The directors present their annual report and the audited financial statements for the year ended 31 December 2004.

PRINCIPAL ACTIVITIES

The Bank is engaged in the provision of banking and related financial services. The principal activities of its subsidiaries are set out in note 16 to the financial statements.

BUSINESS

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

<table>
<thead>
<tr>
<th></th>
<th>2004</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>HK$’000</td>
<td>HK$’000</td>
</tr>
<tr>
<td>Corporate and retail banking</td>
<td>499,088</td>
<td>523,102</td>
</tr>
<tr>
<td>Treasury and foreign exchange activities</td>
<td>273,910</td>
<td>270,892</td>
</tr>
<tr>
<td>Other business activities</td>
<td>144,552</td>
<td>90,024</td>
</tr>
<tr>
<td></td>
<td><strong>917,550</strong></td>
<td><strong>884,018</strong></td>
</tr>
</tbody>
</table>

The corporate and retail banking services provided by the Group are principally lending and trade finance facilities, consumer financing, overdraft facilities, mandatory provident fund services, provision of fixed deposits, current 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, 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 2004 are set out in the consolidated income statement on page 33.

The state of affairs of the Group and the Bank as at 31 December 2004 are set out in the balance sheets on pages 34 and 35 respectively.

DIVIDENDS
An interim dividend of HK$0.17 per share amounting to HK$73,950,000 was paid to the shareholders during the year. The directors now recommend the payment of a final dividend for the year ended 31 December 2004 of HK$0.40 per share amounting to HK$174,000,000 to the shareholders on the Register of Members on 22 April 2005 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 the consolidated statement of changes in equity on page 36 and note 23 to the financial statements respectively.

INVESTMENT PROPERTIES
During the year, the Group acquired investment properties at a cost of HK$16,496,000.

The Group’s investment properties were revalued at 31 December 2004. The net surplus arising on the revaluation, which has been credited directly to the investment property revaluation reserve, amounted to HK$4,996,000. 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 2004. The surplus arising on the revaluation, which has been credited directly to the land and buildings revaluation reserve, amounted to HK$92,576,000. 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 25 April 2002. Particulars of the Scheme are set out in note 25 to the financial statements. 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  (Executive Chairman)
Mr LIU Lit Mo, MBE, JP  (Vice Chairman)
Mr LIU Lit Chi  (Managing Director and Chief Executive Officer)
Mr Don Tit Shing LIU  (Deputy Chief Executive Officer)
Mr Wilfred Chun Ning LIU
Mr LAU Wai Man
Mr Frank Shui Sang JIN
Mr Kevin Wai Hung CHU

Non-executive Directors
Dr Robin Yau Hing CHAN, GBS, LLD, JP, EOE
Mr LIU Guoyuan
Mr Timothy George FRESHWATER
Mr Toshiaki ARAI
Mr Andrew LIU
Mr SUN Jiakang
Mr Dominic Bing Hoi LAM
Mr Christopher Kwun Shing LIU
Mr Alfred Cheuk Yu CHOW, JP

Independent Non-executive Directors
Mr Peter Alan Lee VINE, OBE, VRD, LLD, JP
Mr Wanchai CHIRANAKHORN
Mr CHENG Yuk Wo
DIRECTORS - continued

Mr Kevin Wai Hung Chu (who was appointed an executive director on 1 June 2004) and Mr Cheng Yuk Wo (who was appointed an independent non-executive director on 30 September 2004) 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. Mr Timothy George Freshwater and Mr Alfred Cheuk Yu Chow were each redesignated from independent non-executive director to non-executive director, and Mr Dominic Bing Hoi Lam was redesignated from executive director to non-executive director, all with effect from 30 September 2004.

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, Dr Robin Yau Hing Chan, Mr Andrew Liu, Mr Dominic Bing Hoi Lam, Mr Wilfred Chun Ning Liu, Mr Lau Wai Man and Mr Frank Shui Sang Jin shall retire and offer themselves for re-election at the forthcoming annual general meeting. Dr Robin Yau Hing Chan, subject to his being re-elected a director at the forthcoming annual general meeting, shall be redesignated from non-executive director to independent non-executive director, and Mr Peter Alan Lee Vine shall resign as an independent non-executive director, both with effect from the conclusion of the annual general meeting to be held on 26 April 2005.

DIRECTORS’ SERVICE CONTRACTS

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.

Pursuant to Articles of Association of the Bank, one-third of the directors, including non-executive 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.

DIRECTORS’ (INCLUDING THE CHIEF EXECUTIVE OFFICER’S) INTERESTS AND SHORT POSITIONS IN SECURITIES

As at 31 December 2004, the interests and short positions of the directors (including the chief executive officer) in the securities and underlying securities of the Bank and its associated corporations (under Part XV of the Securities and Futures Ordinance (the “SFO”)), as recorded in the register required to be kept under Section 352 of the SFO, were as follows: