



LIU CHONG HING BANK LIMITED

2002 FINAL RESULTS

SUMMARY OF RESULTS

The directors of Liu Chong Hing Bank Limited (the "Bank") are pleased to announce that the audited consolidated results of the Bank and its group of companies (the "Group") for the year ended 31 December 2002, together with the comparative figures for the corresponding year in 2001 are as follows:

	2002	2001
	HK\$'000	HK\$'000
Interest income	1,248,660	1,979,195
Interest expense	<u>(499,289)</u>	<u>(1,182,514)</u>
Net interest income	749,371	796,681
Other operating income	<u>200,846</u>	<u>156,494</u>
Operating income	950,217	953,175
Operating expenses	<u>(439,261)</u>	<u>(423,682)</u>
Operating profit before provisions and disposal of long-term assets	510,956	529,493
Charge for bad and doubtful debts (<i>Note 1</i>)	<u>(129,027)</u>	<u>(136,437)</u>
Net losses from disposal of property and equipment	(231)	(843)
Gains less losses from disposal of other securities	-	15,926
Gains less losses from disposal of held-to-maturity securities	-	5,088
Profit from operations	<u>381,698</u>	<u>413,227</u>
Share of results of jointly controlled entities	<u>(9,510)</u>	<u>(18,882)</u>
Profit from ordinary activities before taxation	372,188	394,345
Taxation (<i>Note 2</i>)		
- Hong Kong	(60,458)	(46,361)
- Overseas	<u>(2,236)</u>	<u>(2,097)</u>
Net profit for the year	<u>309,494</u>	<u>345,887</u>
Dividends	<u>217,500</u>	<u>195,750</u>
Earnings per share (<i>Note 3</i>)	<u>HK\$0.71</u>	<u>HK\$0.80</u>
Dividend per share	<u>HK\$0.50</u>	<u>HK\$0.45</u>

BALANCE SHEET INFORMATION

	2002 HK\$'000	2001 HK\$'000
Assets		
Cash and short-term funds	12,388,484	14,269,839
Placements with banks and other financial institutions maturing between one and twelve months	2,223,465	3,201,738
Trading securities	185,994	172,335
Advances and other accounts (including trade bills : HK\$54,642,000; 2001 : HK\$62,644,000)	19,589,201	18,931,110
Held-to-maturity securities	1,557,144	494,874
Certificates of deposit held	1,337,768	476,194
Other securities	256,312	288,152
Interest in an associate	362,777	360,139
Interest in jointly controlled entities	69,033	75,668
Investment properties	47,868	47,868
Property and equipment	1,170,950	1,145,313
Total assets	<u>39,188,996</u>	<u>39,463,230</u>
Liabilities		
Deposits and balances of banks and other financial institutions	420,845	544,206
Deposits of customers	32,492,252	32,685,720
Other accounts and provisions	390,182	436,519
Taxation	7,694	803
Total liabilities	<u>33,310,973</u>	<u>33,667,248</u>
Capital Resources		
Share capital	217,500	217,500
Reserves		
Share premium	1,542,817	1,542,817
Goodwill	(182)	(182)
Investment property revaluation reserve	29,344	29,344
Land and buildings revaluation reserve	694,197	709,579
Investment revaluation reserve	9,259	25,603
General reserve	1,200,000	1,200,000
Inner reserve	188,500	188,500
Translation reserve	5,307	5,284
Dividend reserve	152,250	130,500
Retained profits	1,747,037	1,596,900
Current year profit	91,994	150,137
	<u>5,660,523</u>	<u>5,578,482</u>
Shareholders' funds	<u>5,878,023</u>	<u>5,795,982</u>
Total liabilities and capital resources	<u>39,188,996</u>	<u>39,463,230</u>

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital	Share premium	Goodwill	Investment property revaluation reserve	Land and buildings revaluation reserve	Investment revaluation reserve	General reserve	Inner reserve	Translation reserve	Dividend reserve	Retained profits	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2001	217,500	1,542,817	(182)	30,708	732,334	62,060	1,200,000	188,500	5,417	152,250	1,596,900	5,728,304
Revaluation movements	-	-	-	-	(24,119)	(36,457)	-	-	-	-	-	(60,576)
Currency re-alignment	-	-	-	-	-	-	-	-	(133)	-	-	(133)
Net losses not recognised in the income statement	-	-	-	-	(24,119)	(36,457)	-	-	(133)	-	-	(60,709)
Transfer between reserves	-	-	-	(1,364)	1,364	-	-	-	-	-	-	-
Profit for the year	-	-	-	-	-	-	-	-	-	-	345,887	345,887
Dividend paid	-	-	-	-	-	-	-	-	-	(152,250)	(65,250)	(217,500)
Proposed dividend	-	-	-	-	-	-	-	-	-	130,500	(130,500)	-
At 1 January 2002	217,500	1,542,817	(182)	29,344	709,579	25,603	1,200,000	188,500	5,284	130,500	1,747,037	5,795,982
Revaluation movements	-	-	-	-	(15,382)	(16,344)	-	-	-	-	-	(31,726)
Currency re-alignment	-	-	-	-	-	-	-	-	23	-	-	23
Net (losses) gains not recognised in the income statement	-	-	-	-	(15,382)	(16,344)	-	-	23	-	-	(31,703)
Profit for the year	-	-	-	-	-	-	-	-	-	-	309,494	309,494
Dividends paid	-	-	-	-	-	-	-	-	-	(130,500)	(65,250)	(195,750)
Proposed dividend	-	-	-	-	-	-	-	-	-	152,250	(152,250)	-
At 31 December 2002	217,500	1,542,817	(182)	29,344	694,197	9,259	1,200,000	188,500	5,307	152,250	1,839,031	5,878,023

