



2004 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 2004, together with the comparative figures for the corresponding year in 2003 are as follows:

	2004 HK\$'000	2003 HK\$'000
Interest income	990,813	1,034,173
Interest expense	(341,316)	(363,995)
Net interest income	649,497	670,178
Other operating income (Note 6)	268,053	213,840
Operating income	917,550	884,018
Operating expenses (Note 7)	(462,341)	(463,154)
Operating profit before provisions and disposal of long-term assets	455,209	420,864
Charge for bad and doubtful debts		
– New provisions	(105,170)	(128,874)
– Amounts released	53,995	66,071
Net charge for bad and doubtful debts	(51,175)	(62,803)
Net losses from disposal of property and equipment	(43)	(2,664)
Net gains from disposal of other securities and an associate	3,863	22,192
Provision for impairment loss in respect of other securities	–	(7,809)
Profit from operations	407,854	369,780
Share of results of jointly controlled entities	11,319	(2,000)
Profit from ordinary activities before taxation	419,173	367,780
Taxation (Note 1)		
– Hong Kong	(61,273)	(59,258)
– Overseas	(2,996)	(2,045)
– Deferred tax	(5,901)	4,998
Net profit for the year	349,003	311,475
Dividends	247,950	217,500
Earnings per share, basic and diluted (Note 2)	HK\$0.80	HK\$0.72
Dividend per share	HK\$0.57	HK\$0.50

CONSOLIDATED BALANCE SHEET INFORMATION

	2004 HK\$'000	2003 HK\$'000
Assets		
Cash and short-term funds	13,606,947	12,001,888
Placements with banks and other financial institutions		
– maturing between one and twelve months	1,544,695	1,243,771
Trading securities	234,663	220,969
Advances and other accounts	20,246,034	20,081,543
(including trade bills : HK\$89,366,000; 2003 : HK\$69,355,000)		
Held-to-maturity securities	3,388,300	3,104,561
Certificates of deposit held	1,309,515	1,292,407
Other securities	377,847	319,947
Interest in an associate (Note 3)	–	396,448
Interest in jointly controlled entities	68,875	66,238
Investment properties	69,360	47,868
Property and equipment	1,264,949	1,165,276
Total assets	42,111,185	39,940,916
Liabilities		
Deposits and balances of banks and other financial institutions	1,559,633	1,035,392
Deposits from customers (Note 8)	33,951,631	32,591,590
Other accounts and provisions	279,129	271,327
Deferred taxation	106,179	85,085
Taxation	11,187	13,114
Total liabilities	35,907,759	33,996,508

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Capital Resources

Share capital	217,500	217,500
Reserves		
Share premium	1,542,817	1,542,817
Goodwill	(182)	(182)
Investment property revaluation reserve	34,340	29,344
Land and buildings revaluation reserve	644,108	572,240
Investment revaluation reserve	130,689	74,473
General reserve	1,388,500	1,388,500
Translation reserve	(26)	2,586
Dividend reserve	174,000	152,250
Retained profits	1,970,627	1,870,905
Current year profit	101,053	93,975
	<u>5,985,926</u>	<u>5,726,908</u>
Shareholders' funds	<u>6,203,426</u>	<u>5,944,408</u>
Total liabilities and capital resources	<u>42,111,185</u>	<u>39,940,916</u>

