

DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the year ended 31 December 2001.

PRINCIPAL ACTIVITIES

The Bank is engaged in the provision of banking and related financial services. The activities of its subsidiaries and an associate are set out respectively in notes 16 and 17 to the financial statements.

BUSINESS

The Group's total operating income (net of interest expenses) is analysed and reported by significant business classes as follows:

	2001 HK\$'000	2000 HK\$'000
Corporate and retail banking	635,966	679,737
Treasury and foreign exchange activities	248,297	340,566
Other activities	68,912	96,946
	<u>953,175</u>	<u>1,117,249</u>

The corporate and retail banking services provided by the Group are principally lending and trade finance facilities, consumer financing, chequing facilities and the provision of fixed deposits and savings accounts. The Group also provides fully automated telephone and internet banking services to its customers. Other financial services offered include remittance and money exchange, safe deposit boxes, mandatory provident fund services, life insurance and mutual funds agency.

Treasury activities mainly comprise inter-bank placement and deposit transactions, management of overall interest rate risk and liquidity of the Group and centralised cash management. Income from foreign exchange activities is generated from services provided to customers in the form of foreign exchange trading and forward contracts.

Other business activities of the Group include investment holding, securities trading, stockbroking, commodities and future broking, other investment advisory services and property investment.

MAJOR CUSTOMERS

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

DIRECTORS' REPORT

RESULTS AND STATE OF AFFAIRS

The results of the Group for the year ended 31 December 2001 are set out in the consolidated income statement on page 51.

The state of affairs of the Group and the Bank as at 31 December 2001 are set out in the balance sheets on pages 52 and 53 respectively.

DIVIDENDS

An interim dividend of HK\$0.15 per share amounting to HK\$65,250,000 was paid to the shareholders during the year. The directors now recommend the payment of a final dividend for 2001 of HK\$0.30 per share amounting to HK\$130,500,000 to the shareholders on the Register of Members on 19 April 2002 and the retention of the remaining profit for the year.

SHARE CAPITAL

Details of the Bank's share capital are set out in note 22 to the financial statements. There was no movement in the Bank's share capital during the year.

RESERVES

Movements in the reserves of the Group and the Bank during the year are set out in note 23 to the financial statements.

INVESTMENT PROPERTIES

The Group's investment properties were revalued at 31 December 2001. There was no surplus or deficit arising on the revaluation of the Group's investment properties during the year. Details of the investment properties of the Group and the Bank are set out in note 19 to the financial statements.

PROPERTY AND EQUIPMENT

The Group's land and buildings were revalued at 31 December 2001. The net deficit arising on the revaluation of the Group's land and buildings, which has been debited to the land and buildings revaluation reserve, amounted to approximately HK\$24 million.

Details of these and other movements in the property and equipment of the Group and the Bank are set out in note 20 to the financial statements.

SHARE OPTION SCHEME

The Bank's share option scheme (the "Scheme"), was adopted pursuant to a resolution passed on 10 June 1994 for the primary purpose of providing incentives to directors and eligible employees, and will expire on 9 June 2004. Under the Scheme, the Executive Committee of the Bank may grant options to eligible employees, including executive directors of the Bank and its subsidiaries, to subscribe for shares in the Bank.

DIRECTORS' REPORT

SHARE OPTION SCHEME - continued

The total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the shares of the Bank in issue at any point in time, without prior approval from the Bank's shareholders. The number of shares in respect of which options may be granted to any individual is not permitted to exceed 5% of the shares of the Bank in issue at any point in time, without prior approval from the Bank's shareholders.

Options granted must be taken up within 28 days of the date of grant, upon payment of HK\$10 per option. Options may be exercised at any time from the date of grant of the share option to the 5th anniversary of the date of grant. The exercise price is determined by the Executive Committee of the Bank, and will not be less than the higher of the nominal value of the Bank's shares on the date of grant, or 80% of the average closing price of the shares for the five business days immediately preceding the date of grant.

No options have been granted under the above-mentioned scheme since the Scheme was adopted.

DIRECTORS

The directors of the Bank at the date of this report are:

Executive Directors

Mr LIU Lit Man, GBS, JP, FIBA	<i>(Chairman & Managing Director)</i>
Mr LIU Lit Mo, MBE, JP	<i>(Vice Chairman)</i>
Mr LIU Lit Chi	<i>(Deputy Managing Director)</i>
Mr Dominic Bing Hoi LAM	
Mr Don Tit Shing LIU	
Mr Wilfred Chun Ning LIU	
Mr LAU Wai Man	
Mr Frank Shui Sang JIN	

Non-executive Directors

Dr Robin Yau Hing CHAN, GBS, LLD, JP, EOE
Mr LIU Guoyuan
Mr Tatsuo TANAKA
Dr LIU Lit Chung, MB, BS (London), MRCP (UK)
Mr Andrew LIU
Mr SHI Qin
Mr Christopher Kwun Shing LIU
<i>(Alternate director to Dr LIU Lit Chung)</i>

