

# Report of the Directors

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

## Principal Activities

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

## Profit

The consolidated profit of the Bank and its subsidiaries for the year ended 31st December, 2000, together with particulars of the appropriations which have been made therefrom or which are recommended, and the state of the Bank's and the Group's affairs as at that date are set out in the accounts on pages 72 to 118.

## 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 for the year.

## Donations

Donations made by the Bank and its subsidiaries during the year for charitable and community purposes amounted to approximately HK\$2,921,000.

## Share Capital

As approved at the Annual General Meeting of the members of the Bank held on 30th March, 2000, the authorised capital of the Bank was increased from HK\$4,500,000,000 to HK\$6,500,000,000 by the creation of a further 800,000,000 ordinary shares of HK\$2.50 each.

During the year, a sum of HK\$33,109,250 standing to the credit of the share premium account was capitalised and applied in paying up in full at par 13,243,700 shares of HK\$2.50 each which were allotted and issued to shareholders who had elected to receive new shares in lieu of the 1999 final dividend and the 2000 interim dividend.

During the year, 8,408,879 shares of HK\$2.50 each were issued for cash totalling HK\$110,367,469 on the exercise of options granted under the approved Staff Share Option Schemes.

## Connected Transaction

The Bank has given certain undertakings and covenants which constituted a connected transaction pursuant to Rule 14.25(2)(a) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). During the year, the Bank formed a joint venture with an independent party in the shareholding ratio of approximately 75% and 25%, respectively. This joint venture acquired a 80.1% interest in Secretaries Limited and its subsidiaries for a consideration of HK\$132 million. Under a Sale and Purchase Agreement dated 26th August, 2000 between the joint venture and the vendor and a Deed of Mutual Undertaking dated 30th September, 2000 between the vendor and the Bank, the Bank has covenanted as primary obligator as to the due observance and performance of all the terms and conditions to be observed and performed by the joint venture under the Sale and Purchase Agreement and a Shareholders' Agreement dated 30th September, 2000 between the joint venture and an affiliate of the vendor. The independent party which is holding the 25%

in the joint venture has provided an indemnity to the Bank for 25% of any loss or liability incurred or suffered by the Bank under the abovementioned Sale and Purchase Agreement and/or Deed of Mutual Undertaking.

## Repurchase of Convertible Bonds due 2003

In 2000, the Bank repurchased US\$44,645,000 of the Convertible Bonds issued in 1996 and due 2003 from the market and such Bonds were cancelled upon settlement. During the year ended 31st December, 2000, no Bonds were converted or redeemed by the Bondholders and there were US\$250,305,000 of the Bonds outstanding at 31st December, 2000. The Bonds are listed on the Luxembourg Stock Exchange.

## Dealings in Listed Securities of the Bank

Save for the repurchase of US\$44,645,000 Convertible Bonds, there was no purchase, sale or redemption by the Bank, or any of its subsidiaries, of listed securities of the Bank during the year ended 31st December, 2000.

## Directors

The present Directors of the Bank are shown on page 37.

In accordance with the Articles of Association of the Bank, apart from the Chief Executive, all the Directors including non-executive Directors are subject to retirement by rotation and re-election at the Annual General Meeting. Accordingly, Alan LI Fook-sum, Arthur LI Kwok-cheung, Allan WONG Chi-yun, Aubrey LI Kwok-sing and Winston LO Yau-lai retire and, being eligible, offer themselves for re-election at the Annual General Meeting to be held on Thursday, 29th March, 2001.

None of the Directors of the Bank has a service contract with the Bank.

No contract of significance to which the Bank or any of its 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.

None of the Directors of the Bank is interested in any business apart from the Bank's business, which competes or is likely to compete, either directly or indirectly, with the Bank's business.

At no time during the year was the Bank or any of its subsidiaries a party to any arrangement to enable the Directors or Chief Executive of the Bank or their spouses or children under 18 years of age to acquire benefits by means of the acquisition of shares in or debentures of the Bank or any other body corporate with the exception of the share option schemes, details of which are set out in *Note 25* on the accounts.

The Chairman and each of the Directors including the independent non-executive Directors received HK\$150,000 and HK\$75,000 respectively as directors' fees for the year ended 31st December, 2000.

## Audit Committee

The composition of the Audit Committee is shown on page 37. Winston LO Yau-lai was appointed as an additional Audit Committee member on 4th October, 2000. The Audit Committee is answerable to the Board and the principal duties of the Committee include the review and supervision of the Bank's financial reporting process and internal controls. The Committee met three times during the year 2000. The Chairman and each of the members of the Audit Committee received HK\$20,000 and HK\$10,000 respectively as remuneration for the year ended 31st December, 2000.