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital HK\$'000	Share premium HK\$'000	Goodwill HK\$'000	Investment property revaluation reserve HK\$'000	Land and buildings revaluation reserve HK\$'000	Investment revaluation reserve HK\$'000	General reserve HK\$'000	Translation reserve HK\$'000	Dividend reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1 January 2003	217,500	1,542,817	(182)	29,344	582,694	9,259	1,388,500	5,307	152,250	1,870,905	5,798,394
Revaluation movements	-	-	-	-	-	65,214	-	-	-	-	65,214
Currency re-alignment	-	-	-	-	-	-	-	(2,721)	-	-	(2,721)
Deferred taxation arising from the change in tax rate	-	-	-	-	(10,454)	-	-	-	-	-	(10,454)
Net (losses) gains not recognised in the income statement	-	-	-	-	(10,454)	65,214	-	(2,721)	-	-	52,039
Net profit for the year	-	-	-	-	-	-	-	-	-	311,475	311,475
Dividends paid	-	-	-	-	-	-	-	-	(152,250)	(65,250)	(217,500)
Proposed dividend	-	-	-	-	-	-	-	-	152,250	(152,250)	-
At 1 January 2004	<u>217,500</u>	<u>1,542,817</u>	<u>(182)</u>	<u>29,344</u>	<u>572,240</u>	<u>74,473</u>	<u>1,388,500</u>	<u>2,586</u>	<u>152,250</u>	<u>1,964,880</u>	<u>5,944,408</u>
Revaluation movements	-	-	-	4,996	92,576	52,616	-	-	-	-	150,188
Currency re-alignment	-	-	-	-	-	-	-	953	-	-	953
Deferred taxation arising from revaluation movements	-	-	-	-	(15,967)	-	-	-	-	-	(15,967)
Reversal of deferred taxation arising from disposal	-	-	-	-	1,006	-	-	-	-	-	1,006
Net gains not recognised in the income statement	-	-	-	4,996	77,615	52,616	-	953	-	-	136,180
Reversal of reserves upon disposal	-	-	-	-	(5,747)	3,600	-	(3,565)	-	5,747	35
Net profit for the year	-	-	-	-	-	-	-	-	-	349,003	349,003
Dividends paid	-	-	-	-	-	-	-	-	(152,250)	(73,950)	(226,200)
Proposed dividend	-	-	-	-	-	-	-	-	174,000	(174,000)	-
At 31 December 2004	<u>217,500</u>	<u>1,542,817</u>	<u>(182)</u>	<u>34,340</u>	<u>644,108</u>	<u>130,689</u>	<u>1,388,500</u>	<u>(26)</u>	<u>174,000</u>	<u>2,071,680</u>	<u>6,203,426</u>

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CONSOLIDATED CASH FLOW STATEMENT

	2004 HK\$'000	2003 HK\$'000
OPERATING ACTIVITIES		
Profit from operations	407,854	369,780
Adjustments for:		
Decrease in interest receivable and other accounts	158,981	75,957
Increase (decrease) in other accounts and provisions	6,660	(118,855)
Net losses from disposal of property and equipment	43	2,664
Net gains from disposal of other securities and an associate	(3,863)	(22,192)
Provision for impairment loss in respect of other securities	-	7,809
Decrease in provisions against advances and other accounts	(127,718)	(44,050)
Decrease in interest in suspense	(94,672)	(16,217)
Dividend income on equity securities	(53,429)	(6,788)
Depreciation	48,974	45,586
Interest income on certificates of deposit held	(13,101)	(24,586)
Interest income on investment in securities	(87,200)	(65,929)
Operating cash flows before movements in working capital	242,529	203,179
Decrease in placements with banks and other financial institutions (with original maturity over three months)	77,645	163,425
Decrease (increase) in bills receivable	126,369	(9,776)
Increase in trade bills	(20,011)	(14,713)
Increase in other advances to customers	(208,627)	(510,241)
Decrease in advances to banks and other financial institutions	157	623
Increase in trading securities	(13,694)	(34,975)
Increase in deposits from customers	1,360,041	99,338
Exchange adjustments	953	(2,567)
Cash generated from (used in) operations	1,565,362	(105,707)
Hong Kong profits tax paid	(62,594)	(20,195)
Overseas tax paid	(3,602)	(2,438)
NET CASH FROM (USED IN) OPERATING ACTIVITIES	1,499,166	(128,340)
INVESTING ACTIVITIES		
Interest received on certificates of deposit held	12,307	26,338
Interest received on investments in securities	91,709	57,002
Dividends received on equity securities	53,429	6,788
Purchase of held-to-maturity securities	(2,135,374)	(1,743,536)
Purchase of certificates of deposit held	(744,651)	(356,322)
Purchase of other securities	(98,627)	(27,567)
Purchase of property and equipment	(55,538)	(42,925)
Purchase of investment properties	(16,496)	-
Purchase of a subsidiary	422	-
Repayment from (advances to) an associate	261,817	(33,825)
Repayment from jointly controlled entities	630	795
Proceeds from disposal of an associate	132,000	-
Proceeds from disposal of other securities	99,872	43,529
Proceeds from redemption of held-to-maturity securities	1,851,635	196,119
Proceeds from redemption of certificates of deposit held	727,543	401,683
Proceeds from disposal of property and equipment	5,743	349
NET CASH FROM (USED IN) INVESTING ACTIVITIES	186,421	(1,471,572)
FINANCING		
Ordinary dividend paid	(226,200)	(217,500)
CASH USED IN FINANCING ACTIVITY	(226,200)	(217,500)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,459,387	(1,817,412)
CASH AND CASH EQUIVALENTS AT 1 JANUARY	12,132,622	13,950,034
CASH AND CASH EQUIVALENTS AT 31 DECEMBER, represented		
Cash and balances with banks and other financial institutions	560,601	744,527
Money at call and short notice	12,548,402	10,745,214
Exchange fund bills	497,944	512,147
Placements with banks and other financial institutions (with original maturity within three months)	1,544,695	1,166,126
Deposits and balances of banks and other financial institutions (with original maturity within three months)	(1,559,633)	(1,035,392)
	<u>13,592,009</u>	<u>12,132,622</u>