Independent Non-executive Directors

Mr Peter Alan Lee VINE, OBE, VRD, LLD, JP
Mr Timothy George FRESHWATER
Mr CHANG Ying Kuang
Mr Wanchai CHIRANAKHORN

DIRECTORS' REPORT

DIRECTORS - continued

Mr Tatsuo Tanaka (who was appointed a non-executive director on 16 August 2001), Mr Lau Wai Man and Mr Frank Shui Sang Jin (who were both appointed executive directors on 16 August 2001) shall retire and offer themselves for re-election at the forthcoming annual general meeting in accordance with Article 85 of the Bank's Articles of Association. Executive director Nam Lee Yick resigned on 18 July 2001. Non-executive director Ryoichi Kato resigned on 16 August 2001 and non-executive director Nobuyoshi Iijima resigned on 29 November 2001. Non-executive director Liu Lit To passed away on 21 February 2001.

Article 101 of the Bank's Articles of Association stipulates that, among other things, one-third of the directors for the time being, who have been longest in office since their last election, shall be subject to retirement by rotation and re-election at each annual general meeting. Accordingly, Mr Liu Lit Man, Mr Liu Lit Mo, Mr Liu Lit Chi, Mr Wanchai Chiranakhorn and Mr Wilfred Chun Ning Liu shall retire and offer themselves for re-election at the forthcoming annual general meeting.

No director proposed for re-election at the forthcoming annual general meeting has a service contract, which is not determinable by the Bank within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN SECURITIES

As at 31 December 2001, the interests of the directors in the securities of the Bank and its associated corporations, within the meaning of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance"), as recorded in the register maintained by the Bank pursuant to Section 29 of the SDI Ordinance, were as follows:

Name	Number of Ordinary Shares Held			Total
	Personal Interests	Family Interests	Corporate Interests	
Liu Lit Man	3,447,928	—	236,233,628 <i>Note (1)</i>	239,681,556
Liu Lit Mo	1,009,650	—	236,233,628 <i>Note (1)</i>	237,243,278
Liu Lit Chi	313,248	—	238,496,839 <i>Notes (1) & (2)</i>	238,810,087
Peter A L Vine	1,200	—	—	1,200
Robin Y H Chan	48,400	—	1,018,000 <i>Note (3)</i>	1,066,400
Timothy G Freshwater	396	—	—	396
Liu Lit Chung	173,000	—	236,233,628 <i>Note (1)</i>	236,406,628
Andrew Liu	60,000	—	—	60,000
Chang Ying Kuang	264	—	—	264
Dominic B H Lam	100,000	600	—	100,600
Don T S Liu	15,000	—	—	15,000

DIRECTORS' INTERESTS IN SECURITIES - continued

Notes:

- (1) 236,233,628 shares in the Bank are attributed as follows:
 - (i) 196,233,628 shares held by public listed Liu Chong Hing Investment Limited's wholly-owned subsidiary, Liu Chong Hing Estate Company, Limited ("Liu Chong Hing Estate"), in which each of Messrs Liu Lit Man, Liu Lit Mo, Liu Lit Chi and Liu Lit Chung is deemed under the SDI Ordinance to be interested through Liu's Holdings Limited, a private company holding approximately 45 percent of Liu Chong Hing Investment Limited's issued and fully-paid share capital; and
 - (ii) 40,000,000 shares held by The Bank of Tokyo-Mitsubishi, Ltd. ("Bank of Tokyo-Mitsubishi"). Pursuant to an agreement in 1994, Bank of Tokyo-Mitsubishi has granted an option to Liu Chong Hing Estate exercisable at any time during the term of that agreement to purchase all such shares and Bank of Tokyo-Mitsubishi is required to offer to sell all such shares to Liu Chong Hing Estate in certain circumstances. By virtue of the interests of Messrs Liu Lit Man, Liu Lit Mo, Liu Lit Chi and Liu Lit Chung in Liu Chong Hing Estate through Liu's Holdings Limited, each of them is deemed under the SDI Ordinance to be interested in such shares.
- (2) 2,263,211 shares in the Bank are held by Alba Holdings Limited, shareholders of which include Mr Liu Lit Chi and his associates. Accordingly, Mr Liu Lit Chi is deemed under the SDI Ordinance to be interested in such shares.
- (3) 1,018,000 shares in the Bank are held collectively by Bangkok Mercantile (HK) Company Limited and United Asia Company Limited. These corporations or their directors are accustomed to acting in accordance with Dr Robin Y H Chan's directions or instructions.

Other than those interests disclosed above and certain nominee shares in subsidiaries held by directors in trust for the Bank, as at 31 December 2001, none of the directors and the chief executive, nor their respective associates, had any interests in any securities of the Bank and its associated corporations as defined in the SDI Ordinance, and none of the directors and the chief executive, nor their respective spouses and children under 18 years of age, had been granted any rights to subscribe for the securities of the Bank, much less had any such rights exercised.