



# LIU CHONG HING BANK LIMITED

## UNAUDITED CONSOLIDATED RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2004

### SUMMARY OF RESULTS

The directors of Liu Chong Hing Bank Limited (the "Bank") are pleased to announce that the unaudited consolidated results of the Bank and its group of companies (the "Group") for the six months ended 30 June 2004, together with the comparative figures for the last corresponding period, which have been reviewed by the Bank's Audit Committee are as follows:

	6 months ended 30 June 2004 HK\$'000	6 months ended 30 June 2003 HK\$'000
Interest income	502,493	544,260
Interest expense	(149,202)	(198,171)
Net interest income	353,291	346,089
Other operating income (Note 5)	122,148	89,553
Operating income	475,439	435,642
Operating expenses (Note 6)	(223,220)	(224,445)
Operating profit before provisions and disposal of long-term assets	252,219	211,197
Charge for bad and doubtful debts		
– New provisions	(84,966)	(88,478)
– Amounts released	32,618	49,305
– Amounts recovered	531	245
Net charge for bad and doubtful debts	(51,817)	(38,928)
Net losses from disposal of property and equipment	(15)	(1,425)
Gains less losses from disposal of investment securities and an associate	1,176	692
Profit from operations	201,563	171,536
Share of results of jointly controlled entities	5,500	(2,000)
Profit from ordinary activities before taxation	207,063	169,536
Taxation (Note 1)		
– Hong Kong	(38,077)	(27,300)
– Overseas	(1,031)	(254)
– Deferred tax	7,905	5,634
Net taxation charge	(31,203)	(21,920)
Net profit for the period	175,860	147,616
Dividends	73,950	65,250
Earnings per share, basic and diluted (Note 2)	HK\$0.40	HK\$0.34
Dividend per share	HK\$0.17	HK\$0.15

# Liu Chong Hing Bank Limited

## CONSOLIDATED BALANCE SHEET INFORMATION

	30 June 2004 HK\$'000	31 December 2003 HK\$'000
<b>Assets</b>		
Cash and short-term funds	12,434,983	12,001,888
Placements with banks and other financial institutions maturing between one and twelve months	1,061,865	1,243,771
Trading securities	215,946	220,969
Advances and other accounts (including trade bills: HK\$73,776,000; 2003 : HK\$69,355,000)	20,497,060	20,081,543
Held-to-maturity securities	3,216,504	3,104,561
Certificates of deposit held	1,118,014	1,292,407
Investment securities	340,085	319,947
Interest in an associate ( <i>Note 3</i> )	—	396,448
Interest in jointly controlled entities	63,686	66,238
Investment properties	47,868	47,868
Property and equipment	1,161,715	1,165,276
Total assets	<u>40,157,726</u>	<u>39,940,916</u>
<b>Liabilities</b>		
Deposits and balances of banks and other financial institutions	1,459,782	1,035,392
Deposits from customers ( <i>Note 7</i> )	32,398,652	32,591,590
Other accounts and provisions	179,769	271,327
Deferred taxation	76,406	85,085
Taxation	44,712	13,114
Total liabilities	<u>34,159,321</u>	<u>33,996,508</u>
<b>Capital Resources</b>		
Share capital	<u>217,500</u>	<u>217,500</u>
Reserves		
Share premium	1,542,817	1,542,817
Goodwill	457	(182)
Investment property revaluation reserve	29,344	29,344
Land and buildings revaluation reserve	567,499	572,240
Investment revaluation reserve	104,192	74,473
General reserve	1,388,500	1,388,500
Translation reserve	1,609	2,586
Dividend reserve	73,950	152,250
Retained profits	1,970,627	1,870,905
Current period / year profit	101,910	93,975
	<u>5,780,905</u>	<u>5,726,908</u>
Shareholders' funds	<u>5,998,405</u>	<u>5,944,408</u>
Total liabilities and capital resources	<u>40,157,726</u>	<u>39,940,916</u>

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## CONSOLIDATED CASH FLOW STATEMENT