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Notes:

- (1) Hong Kong profits tax is calculated at 17.5% (2003: 17.5%) of the estimated assessable profit for the year.
Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.
- (2) The calculation of earnings per share, basic and diluted, is based on the profit attributable to shareholders of HK\$349,003,000 (2003: HK\$311,475,000) and on 435,000,000 (2003: 435,000,000) ordinary shares in issue during the year.
- (3) 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) Risk management

The Group has established policies, procedures, and controls for measuring, monitoring and controlling risks arising from the banking and related financial services business. These policies, procedures, and controls are implemented by various committees and departments of the Group and are regularly reviewed by the Board of Directors. The internal auditors also play an important role in the risk management process by performing regular, as well as sporadic compliance audits.

The management of assets and liabilities of the Group is conducted under the guidance of the Asset and Liability Management Committee (the "ALCO"). The ALCO comprises executive directors and senior managers representing major operations of the Group. It holds weekly meetings, and more frequent meetings when required, to review and direct the relevant policies, and to monitor the bank-wide positions. The day-to-day management of the liquidity risk, foreign exchange, interest rate and other market risks, and the compliance with the ALCO policies are monitored by the Treasury Management and the Finance Departments with the assistance of various qualitative and quantitative analyses.

 - a. Capital management

The Group has adopted a policy of maintaining a strong capital base to support its business growth. Capital adequacy ratio has remained at around 20% for the past five financial years, well above the statutory minimum ratio of 8%.
 - b. Credit risk

Credit risk is the risk that a customer or counter-party may fail to meet a commitment when it falls due.

The Group's lending policy sets out in detail the credit approval and monitoring mechanism, the loan classification system and provisioning policy, which is established in accordance with the requirements and provisions of the Banking Ordinance and the guidelines issued by the Hong Kong Monetary Authority.

Day-to-day credit management is performed by the Loans Committee with reference to the creditworthiness, and concentration risk of and the collateral pledged by the counterparties. Decisions made by the Loans Committee are reviewed regularly by the Executive Loans Committee comprising executive directors.
 - c. Liquidity risk

Liquidity risk is the risk that the Group is unable to meet its current obligations when they fall due.

The Group has laid down liquidity policy which is reviewed regularly by the Board of Directors, and the ALCO. This policy requires the Group to maintain a conservative level of liquid funds on a daily basis to ensure the availability of adequate liquid funds to meet all obligations, and the compliance with the statutory liquidity ratio requirement. The liquidity position is monitored through statutory liquidity ratio, loan-to-deposit ratio, maturity profile of assets and liabilities, and inter-bank transactions undertaken by the Group.
 - d. Market risk

Market risk is the risk of losses in assets, liabilities and off-balance sheet positions arising from movement in market rates and price.

Market risk arising from the trading book is considered immaterial, as the Group does not maintain significant positions of financial instruments leading to foreign exchange, interest rate, commodity and equity exposures. Structural foreign exchange exposure is explained further under (e) foreign exchange risk.
- (4) Risk management - continued
 - e. Foreign exchange risk

The Group does not have any significant foreign exchange risk as foreign exchange dealing is minimal. Structural foreign exchange exposure arising from investments in foreign branches and subsidiaries is accounted for in the reserves account. Day-to-day foreign exchange management is performed by the Treasury Management Department within approved limits.
 - f. Interest rate risk

Interest rate risk is the risk that the Group's position may be adversely affected by the change in market interest rate.