# Report of the Directors

(continued)

## Directors' and Chief Executive's Interests

As at 31st December, 2000, the beneficial interests of the Directors and Chief Executive in the share capital of the Bank disclosed in accordance with the Listing Rules were as follows:-

Name	Number of Ordinary Shares Held				Total Interests
	Personal Interests	Family Interests	Corporate Interests	Other Interests	
David LI Kwok-po	16,462,132	639,336	–	–	17,101,468 <sup>4</sup>
LI Fook-wo	1,235,804	–	–	–	1,235,804
George HO	829,321	–	7,628,869 <sup>1</sup>	–	8,458,190
WONG Chung-hin	46,810	344,131	–	–	390,941
Alan LI Fook-sum	6,994,329	–	30,205,390 <sup>1</sup>	–	37,199,719
LEE Shau-kee	647,985	–	1,000,000 <sup>1</sup>	–	1,647,985
Simon LI Fook-sean	446,800	2,994,200	–	–	3,441,000
Arthur LI Kwok-cheung	7,594,363	–	–	–	7,594,363
Allan WONG Chi-yun	–	124	–	10,122,494 <sup>2</sup>	10,122,618
Aubrey LI Kwok-sing	20,729	29,472	–	30,047,406 <sup>3</sup>	30,097,607
Joseph PANG Yuk-wing	204,318	–	–	–	204,318 <sup>4</sup>
William MONG Man-wai	696,867	–	–	–	696,867
CHAN Kay-cheung	215,584	–	–	–	215,584 <sup>4</sup>
Winston LO Yau-lai	–	–	–	–	Nil

Notes:

- (1) Such shares were held through corporations in which the respective Directors control one-third or more of the voting power.
- (2) Such shares were held through discretionary trusts in which family members of Allan WONG Chi-yun are beneficiaries.
- (3) Such shares were held through a discretionary trust in which Aubrey LI Kwok-sing is one of the beneficiaries.
- (4) Apart from the shares as disclosed herein, share options to subscribe for ordinary shares of the Bank have been granted to David LI Kwok-po, Joseph PANG Yuk-wing and CHAN Kay-cheung pursuant to the approved Staff Share Option Scheme adopted on 31st March, 1994 and Staff Share Option Scheme 1999 effective 1st April, 1999 respectively. Particulars of the outstanding share options as at 31st December, 2000 were as follows:-

Name	Number of Shares in the Options	Exercisable Period	Option Price Per Share HK\$
David LI Kwok-po	131,290	23/04/1997 - 23/04/2001	21.14
David LI Kwok-po	136,800	29/04/1998 - 29/04/2002	24.59
David LI Kwok-po	133,800	20/04/1999 - 20/04/2003	15.30
David LI Kwok-po	145,000	21/04/2000 - 21/04/2004	12.09
David LI Kwok-po	145,000	20/04/2001 - 20/04/2005	16.46
Joseph PANG Yuk-wing	117,369	23/04/1997 - 23/04/2001	21.14
Joseph PANG Yuk-wing	122,400	29/04/1998 - 29/04/2002	24.59
Joseph PANG Yuk-wing	119,400	20/04/1999 - 20/04/2003	15.30
Joseph PANG Yuk-wing	130,000	21/04/2000 - 21/04/2004	12.09
Joseph PANG Yuk-wing	130,000	20/04/2001 - 20/04/2005	16.46
CHAN Kay-cheung	117,369	23/04/1997 - 23/04/2001	21.14
CHAN Kay-cheung	122,400	29/04/1998 - 29/04/2002	24.59
CHAN Kay-cheung	119,400	20/04/1999 - 20/04/2003	15.30
CHAN Kay-cheung	130,000	21/04/2000 - 21/04/2004	12.09
CHAN Kay-cheung	130,000	20/04/2001 - 20/04/2005	16.46

During the year ended 31st December, 2000, David LI Kwok-po, Joseph PANG Yuk-wing and CHAN Kay-cheung exercised share options under the Staff Share Option Scheme adopted on 31st March, 1994, details of which were as follows:-

Name	Number of Shares Subscribed	Option Price Per Share
David LI Kwok-po	125,836	HK\$14.53
Joseph PANG Yuk-wing	99,344	HK\$14.53
CHAN Kay-cheung	99,344	HK\$14.53

Save as disclosed above, as at 31st December, 2000, none of the Directors or Chief Executive of the Bank or their spouses or children under 18 years of age were granted or exercised any right to subscribe for any equity or debt securities of the Bank or any of its associated corporations.

## Substantial Shareholders' Interests

So far as is known to the Directors, none of the shareholders of the Bank was interested in 10% or more of the issued share capital of the Bank which was required to be recorded in the Register of Interests pursuant to Section 16(1) of the Securities (Disclosure of Interests) Ordinance as at 31st December, 2000.

## Compliance

- (1) In preparing the accounts for the year 2000, the Bank has fully complied with the standards set out in the Guideline "Financial Disclosure by Locally Incorporated Authorized Institutions" issued by the Hong Kong Monetary Authority.
- (2) The Bank has complied with the Code of Best Practice as set out in Appendix 14 of the Listing Rules throughout the year ended 31st December, 2000.

## Auditors

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 LI Kwok-po**

*Chairman and Chief Executive*

Hong Kong

8th February, 2001