CONSOLIDATED CASH FLOW STATEMENT

	2002 HK\$'000	2001 HK\$'000
OPERATING ACTIVITIES		
Cash generated by operations	131,263	1,235,715
Interest paid on certificates of deposit issued	-	(1,278)
Hong Kong profits tax refunded	10,461	1,833
Hong Kong profits tax paid	(1,672)	(30,224)
Overseas tax paid	(699)	(2,828)
NET CASH FROM OPERATING ACTIVITIES	139,353	1,203,218
INVESTING ACTIVITIES		
Interest received on certificates of deposit held	35,743	3,365
Interest received on investments in securities	28,230	54,602
Dividend received on equity securities	15,456	5,448
Purchase of held-to-maturity securities	(1,280,561)	(444,055)
Purchase of certificates of deposit held	(900,562)	(440,220)
Purchase of other securities	(34,180)	(37,443)
Purchase of property and equipment	(84,763)	(88,711)
Purchase of investment properties	-	(5,936)
Advances to an associate	(2,727)	(15,372)
Advances to jointly controlled entities	(2,875)	(18,250)
Acquisition of investment in jointly controlled entities	-	(24,500)
Proceeds from disposal of other securities	49,676	19,194
Proceeds from disposal of held-to-maturity securities	218,291	64,842
Proceeds from disposal of certificates of deposit held	38,988	92,475
Proceeds from disposal of property and equipment	71	4,881
NET CASH USED IN INVESTING ACTIVITIES	(1,919,213)	(829,680)
FINANCING		
Ordinary dividend paid	(195,570)	(217,500)
NET CASH USED IN FINANCING ACTIVITIES	(195,750)	(217,500)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(1,975,610)	156,038
CASH AND CASH EQUIVALENTS AT 1 JANUARY	15,925,644	15,769,606
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	13,950,034	15,925,644

Notes:

(1) The provisions for bad and doubtful debts for the year comprise:

	2002	2001
	HK\$'000	HK\$'000
Specific	107,557	221,863
General	21,470	(85,426)

(2) a. Hong Kong profits tax is calculated at 16% (2001: 16%) of the estimated assessable profit for the year. Taxation outside Hong Kong is calculated at the rates prevailing in the relevant jurisdictions.

b. No provision for deferred taxation has been made as the amounts involved are insignificant.

(3) The calculation of earnings per share is based on the profit attributable to shareholders of HK\$309,494,000 (2001: HK\$345,887,000) and on 435,000,000 (2001: 435,000,000) ordinary shares in issue during the year.

(4) In the current year, the Group has adopted for the first time, the following Statements of Standard Accounting Practice ("SSAPs") issued by the Hong Kong Society of Accountants:

SSAP 11	Foreign Currency Translation
SSAP 15 (Revised)	Cash Flow Statements
SSAP 34	Employee Benefits

The adoption of the above SSAPs have had no material effect on the results for the current or prior accounting periods, no prior period adjustment is required.

(5) Business:

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, the 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.

a. Segment information about these businesses for the year ended 31 December 2002 is presented below:

	Corporate and retail banking	Treasury and foreign exchange activities	Other activities	Eliminations	Consolidated
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Interest income from external customers	813,627	435,033	-	-	1,248,660
Interest expense to external customers	(487,766)	(11,523)	-	-	(499,289)
Inter-segment income	181,254	-	-	(181,254)	-
Inter-segment expenses	-	(181,254)	-	181,254	-
Net income	507,115	242,256	-	-	749,371
Other operating income	95,547	21,721	83,578	-	200,846
Operating income	602,662	263,977	83,578	-	950,217
Inter-segment pricing is charged at prevailing customer deposits interest rates.					
Charge for bad and doubtful debts	(129,027)	-	-	-	(129,027)
Net (losses) / gains from disposal of property and equipment	(246)	-	15	-	(231)
Operating expenses	(247,902)	(16,764)	(28,097)	-	(292,763)
Result					
Segment profit	225,487	247,213	55,496	-	528,196
Unallocated corporate expenses					(146,498)
Profit from operations					381,698
Share of results of jointly controlled entities					(9,510)
Profit from ordinary activities before taxation					372,188
Taxation					(62,694)
Net profit for the year					309,494
Capital additions	68,576	218	3,007	12,962	84,763