The Group does not carry interest rate positions on its trading book. Interest rate risk arises primarily from the timing differences in the re-pricing of, and the different bases of pricing interest-bearing assets, liabilities and commitments, and from positions of non-interest bearing balances. Interest rate risk is monitored by regular sensitivity analyses of the net re-pricing gap and of different scenarios of pricing bases of assets and liabilities grouped with reference to their next contractual repricing date or maturity date.
 - g. Operational and legal risk

Operational risk is the risk of unexpected losses attributable to human error, systems failures, fraud, or inadequate internal controls and procedures.

Executive directors, department heads, in-house legal counsels, and internal auditors collaborate to manage operational and legal risks through proper human resources policies, delegation of authorities, segregation of duties, and timely and accurate management information. Senior management and the Audit Committee are accountable to the Board of Directors for maintaining a strong and disciplined control environment to provide reasonable assurance that the operational and legal risks are prudently managed.

A comprehensive contingency plan is available to ensure that key business functions continue and normal operations are restored effectively and efficiently in the event of business interruption.

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h. Reputation risk

Reputation risk is the risk to earnings or capital rising from negative public opinion.

Reputation risk is managed by ensuring proper and adequate communications and public relation efforts to foster the reputation of the Group. A risk management mechanism guided by the senior management including executive directors and senior managers has been established to manage the media exposure, handle customers' and other relevant parties' complaints and suggestions, and to ensure that new business activities and agents acting on our behalf do not jeopardise our reputation.

(5) 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, 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.

(i) Segment information about these businesses for the year ended 31 December 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	631,115	359,698	—	—	990,813
Interest expense to external customers	(333,967)	(7,349)	—	—	(341,316)
Inter-segment income (Note)	106,001	—	—	(106,001)	—
Inter-segment expense (Note)	—	(106,001)	—	106,001	—
Net income	403,149	246,348	—	—	649,497
Other operating income	95,939	27,562	144,552	—	268,053
Operating income	499,088	273,910	144,552	—	917,550
Charge for bad and doubtful debts	(51,175)	—	—	—	(51,175)
Net losses (gains) from disposal of property and equipment	(122)	—	79	—	(43)
Net gains from disposal of other securities and an associate	—	—	3,863	—	3,863
Operating expenses	(289,261)	(19,094)	(27,695)	—	(336,050)
Segment profit	158,530	254,816	120,799	—	534,145
Unallocated corporate expenses					(126,291)
Profit from operations					407,854
Share of results of jointly controlled entities			11,319		11,319
Profit from ordinary activities before taxation					419,173
Taxation					(70,170)
Net profit for the year					349,003

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

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(i) Segment information about these businesses as at 31 December 2004 is presented below:

BALANCE SHEET

	Corporate and retail banking HK\$'000	Treasury and foreign exchange activities HK\$'000	Other business activities HK\$'000	Consolidated HK\$'000
Assets				
Segment assets	21,078,497	19,649,998	686,045	41,414,540
Interests in jointly controlled entities	—	—	68,875	68,875
Unallocated corporate assets				627,770
Consolidated total assets				<u>42,111,185</u>
Liabilities				
Segment liabilities	33,988,496	1,522,769	—	35,511,265
Unallocated corporate liabilities				396,494
Consolidated total liabilities				<u>35,907,759</u>

OTHER INFORMATION

	Corporate and retail banking HK\$'000	Treasury and foreign exchange activities HK\$'000	Other business activities HK\$'000	Unallocated HK\$'000	Consolidated HK\$'000
Capital additions	31,600	103	373	23,462	55,538
Depreciation and amortisation	<u>25,371</u>	<u>647</u>	<u>4,268</u>	<u>18,688</u>	<u>48,974</u>