	6 months ended 30 June 2004 HK\$'000	6 months ended 30 June 2003 HK\$'000
<b>OPERATING ACTIVITIES</b>		
Cash used in operations	(440,607)	(36,691)
Hong Kong profits tax paid	(6,479)	(587)
Overseas tax paid	(1,031)	(254)
<b>NET CASH USED IN OPERATING ACTIVITIES</b>	<b>(448,117)</b>	<b>(37,532)</b>
<b>INVESTING ACTIVITIES</b>		
Interest received on certificates of deposit held	5,403	13,023
Interest received on investment securities	32,401	22,096
Dividends received on equity securities	19,939	4,145
Purchase of held-to-maturity securities	(665,676)	(546,905)
Purchase of certificates of deposit held	(152,377)	(338,235)
Purchase of investment securities	(63,177)	(16,468)
Purchase of property and equipment	(16,860)	(23,667)
Purchase of a subsidiary	(7,965)	—
Repayment from (advances to) an associate	392,878	(7,087)
Proceeds from disposal of an associate	939	—
Proceeds from disposal of investment securities	73,000	6,231
Proceeds from redemption of held-to-maturity securities	553,733	202,484
Proceeds from redemption of certificates of deposit held	326,770	152,427
Proceeds from disposal of property and equipment	5,803	30
<b>NET CASH GENERATED FROM (USED IN) INVESTING ACTIVITIES</b>	<b>504,811</b>	<b>(531,926)</b>
<b>FINANCING</b>		
Ordinary dividend paid	(152,250)	(152,250)
<b>CASH USED IN FINANCING ACTIVITIES</b>	<b>(152,250)</b>	<b>(152,250)</b>
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(95,556)</b>	<b>(721,708)</b>
<b>CASH AND CASH EQUIVALENTS AT 1 JANUARY</b>	<b>12,132,622</b>	<b>13,950,034</b>
<b>CASH AND CASH EQUIVALENTS AT 30 JUNE</b>	<b>12,037,066</b>	<b>13,228,326</b>

### Notes:

- Hong Kong profits tax is calculated at 17.5% (2003: 17.5%) of the estimated assessable profit for the period. Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.
- The calculation of earnings per share, basic and diluted, is based on the profit attributable to shareholders of HK\$175,860,000 (2003: HK\$147,616,000) and on 435,000,000 (2003: 435,000,000) ordinary shares in issue during the period.
- As explained in the announcement dated 16 March 2004, the Bank sold the interest in an associate and all other advances to the associate were fully repaid.

### (4) Business and geographical segments

#### a. Business segments

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.

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- (i) Segment information about these businesses for the period ended 30 June 2004 is presented below:

## INCOME STATEMENT

	Corporate and retail banking HK\$'000	Treasury and foreign exchange activities HK\$'000	Other business activities HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000
Interest income from external customers	337,807	164,686	—	—	502,493
Interest expense to external customers	(146,586)	(2,616)	—	—	(149,202)
Inter-segment income (Note)	44,562	—	—	(44,562)	—
Inter-segment expense (Note)	—	(44,562)	—	44,562	—
Net income	235,783	117,508	—	—	353,291
Other operating income	45,857	11,702	64,589	—	122,148
Operating income	281,640	129,210	64,589	—	475,439
Net charge for bad and doubtful debts	(51,817)	—	—	—	(51,817)
Net (losses) gains from disposal of property and equipment	(46)	—	31	—	(15)
Net gains from disposal of investment securities and an associate	—	—	1,176	—	1,176
Operating expenses	(133,288)	(9,272)	(11,109)	—	(153,669)
Segment profit	96,489	119,938	54,687	—	271,114
Unallocated corporate expenses	—	—	—	—	(69,551)
Profit from operations	—	—	—	—	201,563
Share of results of jointly controlled entities	—	—	5,500	—	5,500
Profit from ordinary activities before taxation	—	—	—	—	207,063
Net taxation charge	—	—	—	—	(31,203)
Net profit for the period	—	—	—	—	175,860

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

- (ii) Segment information about these businesses for the period ended 30 June 2003 is presented below:

## INCOME STATEMENT

	Corporate and retail banking HK\$'000	Treasury and foreign exchange activities HK\$'000	Other business activities HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000
Interest income from external customers	351,171	193,089	—	—	544,260
Interest expense to external customers	(194,541)	(3,630)	—	—	(198,171)
Inter-segment income (Note)	68,039	—	—	(68,039)	—
Inter-segment expense (Note)	—	(68,039)	—	68,039	—
Net income	224,669	121,420	—	—	346,089
Other operating income	43,476	14,048	32,029	—	89,553
Operating income	268,145	135,468	32,029	—	435,642
Net charge for bad and doubtful debts	(38,928)	—	—	—	(38,928)
Net (losses) gains from disposal of property and equipment	(1,455)	—	30	—	(1,425)
Net gains from disposal of investment securities	—	—	692	—	692
Operating expenses	(133,000)	(9,203)	(10,499)	—	(152,702)
Segment profit	94,762	126,265	22,252	—	243,279
Unallocated corporate expenses	—	—	—	—	(71,743)
Profit from operations	—	—	—	—	171,536
Share of results of jointly controlled entities	—	—	(2,000)	—	(2,000)
Profit from ordinary activities before taxation	—	—	—	—	169,536
Net taxation charge	—	—	—	—	(21,920)
Net profit for the period	—	—	—	—	147,616

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

## b. Geographical segments

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 six months ended 2003 and 2004, 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.

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## (5) Other operating income

	6 months ended 30 June 2004 HK\$'000	6 months ended 30 June 2003 HK\$'000
Fees and commission income	64,822	47,471
Less: Fees and commission expenses	(1,557)	(926)
Net fees and commission income	63,265	46,545
Dividend income	19,939	4,144
Gains less losses from dealing in foreign currencies	11,703	14,048
Gross rental income from properties	2,140	2,478
Less: Outgoings	(338)	(3,374)
Net rental income	1,802	(896)
Safe deposit box rentals	10,184	10,149
Other banking services income	14,329	14,843
Others	926	720
	<u>122,148</u>	<u>89,553</u>

## (6) Operating expenses

	6 months ended 30 June 2004 HK\$'000	6 months ended 30 June 2003 HK\$'000
Staff costs		
Salaries and other costs	111,868	110,401
Retirement benefits scheme contributions	7,653	7,519
Total staff costs	119,521	117,920
Depreciation and amortisation	20,921	19,403
Premises and equipment expenses, excluding depreciation		
Rentals and rates for premises	20,166	17,422
Others	5,324	6,473
Other operating expenses	57,288	63,227
	<u>223,220</u>	<u>224,445</u>

## (7) Deposits from customers

	30 June 2004 HK\$'000	31 December 2003 HK\$'000
Demand deposits and current accounts	2,148,959	2,029,869
Savings deposits	7,898,133	7,568,026
Time, call and notice deposits	22,351,560	22,993,695
	<u>32,398,652</u>	<u>32,591,590</u>

## SUPPLEMENTARY INFORMATION

### (1) Advances and other accounts

	30 June 2004 HK\$'000	31 December 2003 HK\$'000
Advances to customers	20,676,738	20,185,265
Advances to banks and other financial institutions	64,284	58,369
Accrued interest and other accounts	251,483	409,497
Provision for bad and doubtful debts		
– Specific	(113,115)	(215,255)
– General	(249,665)	(215,730)
Interest in suspense	(132,665)	(140,603)
	<u>20,497,060</u>	<u>20,081,543</u>

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## (2) Gross amount of advances by significant industry sectors

	30 June 2004 HK\$'000	31 December 2003 HK\$'000
Loans for use in Hong Kong		
– Industrial, commercial and financial		
– Property development	1,443,988	1,612,317
– Property investment	4,299,399	3,897,463
– Financial concerns	2,118,798	1,598,067
– Stockbrokers	348,246	338,695
– Wholesale and retail trade	637,564	640,383
– Manufacturing	994,457	930,717
– Transport and transport equipment	505,793	388,258
– Others	3,050,685	3,302,408
– Individuals		
– Loans for the purchase of flats in the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	978,529	1,034,119
– Loans for the purchase of other residential properties	2,696,311	2,848,979
– Credit card advances	72,881	83,110
– Others	1,014,592	1,027,973
Trade finance	644,860	702,168
Loans for use outside Hong Kong	1,870,635	1,780,608
	<u>20,676,738</u>	<u>20,185,265</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	
	30 June 2004 HK\$'000	31 December 2003 HK\$'000	30 June 2004 HK\$'000	31 December 2003 HK\$'000	30 June 2004 HK\$'000	31 December 2003 HK\$'000
Hong Kong	19,098,165	18,645,551	690,589	905,297	813,957	1,724,435
People's Republic of China	333,512	359,023	40,547	67,543	40,599	69,662
Macau	264,914	241,712	–	–	–	–
America	482,788	304,683	–	–	–	–
Others	497,359	634,296	–	–	–	–
	<u>20,676,738</u>	<u>20,185,265</u>	<u>731,136</u>	<u>972,840</u>	<u>854,556</u>	<u>1,794,097</u>

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

	30 June 2004 HK\$'000	% to total advances	31 December 2003 HK\$'000	% to total advances
Gross advances	731,136	3.5	972,840	4.8
Specific provision	(99,743)		(202,599)	
	<u>631,393</u>		<u>770,241</u>	
Market value of collateral pledged	653,226		775,624	
Interest in suspense	<u>(132,665)</u>		<u>(140,603)</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.

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## (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:

	Banks and other financial institutions HK\$'000	30 June 2004		
		Public sector entities HK\$'000	Others HK\$'000	Total HK\$'000
Asia Pacific excluding Hong Kong	3,814,228	102,447	602,207	4,518,882
North and South America	1,614,311	16,168	919,298	2,549,777
– of which – United States	880,205	15,523	916,834	1,812,562
Europe	9,004,601	3,248	49,358	9,057,207
– of which – Germany	2,434,560	1,117	3,558	2,439,235
– United Kingdom	1,837,225	1,797	39,554	1,878,576

	Banks and other financial institutions HK\$'000	31 December 2003		
		Public sector entities HK\$'000	Others HK\$'000	Total HK\$'000
Asia Pacific excluding Hong Kong	4,452,886	92,751	754,787	5,300,424
North and South America	1,502,657	3,149	810,817	2,316,623
Europe	8,214,313	–	38,878	8,253,191
– of which – Germany	1,930,690	–	–	1,930,690
– United Kingdom	2,384,124	–	38,878	2,423,002

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

	Gross advances HK\$'000	30 June 2004		
		% to total advances	Specific provision HK\$'000	Net advances HK\$'000
Advances overdue for				
– 6 months or less but over 3 months	182,369	0.9	4,437	177,932
– 1 year or less but over 6 months	21,980	0.1	1,695	20,285
– Over 1 year	650,207	3.1	94,401	555,806
Overdue advances	854,556	4.1	100,533	754,023
Less: Advances overdue for more than 3 months and on which interest is still being accrued	(170,908)	(0.8)	(2,082)	(168,826)
Add: Advances overdue for 3 months or less and on which interest is being placed in suspense or on which interest accrual has ceased	47,488	0.2	1,292	46,196
Total non-performing advances	731,136	3.5	99,743	631,393
Rescheduled advances	663,584	3.2	8,666	654,918

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	31 December 2003			
	Gross advances HK\$'000	% to total advances	Specific provision HK\$'000	Net advances HK\$'000
Advances overdue for				
– 6 months or less but over 3 months	61,687	0.3	2,903	58,784
– 1 year or less but over 6 months	1,017,926	5.0	32,190	985,736
– Over 1 year	714,484	3.5	166,425	548,059
Overdue advances	1,794,097	8.8	201,518	1,592,579
Less: Advances overdue for more than 3 months and on which interest is still being accrued	(853,956)	(4.2)	–	(853,956)
Add: Advances overdue for 3 months or less and on which interest is being placed in suspense or on which interest accrual has ceased	32,699	0.2	1,081	31,618
Total non-performing advances	972,840	4.8	202,599	770,241
Rescheduled advances	823,365	4.1	12,912	810,453

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 is analysed as follows:

	30 June 2004 HK\$'000	31 December 2003 HK\$'000
Total overdue advances	854,556	1,794,097
Secured amount	780,891	1,598,687
Unsecured amount	73,665	195,410
	854,556	1,794,097
Market value of security	970,559	1,908,132

The loan borrowers are predominantly located in Hong Kong.