Segment information about these businesses as at 31 December 2002 is presented below:

	Corporate and retail banking	Treasury and foreign exchange activities	Other activities	Consolidated
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Assets				
Segment assets	20,541,574	17,336,629	646,599	38,524,802
Interest in an associate	-	-	362,777	362,777
Interests in jointly controlled entities	-	-	69,033	69,033
Unallocated corporate assets				232,384
Consolidated total assets				39,188,996
Liabilities				
Segment liabilities	32,530,105	382,992	-	32,913,097
Unallocated corporate liabilities				397,876
Consolidated total liabilities				33,310,973

Segment information about these businesses for the year ended 31 December 2001 is presented below:

	Corporate and retail banking	Treasury and foreign exchange activities	Other activities	Eliminations	Consolidated
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Interest income from external customers	1,246,716	732,479	-	-	1,979,195
Interest expense to external customers	(1,145,697)	(36,817)	-	-	(1,182,514)
Inter-segment income	463,549	-	-	(463,549)	-
Inter-segment expenses	-	(463,549)	-	463,549	-
Net income	564,568	232,113	-	-	796,681
Other operating income	71,398	16,184	68,912	-	156,494
Operating income	635,966	248,297	68,912	-	953,175

Inter-segment pricing is charged at prevailing customer deposits interest rates.

(5) Business: - continued

Segment information about these businesses for the year ended 31 December 2001 is presented below: - continued

	Corporate and retail banking HK\$'000	Treasury and foreign exchange activities HK\$'000	Other activities HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000
Charge for bad and doubtful debts	(136,437)	-	-	-	(136,437)
Net losses from disposal of property and equipment	(843)	-	-	-	(843)
Gains less losses from disposal of other securities	-	-	15,926	-	15,926
Gains less losses from disposal of held-to-maturity securities	-	5,088	-	-	5,088
Operating expenses	(271,469)	(14,058)	(26,688)	-	(312,215)
Result					
Segment profit	<u>227,217</u>	<u>239,327</u>	<u>58,150</u>	-	524,694
Unallocated corporate expenses					(111,467)
Profit from operations					413,227
Share of results of jointly controlled entities					(18,882)
Profit from ordinary activities before taxation					394,345
Taxation					(48,458)
Net profit for the year					<u>345,887</u>
Capital additions	<u>56,275</u>	<u>147</u>	<u>8,581</u>	<u>29,644</u>	<u>94,647</u>

Segment information about these businesses as at 31 December 2001 is presented below:

	Corporate and retail banking HK\$'000	Treasury and foreign exchange activities HK\$'000	Other activities HK\$'000	Consolidated HK\$'000
Assets				
Segment assets	19,850,571	18,238,736	612,191	38,701,498
Interest in an associate	-	-	360,139	360,139
Interests in jointly controlled entities	-	-	75,668	75,668
Unallocated corporate assets				<u>325,925</u>
Consolidated total assets				<u>39,463,230</u>
Liabilities				
Segment liabilities	32,759,494	470,433	-	33,229,927
Unallocated corporate liabilities				<u>437,321</u>
Consolidated total liabilities				<u>33,667,248</u>

b. Geographical segmentation is analysed based on the locations of the principal operations of the branches and subsidiary companies responsible for reporting the results or booking the assets. For both years 2001 and 2002, more than 90% of the Group's revenue and profit from ordinary activities before taxation were generated by assets booked by the principal operations of the branches and subsidiary companies located in Hong Kong. More than 90% of assets were located in Hong Kong and the balance of the assets were extended to branches outside Hong Kong, mainly in Mainland China and America.

SUPPLEMENTARY INFORMATION**(1) Advances and other accounts**

	2002	2001
	HK\$'000	HK\$'000
Advances to customers	19,650,535	18,928,272
Advances to banks and financial institutions	58,999	30,647
Accrued interest and other accounts	511,522	593,017
Provision for bad and doubtful debts		
– Specific	(272,699)	(279,131)
– General	(202,336)	(180,866)
Interest in suspense	(156,820)	(160,829)
	<u>19,589,201</u>	<u>18,931,110</u>

(2) Gross amount of advances by significant industry sectors

	2002	2001
	HK\$'000	HK\$'000
Loans for use in Hong Kong		
– Industrial, commercial and financial		
– Property development	1,087,255	772,242
– Property investment	3,624,922	3,510,885
– Financial concerns	1,400,129	1,397,976
– Stockbrokers	575,441	847,335
– Wholesale and retail trade	619,996	542,069
– Manufacturing	701,188	718,662
– Transport and transport equipment	265,599	257,578
– Others	3,983,937	3,287,069
– Individuals		
– Loans for the purchase of flats in the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	1,085,369	986,409
– Loans for the purchase of other residential properties	3,013,330	3,092,503
– Credit card advances	96,188	75,727
– Others	979,153	952,653
Trade finance	757,350	853,591
Loans for use outside Hong Kong	1,460,678	1,633,573
	<u>19,650,535</u>	<u>18,928,272</u>

