bank,

which consists of three non-executive Directors, meets regularly to assist the Board of Directors in reviewing the financial performance, internal control and compliance systems of the Bank and its subsidiaries. The Bank is, therefore, capable of carrying on its businesses independently of, and at arm's length from, the businesses in which Directors have declared interests.

#### **Independent non-executive directors' fees**

Each of the independent non-executive Directors of the Bank received a Director's fee of HK\$80,000 for the year ended 31 December 2002.

#### **Substantial interests in share capital**

The register maintained by the Bank pursuant to the Securities (Disclosure of Interests) Ordinance recorded that, as at 31 December 2002, the following corporations had interests (as defined in that Ordinance) in the Bank set opposite their respective names:

Name of Corporation	Number of Ordinary Shares of HK\$5 each in the Bank (Percentage of total)
The Hongkong and Shanghai Banking Corporation Limited	1,199,197,555 (62.72%)
HSBC Asia Holdings BV	1,199,197,555 (62.72%)
HSBC Asia Holdings (UK)	1,199,197,555 (62.72%)
HSBC Holdings BV	1,199,197,555 (62.72%)
HSBC Finance (Netherlands)	1,199,197,555 (62.72%)
HSBC Holdings plc	1,226,032,243 (64.13%)

The Hongkong and Shanghai Banking Corporation Limited is a wholly-owned subsidiary of HSBC Asia Holdings BV, which is a wholly-owned subsidiary of HSBC Asia Holdings (UK), which in turn is a wholly-owned subsidiary of HSBC Holdings BV. HSBC Holdings BV is a wholly-owned subsidiary of HSBC Finance (Netherlands), which in turn is wholly-owned by

HSBC Holdings plc. Accordingly, The Hongkong and Shanghai Banking Corporation Limited's interests are recorded as the interests of HSBC Asia Holdings BV, HSBC Asia Holdings (UK), HSBC Holdings BV, HSBC Finance (Netherlands) and HSBC Holdings plc.

The Directors regard HSBC Holdings plc to be the beneficial owner of 1,188,057,371 ordinary shares in the Bank (62.14%).

#### **Purchase, sale or redemption of the Bank's listed securities**

During the year, there was no purchase, sale or redemption by the Bank, or any of its subsidiaries, of the Bank's listed securities.

#### **Supervisory Policy Manual on Financial Disclosure by Locally Incorporated Authorised Institutions**

The accounts of the Bank for the year ended 31 December 2002 fully comply with the module on "Financial Disclosure by Locally Incorporated Authorised Institutions" under the Supervisory Policy Manual issued by the Hong Kong Monetary Authority in November 2002.

#### **Auditors**

KPMG retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of KPMG as auditors of the Bank is to be proposed at the forthcoming Annual General Meeting.

On behalf of the Board

#### **David Eldon**

*Chairman*

Hong Kong, 3 March 2003