(ii) Segment information about these businesses for the year ended 31 December 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	669,630	364,543	—	—	1,034,173
Interest expense to external customers	(357,850)	(6,145)	—	—	(363,995)
Inter-segment income (<i>Note</i>)	121,776	—	—	(121,776)	—
Inter-segment expense (<i>Note</i>)	—	(121,776)	—	121,776	—
Net income	433,556	236,622	—	—	670,178
Other operating income	89,546	34,270	90,024	—	213,840
Operating income	523,102	270,892	90,024	—	884,018
Charge for bad and doubtful debts	(62,803)	—	—	—	(62,803)
Net losses from disposal of property and equipment	(2,140)	(126)	(398)	—	(2,664)
Net gains from disposal of other securities	—	—	22,192	—	22,192
Provision for impairment loss in respect of other securities	—	—	(7,809)	—	(7,809)
Operating expenses	<u>(280,402)</u>	<u>(20,337)</u>	<u>(28,858)</u>	—	<u>(329,597)</u>
Segment profit	<u>177,757</u>	<u>250,429</u>	<u>75,151</u>	—	<u>503,337</u>
Unallocated corporate expenses					<u>(133,557)</u>
Profit from operations					369,780
Share of results of jointly controlled entities			(2,000)		(2,000)
Profit from ordinary activities before taxation					367,780
Taxation					<u>(56,305)</u>
Net profit for the year					<u>311,475</u>

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

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(ii) Segment information about these businesses as at 31 December 2003 is presented below:

BALANCE SHEET

	Corporate and retail banking HK\$'000	Treasury and foreign exchange activities HK\$'000	Other business activities HK\$'000	Consolidated HK\$'000
Assets				
Segment assets	20,852,733	17,458,133	597,169	38,908,035
Interest in an associate	—	—	396,448	396,448
Interests in jointly controlled entities	—	—	66,238	66,238
Unallocated corporate assets				570,195
Consolidated total assets				<u>39,940,916</u>
Liabilities				
Segment liabilities	32,629,660	997,322	—	33,626,982
Unallocated corporate liabilities				369,526
Consolidated total liabilities				<u>33,996,508</u>

OTHER INFORMATION

	Corporate and retail banking HK\$'000	Treasury and foreign exchange activities HK\$'000	Other business activities HK\$'000	Unallocated HK\$'000	Consolidated HK\$'000
Capital additions	14,371	765	929	26,860	42,925
Depreciation and amortisation	<u>25,993</u>	<u>512</u>	<u>4,904</u>	<u>14,177</u>	<u>45,586</u>

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 years 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. 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.

(6) Other operating income

	2004 HK\$'000	2003 HK\$'000
Fees and commission income	129,811	111,824
Less: Fees and commission expenses	(3,197)	(2,140)
Net fees and commission income	126,614	109,684
Dividend income		
Listed investments	6,899	5,192
Unlisted investments	46,530	1,596
Gains less losses from dealing in foreign currencies	27,562	34,269
Gains less losses from disposal of trading securities	562	—
Gross rental income from properties	4,349	4,621
Less: Outgoings	(592)	(4,577)
Net rental income	3,757	44
Safe deposit box rentals	22,310	21,946
Other banking services income	33,259	29,725
Others	560	11,384
	<u>268,053</u>	<u>213,840</u>

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(7) Operating expenses

	2004 HK\$'000	2003 HK\$'000
Auditors' remuneration	2,004	2,187
Staff costs		
Salaries and other costs	225,979	218,588
Retirement benefits scheme contributions	17,249	16,581
Total staff costs	243,228	235,169
Depreciation and amortisation	48,974	45,586
Premises and equipment expenses, excluding depreciation		
Rentals and rates for premises	40,741	38,737
Others	12,622	12,671
Other operating expenses	114,772	128,804
	<u>462,341</u>	<u>463,154</u>

(8) Deposits from customers

	2004 HK\$'000	2003 HK\$'000
Demand deposits and current accounts	2,803,982	2,029,869
Savings deposits	8,954,061	7,568,026
Time, call and notice deposits	22,193,588	22,993,695
	<u>33,951,631</u>	<u>32,591,590</u>

SUPPLEMENTARY INFORMATION

(1) Advances and other accounts

	2004 HK\$'000	2003 HK\$'000
Advances to customers	20,290,219	20,185,265
Advances to banks and other financial institutions	58,212	58,369
Accrued interest and other accounts	246,801	409,497
Provision for bad and doubtful debts		
– Specific	(101,391)	(215,255)
– General	(201,876)	(215,730)
Interest in suspense	(45,931)	(140,603)
	<u>20,246,034</u>	<u>20,081,543</u>

