

DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the year ended 31 December 2003.

PRINCIPAL ACTIVITIES

The Bank is engaged in the provision of banking and related financial services. The principal activities of its subsidiaries and an associate are set out respectively in notes 15 and 16 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:

	2003	2002
	HK\$'000	HK\$'000
Corporate and retail banking	523,102	602,662
Treasury and foreign exchange activities	270,892	263,977
Other business activities	90,024	83,578
	<u>884,018</u>	<u>950,217</u>

The corporate and retail banking services provided by the Group are principally lending and trade finance facilities, consumer financing, chequing facilities, mandatory provident fund services, provision of fixed deposits and savings accounts, credit card, insurance and personal wealth management services. 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, auto pay and direct debit services.

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 futures 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.

RESULTS AND STATE OF AFFAIRS

The results of the Group for the year ended 31 December 2003 are set out in the consolidated income statement on page 45.

The state of affairs of the Group and the Bank as at 31 December 2003 are set out in the balance sheets on pages 46 and 47 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 the year ended 31 December 2003 of HK\$0.35 per share amounting to HK\$152,250,000 to the shareholders on the Register of Members on 21 April 2004 and the retention of the remaining profit for the year.

SHARE CAPITAL

Details of the Bank's share capital are set out in note 21 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 the consolidated statement of changes in equity on page 48 and note 22 to the financial statements respectively.

INVESTMENT PROPERTIES

The Group's investment properties were revalued at 31 December 2003. 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 18 to the financial statements.

PROPERTY AND EQUIPMENT

The Group's land and buildings were revalued at 31 December 2003. There was no surplus or deficit arising on revaluation of the Group's land and buildings during the year. Details of these and other movements in the property and equipment of the Group and the Bank are set out in note 19 to the financial statements.

SHARE OPTION SCHEME

The Bank's share option scheme (the "Scheme") was adopted pursuant to a resolution passed on 25 April 2002. Particulars of the Scheme are set out in note 24 to the financial statements. No options have been granted under the above-mentioned scheme since the Scheme was adopted.

DIRECTORS' REPORT

DIRECTORS

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

Executive Directors

Mr LIU Lit Man, GBS, JP, FIBA	<i>(Executive Chairman)</i>
Mr LIU Lit Mo, MBE, JP	<i>(Vice Chairman)</i>
Mr LIU Lit Chi	<i>(Managing Director and Chief Executive Officer)</i>
Mr Don Tit Shing LIU	<i>(Executive Director and Deputy Chief Executive Officer)</i>
Mr Dominic Bing Hoi LAM	
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 Toshiaki ARAI
Mr Andrew LIU
Mr SUN Jiakang
Mr Christopher Kwun Shing LIU

Independent Non-executive Directors

Mr Peter Alan Lee VINE, OBE, VRD, LLD, JP
Mr Timothy George FRESHWATER
Mr Wanchai CHIRANAKHORN
Mr Alfred Cheuk Yu CHOW, JP