(3) Advance to Customers - by Geographical Areas

The Group's gross advances to customers by countries or geographical areas after taking into account any risk transfers are as follows:

	Total advances to customers		Non-performing advances		Advances overdue for over three months	
	2002	2001	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong	18,718,166	17,806,412	994,355	1,143,822	1,300,959	1,586,891
People's Republic of China	149,641	282,820	79,940	88,404	82,123	88,404
Macau	312,374	374,261	–	8,000	–	8,000
America	186,358	180,314	–	–	–	–
Others	283,996	284,465	–	–	–	–
	<u>19,650,535</u>	<u>18,928,272</u>	<u>1,074,295</u>	<u>1,240,226</u>	<u>1,383,082</u>	<u>1,683,295</u>

(4) Advances on which interest is being placed in suspense or has ceased to be accrued

	2002	% of Total	2001	% of Total
	HK\$'000	Advances	HK\$'000	Advances
Gross advances	1,074,295	5.5	1,240,226	6.6
Specific provision	(265,805)		(240,870)	
	<u>808,490</u>		<u>999,356</u>	
Market value of collateral pledged	788,742		943,099	
Interest in suspense	<u>(156,820)</u>		<u>(160,829)</u>	

There are no advances to banks and other financial institutions on which interest is being placed in suspense or has ceased to be accrued.

(5) Cross-Border Claims

The Group's cross-border claims by countries or geographical areas which constitutes 10% or more of the relevant disclosure item after taking into account any risk transfers are as follows:

	2002			
	Banks and other financial institutions HK\$'000	Public sector entities HK\$'000	Others HK\$'000	Total HK\$'000
Asia Pacific excluding Hong Kong	5,105,374	87,553	876,954	6,069,881
– of which Australia	2,146,855	–	–	2,146,855
North and South America	1,721,753	14,617	525,371	2,261,741
Europe	8,247,847	–	–	8,247,847
– of which – Germany	2,324,212	–	–	2,324,212
– United Kingdom	<u>1,799,768</u>	–	–	<u>1,799,768</u>
	2001			
	Banks and other financial institutions HK\$'000	Public sector entities HK\$'000	Others HK\$'000	Total HK\$'000
Asia Pacific excluding Hong Kong	5,578,986	90,472	924,610	6,594,068
– of which Japan	2,430,628	–	–	2,430,628
North and South America	2,104,363	16,197	124,925	2,245,485
Europe	8,237,841	–	–	8,237,841
– of which – Germany	2,062,333	–	–	2,062,333
– Netherlands	1,860,980	–	–	1,860,980
– United Kingdom	<u>2,055,219</u>	–	–	<u>2,055,219</u>

(6) Gross amount of advances which have been overdue for three months and beyond

	Advances HK\$'000	2002 % of Total advances	Specific provision HK\$'000	Net HK\$'000
Advances overdue for				
– 6 months or less but over 3 months	117,785	0.6	20,615	97,170
– 1 year or less but over 6 months	366,688	1.9	20,191	346,497
– Over 1 year	<u>898,609</u>	<u>4.6</u>	<u>223,522</u>	<u>675,087</u>
Overdue advances	1,383,082	7.1	264,328	1,118,754
Less: Advances overdue for more than 3 months and on which interest is still being accrued	(345,647)	(1.8)	(1,126)	(344,521)
Add: Advances overdue for 3 months or less and on which interest is being placed in suspense or on which interest accrual has ceased	<u>36,860</u>	<u>0.2</u>	<u>2,603</u>	<u>34,257</u>
Total non-performing advances	<u>1,074,295</u>	<u>5.5</u>	<u>265,805</u>	<u>808,490</u>
Rescheduled advances	<u>99,340</u>	<u>0.5</u>	<u>4,778</u>	<u>94,562</u>

	Advances HK\$'000	2001 % of Total advances	Specific provision HK\$'000	Net HK\$'000
Advances overdue for				
– 6 months or less but over 3 months	253,795	1.3	28,554	225,241
– 1 year or less but over 6 months	93,312	0.5	17,047	76,265
– Over 1 year	<u>1,336,188</u>	<u>7.1</u>	<u>221,240</u>	<u>1,114,948</u>
Overdue advances	1,683,295	8.9	266,841	1,416,454
Less: Advances overdue for more than 3 months and on which interest is still being accrued	(495,726)	(2.6)	(32,003)	(463,723)
Add: Advances overdue for 3 months or less and on which interest is being placed in suspense or on which interest accrual has ceased	<u>52,657</u>	<u>0.3</u>	<u>6,032</u>	<u>46,625</u>
Total non-performing advances	<u>1,240,226</u>	<u>6.6</u>	<u>240,870</u>	<u>999,356</u>
Rescheduled advances	<u>171,857</u>	<u>0.9</u>	<u>8,590</u>	<u>163,267</u>

Non-performing advances are advances on which interest is being placed in suspense or on which interest accrual has ceased.