There were no advances to banks and other financial institutions or other assets which were overdue for over 3 months as at 30 June 2004 and 31 December 2003. Nor were there any rescheduled advances to banks and other financial institutions.

Assets acquired by repossession of collateral for realisation continue to be treated as securities for loans and advances. In this regard, provision has been made on the shortfall between the carrying amount of the loans and advances and the expected net sales proceeds from realisation of the repossessed assets.

Repossessed assets held by the Group as at 30 June 2004 amounted to HK\$127,890,000 (2003: HK\$83,880,000).

## (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:

	30 June 2004			
	US\$	MOP	JPY	Total
Equivalent in thousands of HK\$				
Spot assets	7,340,164	64,387	156,251	7,560,802
Spot liabilities	(7,333,829)	(41,600)	(146,293)	(7,521,722)
Forward purchases	74,179	–	1,920	76,099
Forward sales	(40,283)	(10,017)	(5,216)	(55,516)
Net long position	40,231	12,770	6,662	59,663
				MOP
Net structural position				48,545



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	31 December 2003		
	US\$	THB	Total
Equivalent in thousands of HK\$			
Spot assets	7,264,879	39,460	7,304,339
Spot liabilities	(7,274,994)	—	(7,274,994)
Forward purchases	91,544	—	91,544
Forward sales	(47,674)	—	(47,674)
Net long position	<u>33,755</u>	<u>39,460</u>	<u>73,215</u>
			<b>MOP</b>
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:**

	30 June 2004 HK\$'000	31 December 2003 HK\$'000
Contingent liabilities and commitments		
– Direct credit substitutes	1,154,983	829,984
– Trade-related contingencies	412,851	256,126
– Other commitments	6,344,924	6,835,913
– Forward assets purchases	181,523	165,981
	<u>8,094,281</u>	<u>8,088,004</u>
Derivatives		
– Exchange rate contracts - hedging	105,370	19,046
– Interest rate swap contracts - hedging	<u>312,836</u>	<u>611,758</u>

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

	30 June 2004		31 December 2003	
	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	2,366,153	n/a	2,181,804
Exchange rate contracts	128	956	120	125
Interest rate contracts	14,641	6,564	694	1,683
	<u>14,769</u>	<u>2,373,673</u>	<u>814</u>	<u>2,183,612</u>

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

**(9) Capital adequacy and liquidity ratio**

	30 June 2004 %	31 December 2003 %
Capital adequacy ratio	<u>20.55</u>	<u>19.15</u>
	30 June 2004 %	30 June 2003 %
Average liquidity ratio for the period	<u>53.23</u>	<u>53.62</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 Finance (International) Limited, Liu Chong Hing Banking Corporation, Cayman, and Right Way Investments Limited.

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 Finance (International) Limited, Liu Chong Hing Banking Corporation, Cayman, and Right Way Investments Limited.

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

	30 June 2004 HK\$'000	31 December 2003 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)	3,224,501	3,135,705
	<u>4,984,818</u>	<u>4,896,022</u>
Eligible supplementary capital		
Reserves on revaluation of land and interests in land	418,022	421,341
Reserves on revaluation of holding of securities not held for trading purposes	6,619	10,890
General provisions for doubtful debts	249,666	209,543
Total capital base before deductions	5,659,125	5,537,796
Deductions from total capital base	(247,295)	(627,857)
Total capital base after deductions	<u>5,411,830</u>	<u>4,909,939</u>

## COMPLIANCE WITH THE SUPERVISORY POLICY MANUAL FD-2 "INTERIM FINANCIAL DISCLOSURE BY LOCALLY INCORPORATED AUTHORISED INSTITUTIONS"

The Bank has fully complied with the Supervisory Policy Manual FD-2 "Interim Financial Disclosure by Locally Incorporated Authorised Institutions" which was issued by the Hong Kong Monetary Authority in November 2002.