(2) Gross amount of advances by significant industry sectors

	2004 HK\$'000	2003 HK\$'000
Loans for use in Hong Kong		
– Industrial, commercial and financial		
– Property development	1,908,862	1,612,317
– Property investment	4,535,567	3,897,463
– Financial concerns	1,710,024	1,598,067
– Stockbrokers	332,380	338,695
– Wholesale and retail trade	703,129	640,383
– Manufacturing	1,028,883	930,717
– Transport and transport equipment	188,054	388,258
– Others	2,901,625	3,302,408
– Individuals		
– Loans for the purchase of flats in the		
Home Ownership Scheme, Private Sector Participation		
Scheme and Tenants Purchase Scheme	902,046	1,034,119
– Loans for the purchase of other residential properties	2,547,051	2,848,979
– Credit card advances	75,928	83,110
– Others	1,039,947	1,027,973
Trade finance	521,789	702,168
Loans for use outside Hong Kong	1,894,934	1,780,608
	<u>20,290,219</u>	<u>20,185,265</u>

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(3) Advances 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	
	2004	2003	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong	18,770,951	18,645,551	773,681	905,297	795,319	1,724,435
People's Republic of China	299,049	359,023	17,299	67,543	17,299	69,662
Macau	256,263	241,712	—	—	—	—
America	469,864	304,683	—	—	—	—
Others	494,092	634,296	—	—	—	—
	<u>20,290,219</u>	<u>20,185,265</u>	<u>790,980</u>	<u>972,840</u>	<u>812,618</u>	<u>1,794,097</u>

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

	2004	% of Total	2003	% of Total
	HK\$'000	Advances	HK\$'000	Advances
Gross advances	790,980	3.9	972,840	4.8
Specific provision	(95,142)		(202,599)	
	<u>695,838</u>		<u>770,241</u>	
Market value of collateral pledged	<u>704,626</u>		<u>775,624</u>	
Interest in suspense	<u>(45,931)</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.

(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:

	2004			
	Banks and other financial institutions	Public sector entities	Others	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Asia Pacific excluding Hong Kong	6,337,848	93,933	627,242	7,059,023
North and South America	1,193,244	35,455	834,073	2,062,772
Europe	8,847,098	3,989	200,370	9,051,457
– of which – United Kingdom	<u>2,107,986</u>	<u>1,585</u>	<u>184,909</u>	<u>2,294,480</u>

	2003			
	Banks and other financial institutions	Public sector entities	Others	Total
	HK\$'000	HK\$'000	HK\$'000	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	<u>2,384,124</u>	<u>—</u>	<u>38,878</u>	<u>2,423,002</u>

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

	Gross advances HK\$'000	% of total advances	2004 Specific provision HK\$'000	Net advances HK\$'000
Advances overdue for				
– 6 months or less but over 3 months	19,391	0.1	3,907	15,484
– 1 year or less but over 6 months	52,108	0.3	8,741	43,367
– Over 1 year	<u>741,119</u>	<u>3.6</u>	<u>82,157</u>	<u>658,962</u>
Overdue advances	812,618	4.0	94,805	717,813
Less: Advances overdue for more than 3 months and on which interest is still being accrued	(40,598)	(0.2)	–	(40,598)
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>18,960</u>	<u>0.1</u>	<u>337</u>	<u>18,623</u>
Total non-performing advances	<u>790,980</u>	<u>3.9</u>	<u>95,142</u>	<u>695,838</u>
Rescheduled advances	<u>438,149</u>	<u>2.2</u>	<u>3,745</u>	<u>434,404</u>
			2003	
	Gross advances HK\$'000	% of 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	<u>714,484</u>	<u>3.5</u>	<u>166,425</u>	<u>548,059</u>
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	<u>32,699</u>	<u>0.2</u>	<u>1,081</u>	<u>31,618</u>
Total non-performing advances	<u>972,840</u>	<u>4.8</u>	<u>202,599</u>	<u>770,241</u>
Rescheduled advances	<u>823,365</u>	<u>4.1</u>	<u>12,912</u>	<u>810,453</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 is analysed as follows:

	2004 HK\$'000	2003 HK\$'000
Total overdue advances	<u>812,618</u>	<u>1,794,097</u>
Secured amount	<u>727,534</u>	<u>1,598,687</u>
Unsecured amount	<u>85,084</u>	<u>195,410</u>
	<u>812,618</u>	<u>1,794,097</u>
Market value of security	<u>845,862</u>	<u>1,908,132</u>

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 31 December 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.