The value of the security of the above overdue advances are analysed as follows:

	2002 HK\$'000	2001 HK\$'000
Total overdue advances	<u>1,383,082</u>	<u>1,683,295</u>
Secured amount	<u>1,102,602</u>	1,379,310
Unsecured amount	<u>280,480</u>	<u>303,985</u>
	<u>1,383,082</u>	<u>1,683,295</u>
Market value of security	<u>1,840,312</u>	<u>2,098,048</u>

The loan borrowers are predominantly located in Hong Kong.

There were no advances to banks and other financial institutions and other assets which were overdue for over 3 months as at 31 December 2002 and 31 December 2001 nor were there any rescheduled advances to banks and other financial institutions. Repossessed assets held by the Group as at 31st December 2002 amounted to HK\$150,950,000 (2001:HK\$208,330,000).

(7) Currency Risk

The Group's foreign currency exposures arising from non-trading and structural position which constitute 10% or more of the total net position in all foreign currencies are as follows :

	2002			Total
	US\$	MOP	THB	
Equivalent in thousands of HK\$				
Spot assets	6,712,935	55,023	34,900	6,802,858
Spot liabilities	(6,683,374)	(38,594)	(3)	(6,721,971)
Forward purchases	101,793	-	-	101,793
Forward sales	(60,754)	(35,059)	-	(95,813)
Net long (short) position	<u>70,600</u>	<u>(18,630)</u>	<u>34,897</u>	<u>86,867</u>
				MOP
Net structural position				<u>48,545</u>
	2001		Total	
	US\$	THB		
Equivalent in thousands of HK\$				
Spot assets	6,605,907	34,404	6,640,311	
Spot liabilities	(6,683,549)	(3)	(6,683,552)	
Forward purchases	157,073	-	157,073	
Forward sales	(47,223)	-	(47,223)	
Net long (short) position	<u>32,208</u>	<u>34,401</u>	<u>66,609</u>	
			MOP	
Net structural position			<u>48,545</u>	

(8) The contractual or notional amounts of each of the following classes of off-balance sheet exposures outstanding are:

	2002		2001	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Contingent liabilities and commitments				
- Direct credit substitutes	1,022,268		390,897	
- Trade-related contingencies	240,006		195,097	
- Other commitments	5,724,449		5,074,515	
- Forward assets purchases	<u>176,919</u>		<u>136,322</u>	
	<u>7,163,642</u>		<u>5,796,831</u>	
Derivatives				
- Exchange rate contracts - hedging	<u>42,935</u>		<u>49,742</u>	
- Interest rate swap contracts - hedging	<u>198,588</u>		<u>-</u>	

(8) The contractual or notional amounts of each of the following classes of off-balance sheet exposures outstanding are: - continued

The replacement cost and credit risk weighted amounts of the above off-balance sheet exposures are as follows:

	2002		2001	
	Replacement cost HK\$'000	Credit risk weighted amount HK\$'000	Replacement cost HK\$'000	Credit risk weighted amount HK\$'000
Contingent liabilities and commitments	n/a	1,965,465	n/a	1,220,452
Exchange rate contracts	58	139	155	696
Interest rate contracts	—	360	—	—
	<u>58</u>	<u>1,965,964</u>	<u>155</u>	<u>1,221,148</u>

The above amounts do not take into account the effects of bilateral netting arrangements.

(9) Capital adequacy and liquidity ratio

	2002 %	2001 %
Capital adequacy ratio at 31st December		
– Unadjusted	<u>20.09</u>	<u>20.92</u>
– Adjusted	<u>20.07</u>	<u>20.87</u>
Average liquidity ratio for the year	<u>55.39</u>	<u>58.56</u>

The capital adequacy ratio is calculated as the ratio, expressed as a percentage, of the capital base to the risk assets, as specified in the Third Schedule of the Banking Ordinance, with reference to the financial information of the Bank, Liu Chong Hing Finance Limited, Liu Chong Hing Bank (International) Limited, Liu Chong Hing Banking Corporation, Cayman, and Right Way Investments Limited.

The adjusted capital adequacy ratio which takes into account of market risks as at the balance sheet date is calculated on the same basis as the unadjusted capital adequacy ratio and in accordance with the Guideline "Maintenance of Adequate Capital Against Market Risks" issued by the Hong Kong Monetary Authority.

The average liquidity ratio is calculated as the ratio, expressed as a percentage, of the average of each calendar month's average ratio, as specified in the Fourth Schedule of the Banking Ordinance, with reference to the financial information of the Bank, Liu Chong Hing Finance Limited, Liu Chong Hing Bank (International) Limited, Liu Chong Hing Banking Corporation, Cayman, and Right Way Investments Limited.