## INTERIM DIVIDEND

The Directors have declared an interim cash dividend for 2004 of HK\$0.17 per share, payable on Tuesday, 21 September 2004 to shareholders whose names are on the Register of Members on Friday, 17 September 2004.

## CLOSURE OF REGISTER OF MEMBERS

The Register of Members will be closed from Monday, 13 September 2004 to Friday, 17 September 2004 (both days inclusive), during which period no transfer of shares can be registered. In order to qualify for the 2004 interim 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, 10 September 2004.

## 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 six months ended 30 June 2004.

## COMPLIANCE WITH THE CODE OF BEST PRACTICE

None of the directors is aware of information that would reasonably indicate that the Bank is not, or was not for any part of the accounting period for the six months ended 30 June 2004, in compliance with the Code of Best Practice adopted by the Bank, which includes all the guidelines set out in Appendix 14 of 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 six months ended 30 June 2004 containing all the information required by paragraphs 46(1) to 46(6) 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.

## REVIEW AND PROSPECTS

The second half of last year witnessed the gradual improvement of the Hong Kong economy. The Mainland and Hong Kong Closer Economic Partnership Arrangement ("CEPA") has given the economy a new boost. The tourism and restaurant businesses have turned around and so has the property market. The employment situation has continued to improve, not to mention the gradual blossoming of economic activities on the back of a swift rebound of the retail consumer market brought about by the increasing numbers of mainland visitors to Hong Kong travelling under the "individual travels" arrangement. The overseas economies have generally stabilized as this year began to unfold and Hong Kong has started benefitting from the official implementation of CEPA, which means zero import tariff for the sale of a number of Hong Kong products in the mainland. This has facilitated the return of manufacturers who had previously moved up north. In the light of Hong Kong's superb position, foreign businesses have actively explored the use of CEPA incentives for investment opportunities in Hong Kong. The local industries tended to have been given a dose of new life. Statistics have indicated that local exports have risen 25 months in a row, setting the longest continuous increase record for the past 13 years. The value of the overall exports has risen some 16 percent for the first six months of this year. The export industry has flourished mainly because of the good performance of the markets in Europe, America, Japan and South East Asia. It is generally believed that strong growth momentum will persist. Following the interactive effect caused by the various trades and businesses, Hong Kong's economy as a whole boasted a full recovery for the first half of this year. All kinds of indicators have shown various degrees of progress. This is a period exhibiting the most vitality after the financial turmoil of 1997.

Although the economy has markedly improved, the impact has yet to be felt by the banking sector. As such, the results for the first half of this year, as compared with those of the corresponding period last year, can only be described as a slight improvement. The Bank's unaudited, consolidated results for the first half of 2004 improved somewhat compared with those for the previous corresponding period. Net interest income rose 2.08 percent to HK\$353.291 million. Operating profit before provisions increased 19.42 percent to HK\$252.219 million. Provisions newly made for bad and doubtful debts for the first half of this year fell 3.97 percent to 84,966 million from 88,478 million for the corresponding period last year. However, the provisions written back during the period declined 33.10 percent to 33,149 million from 49,55 million for the corresponding period last year. As such, provisions for bad and doubtful debts for the first half of this year rose 33.11 percent to 51,817 million. Profit attributable to shareholders amounted to HK\$175.86 million, an increase of 19.13 percent. As of 30 June 2004, total customers' deposits decreased 0.59 percent to HK\$32.399 billion compared with the corresponding figure as of 31 December 2003. Total loans and advances to customers (after provisions for bad and doubtful debts) increased 2.50 percent to HK\$20,229 billion. Total assets amounted to HK\$40,158 billion, an increase of 0.54 percent. As of 30 June 2004, unadjusted capital adequacy ratio rose 7.31 percent to 20.55 percent against the corresponding ratio of 31 December 2003. Average liquidity ratio for the first half of 2004 dropped 0.73 percent to 53.23 percent against the corresponding ratio for the first half of 2003. As of 30 June 2004, loan-to-deposit ratio stood at 54.51 percent, an increase of 2.99 percent against the corresponding ratio as of 31 December 2003. Earnings per share for the first half of 2004 amounted to HK\$0.40, an increase of HK\$0.06 per share over the corresponding figure for the first half of 2003. The increase in profit is due mainly to the rebound of the economy from the trough. Business activities of the various trades and industries tended to have gradually picked up, leading to a steady increase in the need to borrow and the desire to invest. Total customers' deposits decreased slightly in comparison with the corresponding figure at the end of 2003 because deposit rates still tended to be low. As far as loan quality is concerned, the Bank has consistently abided by its prudent credit risk management policy by actively undertaking debt collection efforts. It is expected that, in the light of the current improving economic environment, loan quality would be markedly improved.