(10) The components of the total capital base after deductions as reported under Part I of the Capital Adequacy Return are as follows:

	2002 HK\$'000	2001 HK\$'000
Core capital		
Paid up ordinary share capital	217,500	217,500
Share premium account	1,542,817	1,542,817
Reserves (eligible for inclusion in core capital)	<u>3,028,380</u>	<u>2,932,283</u>
	4,788,697	4,692,600
Eligible supplementary capital		
Reserves on revaluation of land and interests in land	506,710	517,478
Reserves on revaluation of holding of securities not held for trading purposes	(2,208)	7,109
General provisions for doubtful debts	<u>201,331</u>	<u>179,858</u>
Total capital base before deductions	5,494,530	5,397,045
Deductions from total capital base	<u>(587,262)</u>	<u>(613,597)</u>
Total capital base after deductions	<u>4,907,268</u>	<u>4,783,448</u>

Note: Certain comparative figures have been re-classified to conform to current year's presentation.

COMPLIANCE WITH THE SUPERVISORY POLICY MANUAL FD-1 "FINANCIAL DISCLOSURE BY LOCALLY INCORPORATED AUTHORISED INSTITUTIONS"

The Bank has fully complied with the Supervisory Policy Manual FD-1 "Financial Disclosure by Locally Incorporated Authorised Institutions" which was issued by the Hong Kong Monetary Authority in November 2002.

FINAL DIVIDEND

The Directors will recommend at the forthcoming Annual General Meeting to be held on Wednesday, 23 April 2003 the payment of the final cash dividend for 2002 of HK\$0.35 per share. This final dividend, if approved, will be paid on Thursday, 24 April 2003 to shareholders whose names are on the Register of Members on Thursday, 17 April 2003.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members will be closed from Monday, 14 April 2003 to Thursday, 17 April 2003 (both days inclusive), during which period no transfer of shares can be registered. In order to qualify for the 2002 final dividend, all transfer documents, together with the relevant share certificates, must be lodged with the Bank's Share Registrars and Transfer Office, Computershare Hong Kong Investor Services Limited of 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong, not later than 4:00 pm on Friday, 11 April 2003.

PURCHASE, SALE OR REDEMPTION OF THE BANK'S LISTED SECURITIES

Neither the Bank nor any of its subsidiaries had purchased, sold or redeemed any of the Bank's listed securities during the year ended 31 December 2002.

COMPLIANCE WITH THE CODE OF BEST PRACTICE

The Bank has complied throughout the year ended 31 December 2002 with the Code of Best Practice as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

PUBLICATION OF RESULTS ON THE WEBSITE OF THE STOCK EXCHANGE OF HONG KONG LIMITED

The results of the Bank for the year ended 31 December 2002 containing all the information required by paragraphs 45(1) to 45(3) of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited will be published on the Stock Exchange's website in due course.

EXECUTIVE CHAIRMAN'S STATEMENT

Economic Review

Looking back on the year of 2002, news about the economies, both local and overseas, was mostly negative: fights against acts of terrorism lingered on in the international community, military confrontations erupted here and there, and statistics on corporate liquidations and unemployment remained high, thereby greatly affecting the livelihoods of the people in general. Tensions in the Middle East, which have yet to loosen up, have been hampering the pace of development of the global economy. The road to recovery awaits the gradual easing of such tensions.

According to the statistics released by the government, the local economy, which has long been pestered by the Asian financial turmoil and the recession of the global economy, still managed to record a gross domestic product growth of 2.3 percent in real terms for 2002 as a whole - admittedly a piece of good news as the figure is an improvement over that of 2001. Thanks to the softening of the greenback in the last quarter of 2002, Hong Kong's export figures improved. This had in turn led to a slight rebound of the economy as a whole. The stepping up of preparations for war between the United States and Iraq has, however, reminded one not to be optimistic about the future. The local stock market remains sluggish because of unfavourable external factors coupled with the lack of desires for local investments. The Hang Seng Index started off at 11,397 points in early 2002 and meandered to a low of 9,321 points towards the end of the year, shedding 2,076 points. Market capitalizations totalled HK\$3,559.1 billion on the main board, a drop of HK\$326.2 billion over the total for 2001. Daily trading volumes averaged only a few billion dollars. Besides, the repercussions of the penny stocks incident, as well as the imminent abolition of minimum brokerages, have caused numerous securities houses to scale down their operations or simply shut down. Prospects for that industry still look bleak for want of a favourable environment. On the property front, the large supply of flats during the year led the developers to urgently introduce further sales incentives, thus exerting a constant downward pressure on prices. The government has introduced certain initiatives in an effort to restore property owners' confidence. They include the "nine measures" which have been designed to, among other things, stop the sale of Home Ownership Scheme flats, halt land auctions for now, stop the tendering for railway development projects for the time being, and relax the rules governing landlords' repossession rights. With the sole exception of active trading in the new properties market which has been boosted by the various incentives offered by the developers, trading activities are still sluggish in the secondary property market and property prices remain subdued. As to the tourism industry, it has benefited from the relaxation of the mainland's policy allowing its citizens to travel abroad, not to mention the various long holidays. Although the number of visitors to Hong Kong has increased considerably, there are limits to the seasonal nature, as well as the single source, of travellers. Overall consumption therefore has not been widely blessed. Besides, severe shrinkage in the industrial and commercial circles has time after time brought about record-breaking unemployment numbers. The economy is still stuck in a sluggish rut. The government, having estimated the fiscal deficit for this financial year to be up to HK\$70 billion, is in urgent need of adopting a series of measures to ease such a deficit. The society at large will still have to adapt to the belt-tightening climate so as to ride the storm out.

On the banking front, the operating conditions remained difficult throughout 2002. Credit demand continued to fall and industry competition stayed fierce. Interest spreads narrowed to such a point where almost no profits could be made. It therefore came as no surprise when a certain major international bank announced its plan some months ago to leave the local property mortgage market - a testimony indeed to the difficult operating conditions. On the whole, the local banking industry has always been very solid. However, there has been a general decline in profitability in recent years. Factors that have most directly affected the profits of the banking industry include the sharp increase in personal bankruptcies and the continued surge in non-performing loans in recent months as well as the further increase in the number of people owning negative-equity properties. Such factors have in fact made the operating environment all the more difficult for the banking industry.

Results Announcement

In the light of the cloudy market, the Bank's results for 2002 fell in comparison with those for 2001. For the financial year of 2002, on an audited, consolidated basis, profit attributable to shareholders amounted to HK\$309.49 million, a drop of 10.52 percent against that of the previous year. Customers' deposits fell slightly by 0.59 percent to HK\$32.492 billion. Total loans to customers (after accounting for provisions for bad and doubtful debts as well as interest accrued and suspended) increased 3.54 percent to HK\$19.155 billion. On 31 December 2002, the Bank's loan portfolios were made up as follows: property developments and investments (23.98 percent), personal real estate purchases (20.86 percent), financial and securities concerns (10.05 percent), trade finance (3.86 percent), wholesale and retail trade (3.16 percent), manufacturing, transportation and other businesses (25.19 percent), loans outside Hong Kong (7.43 percent), and others (5.47 percent). Adjusted capital adequacy ratio decreased 3.83 percent to 20.07 percent at the end of 2002, while average liquidity ratio for 2002 fell 5.41 percent to 55.39 percent. Loan-to-deposit ratio rose 4.27 percent to 51.55 percent. Total assets fell slightly by 0.69 percent to HK\$39.189 billion. Shareholders' funds (after final dividend) amounted to HK\$5.726 billion, an increase of 1.06 percent. The local economy remained in the recessionary mode during the year under discussion: business activities of the various industries were sluggish, unemployment rate rising, consumption market dwindling, and capital investments virtually absent, thereby idling the funds of the financial institutions. With the concerted efforts of the Bank's staff, we managed to achieve the results in question. Your board has recommended paying the final dividend for the financial year of 2002 of HK\$0.35 per share to shareholders whose names appear on the Register of Members at the close of business on Thursday, 17 April 2003. Total dividends for the financial year of 2002 (including the interim dividend of HK\$0.15 per share paid earlier) amounted to HK\$0.5 per share.

Profit Analysis

On an audited, consolidated basis, interest income decreased 5.94 percent from that of 2001 to HK\$749.37 million in 2002. Interest spread was maintained at about 1.91 percent, a drop of 5.91 percent. Net fee income amounted to HK\$200.85 million. Total operating income was HK\$950.22 million and total operating expenditure was HK\$439.26 million. Cost-to-income ratio amounted to 46.23 percent. Operating profit before provisions and disposal of long-term assets decreased 3.5 percent to HK\$510.96 million. During the year under discussion, the Bank continued to steadfastly abide by its policy of prudent operation and maintenance of good credit quality. Provisions for bad and doubtful debts fell slightly from those of 2001 by 5.43 percent to HK\$129 million. After accounting for the provisions for bad and doubtful debts as well as the charge for taxation, the Bank recorded a decrease of 10.52 percent in the profit attributable to shareholders to HK\$309.49 million, translating into earnings of HK\$0.71 per share. Net asset value (after final dividend) amounted to HK\$13.16 per share, a slight increase of 1.06 percent.

Fortifying Management

In order to gear up for future developments, the Bank has devoted itself to the enhancement and restructuring of its internal organisation. The Bank's new organisational structure was fully implemented in 2002. Satisfactory results have been achieved in such areas as the division of labour among the various departments, the effective use of resources and the promotion of work efficiency.

Directorate Changes

I stepped down as your Managing Director immediately after the Bank's annual general meeting on 25 April 2002. I, however, stayed on as your Executive Chairman. Mr Liu Lit Chi was promoted at the same time from Deputy Managing Director to Managing Director and Chief Executive Officer. Mr Don Tit Shing Liu, Executive Director, was then appointed your Deputy Chief Executive Officer as well. Dr Liu Lit Chung resigned as a Non-executive Director on 11 July 2002, and Mr Christopher Kwun Shing Liu was appointed a Non-executive Director on that same day. Mr Shi Qin resigned as a Non-executive Director on 21 November 2002, and Mr Sun Jiakang was appointed a Non-executive Director on that same day. On 12 February 2003, Mr Alfred Cheuk Yu Chow, a solicitor, was appointed an Independent Non-executive Director. Mr Chang Ying Kuang, an Independent Non-executive Director, is due to retire in rotation at the upcoming annual general meeting of the Bank which has been scheduled for 23 April 2003. Although Mr Chang is eligible to be re-elected, he has decided not to offer himself for re-election. I would like to take this opportunity to not only thank Dr Liu, Mr Shi and Mr Chang for their contributions to the Bank during their terms of office, but also welcome those who have assumed their new positions.