The local economy has shifted into a rising mode. Deflation, which has plagued the territory for years, can be expected to be behind us in a few months. Gross domestic product for this year has been forecasted to grow up to 7 percent. Although US interest rates have just started to rise, the American presidential election towards the end of this year will have its impact on the international political landscape for the next four years. In the light of Hong Kong's sound foundation and network of global trading partners, not to mention a more stable development of the economy facilitated by mainland China's macroadjustment policy, the local economy stands to benefit even more from plans to foster closer cooperation in the Pan Pearl River Delta area (comprising nine provinces and two Special Administrative Regions). Such plans will pave the road for a brighter future with huge potential for business opportunities.

The recovery of the economy will help the local government to gradually reduce its fiscal deficit. The recent successful issues of the retail bonds which are backed by the revenues from five tunnels and the Lantau Link owned by the government and of the HK\$20 billion government bonds, as well as such proposals as those for the merger of the Kowloon-Canton Railway Corporation and the MTR Corporation and for the listing of the Airport Authority that are in the pipeline, are all beneficial to the government's finances. The goal to cut the fiscal deficit can thus be expected to be achieved sooner. Large public infrastructural projects have continued to be implemented. The Hong Kong Disneyland will commence business next year, while all the major enterprises concerned have climbed on the bandwagon to expand their operations. All these are conducive to lowering the unemployment rate. It is expected that the current robust market condition will continue.

Your board appointed Mr Kevin Wai Hung Chu, Senior Manager heading the Bank's Corporate and Commercial Banking Department, an Executive Director on 1 June 2004. I, on behalf of your board, would like to welcome Mr Chu as a new board member to join us in charting the development of the Bank.

We will continue to stride forward by devoting our efforts to both the development of our comprehensive array of business lines and the sharpening of our competitive advantage.

# Liu Chong Hing Bank Limited

## BOARD OF DIRECTORS

As at the date of this announcement (namely, 17 August 2004), the Executive Directors of the Bank are Mr Liu Lit Man (Executive Chairman), Mr Liu Lit Mo (Vice Chairman), Mr Liu Lit Chi (Managing Director & Chief Executive Officer), Mr Don Tit Shing Liu (Executive Director & Deputy Chief Executive Officer), Mr Dominic Bing Hoi Lam, Mr Wilfred Chun Ning Liu, Mr Lau Wai Man, Mr Frank Shui Sang Jin and Mr Kevin Wai Hung Chu; the Non-executive Directors are Dr Robin Yau Hing Chan, Mr Liu Guoyuan, Mr Toshiaki Arai, Mr Andrew Liu, Mr Sun Jiakang and Mr Christopher Kwun Shing Liu; and the Independent Non-executive Directors are Mr Peter Alan Lee Vine, Mr Timothy George Freshwater, Mr Wanchai Chiranakhorn and Mr Alfred Cheuk Yu Chow.

By Order of the Board

**Liu Lit Man**

*Executive Chairman*

17 August 2004

Please also refer to the published version of this announcement in the South China Morning Post dated 18/08/2004.