Economic Prospects

Hong Kong's neighbouring economies have outpaced our local economy in recent years. Even though Hong Kong is still regarded as one of Asia's four little dragons, it is beginning to lose its edge. One of the major reasons is Hong Kong's "city-type" economic structure, characterized by limited market size and insufficient internal demand, makes it relatively difficult to grasp the centripetal force for economic recovery. Moreover, our industries tend to be overmonotonous. When once-commanding industries falter, very often there are no successors. The real estate sector, for example, failed to bounce back ever since the start of the recessionary cycle for the global economy in 1997. Although our government has earnestly promoted the transformation of the economy, new pillar industries have yet to be successfully nurtured to act as the railway engine for the economy. Investment sentiments have thus been dampened, resulting in the outflow of capital. In the light of the mainland's surging reforms and thriving economy, the best way out for Hong Kong is to merge with the Pearl River Delta to form a much larger system (comprising the economies of Guangdong, Hong Kong and Macau) so as to vie for the leading role as the pivot on which the region's economic development revolves by capitalizing on the better geographical attributes and laissez-faire policies in question. Hong Kong would be able to bring its inherent advantages into play, namely, its stable and non-interventionist financial policies and well-developed international trading network, not to mention its advanced telecommunications capabilities and abundant strengths in the area of shipping. Besides, Pearl River Delta's renowned facilities for the manufacturing sectors and ample supplies of raw materials, coupled with Macau's existing travel and entertainment amenities, would make the tripartite alliance a winning proposition, enabling the parties involved to fill in for one another on the one hand and avoiding unnecessary vicious competition on the other. Our government should seize the opportunity to bring about the alliance as soon as possible in order for Hong Kong to stand a chance of maintaining its leading advantages when competing with its neighbours. As to Hong Kong's traditional industries, only tourism performs well and has the potential for development.

Visitors have been shuttling between Hong Kong and the mainland on the back of the hinterland's continuously prosperous economy. The number of people visiting Hong Kong can thus be expected to grow exponentially in the future. Recently, many hotels have been built and various shops selling merchandise bearing internationally famous brand names have been set up in prime business and commercial locations in Hong Kong. This does testify not only to the territory's continued leading role as a consumers market, but also to its sustained reputation as a shoppers paradise. Hong Kong will have an additional amusement attraction with the scheduled opening of the Disney Theme Park. If tourism can be developed to realize its full potential while attracting people from different walks of life to visit Hong Kong from different parts of the world, our consumers market as a whole may be given a boost and employment opportunities may also improve. We may thus be cautiously optimistic about the prospects for the economy.

The government, in order to alleviate this financial year's serious fiscal deficit problem that it faces, will soon resort to raising taxes. This would undoubtedly mean a further blow to those who are already trough-ridden. The government should therefore try even harder to implement cost-cutting measures to reduce public expenditure and streamline government structure with an eye to gradually improving Hong Kong's economic environment.

As to the financial sector which helps to prop up the local economy as a whole, the government should do its utmost to maintain Hong Kong's position as a major international financial center. There is limited room for the banking industry, which has always been properly regulated, to expand because of the smallness of our market. The government should help local banks to fight for preferential terms for the establishment of branches in the mainland to capitalize on the flourishing economic landscape ushered in by the relaxation of border-crossing regulations. This should help the banking industry to develop in the future. Besides, the government should step up its efforts to regulate the stock market in general and the listed companies in particular. Corporate governance practices should be made more transparent and sound accounting standards unified to allay investors' concern. Moreover, the current trading volumes of the bond, foreign exchange and bullion markets in Hong Kong still pale in comparison with those of the other developed markets in the international arena. The government should be more aggressive in helping to devise and develop financial products so as to maintain Hong Kong's leading role in the financial market.

The touch-and-go US-Iraq situation is threatening the development of the global economy. It is hoped that the confrontation can be resolved peacefully as soon as possible so that casualties and monetary wastage may be avoided and financial order restored to the international community with all due speed. It is also hoped that Hong Kong's economy will gradually turn around to the point of full recovery in the process.

Finally, I, on behalf of your board, would like to thank our customers, friends and shareholders for their trust in and support for the Bank. Heartfelt thanks also go out to all members of our staff for their dedication to the Bank.

By Order of the Board
Liu Lit Man
Executive Chairman

13 March 2003

Please also refer to the published version of this announcement in South China Morning Post dated 14-3-2003.