Repossession assets held by the Group as at 31 December 2004 amounted to HK\$141,850,000 (2003: HK\$83,880,000).

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(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:

	US\$	MOP	2004 RMB	Total
Equivalent in thousands of HK\$				
Spot assets	8,052,649	65,664	218,096	8,336,409
Spot liabilities	(8,064,146)	(46,720)	(212,232)	(8,323,098)
Forward purchases	112,120	–	566	112,686
Forward sales	(89,653)	–	–	(89,653)
Net long position	<u>10,970</u>	<u>18,944</u>	<u>6,430</u>	<u>36,344</u>
				<u>MOP</u>
Net structural position				<u>48,545</u>
	US\$		2003 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>
				<u>MOP</u>
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:

	2004 HK\$'000	2003 HK\$'000
Contingent liabilities and commitments		
– Direct credit substitutes	1,023,725	829,984
– Trade-related contingencies	351,095	256,126
– Other commitments	7,106,729	6,835,913
– Forward assets purchases	<u>50,291</u>	<u>165,981</u>
	<u>8,531,840</u>	<u>8,088,004</u>
Derivatives		
– Forward exchange rate contracts - hedging	<u>135,335</u>	<u>19,046</u>
– Interest rate swap contracts - hedging	<u>387,760</u>	<u>611,758</u>

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

	2004 Replacement cost HK\$'000	Credit risk weighted amount HK\$'000	2003 Replacement cost HK\$'000	Credit risk weighted amount HK\$'000
Contingent liabilities and commitments	n/a	2,272,921	n/a	2,181,804
Exchange rate contracts	1,015	1,461	120	125
Interest rate contracts	<u>8,972</u>	<u>3,941</u>	<u>694</u>	<u>1,683</u>
	<u>9,987</u>	<u>2,278,323</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

	2004 %	2003 %
Capital adequacy ratio at 31 December		
– Unadjusted	<u>19.96</u>	<u>19.15</u>
– Adjusted	<u>19.93</u>	<u>19.12</u>
Average liquidity ratio for the year	<u>52.34</u>	<u>52.37</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.

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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 Finance (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:

	2004 HK\$'000	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)	3,208,021	3,135,705
	4,968,338	4,896,022
Eligible supplementary capital		
Reserves on revaluation of land and interests in land	474,092	421,341
Reserves on revaluation of holding of securities not held for trading purposes	27,771	10,890
General provisions for doubtful debts	201,873	209,543
Total capital base before deductions	5,672,074	5,537,796
Deductions from total capital base	(281,833)	(627,857)
Total capital base after deductions	5,390,241	4,909,939

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 Tuesday, 26 April 2005 the payment of the final dividend for 2004 of HK\$0.40 per share. This final dividend, if approved, will be paid on Wednesday, 27 April 2005 to shareholders whose names are on the Register of Members on Friday, 22 April 2005.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members will be closed from Monday, 18 April 2005 to Friday, 22 April 2005 (both days inclusive), during which period no transfer of shares can be registered. In order to qualify for the 2004 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, 15 April 2005.

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.

COMPLIANCE WITH THE CODE OF BEST PRACTICE

The Bank has complied throughout the year ended 31 December 2004 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 2004 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.

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EXECUTIVE CHAIRMAN'S STATEMENT

Economic Review

The economy of Hong Kong grew relatively stronger in 2004. The steady recovery of the property and the stock markets, as well as the across-the-board robustness of the tourism, hotel, restaurant and retail industries, prodded the other businesses to gradually turn around. Deflation, which has persisted for years, has markedly improved. Unemployment rate has descended from its high levels to new lows in recent years. Various economic indicators all show that the Hong Kong economy has bottomed out.

During last year, the local economy took its cue from external factors. Gross domestic product grew 7 percent in the first quarter, 12.1 percent in the second and 7.2 percent in the third. It is expected that the growth for the whole year should reach between 7.5 percent and 8 percent. The performance of the Hong Kong economy as a whole was outstanding. Although the surge in crude oil prices in the international market had hindered the development of the various major industrial countries, the impact on Hong Kong was minimal thanks to her lesser reliance on crude oil. Hong Kong's three main economic pillars - stock market, property market and foreign trade - all performed well on the back of ever-increasing internal demand, continuing soar in personal consumption, and rapid development of commercial and trading activities brought about by the individual travel scheme and the Mainland and Hong Kong Closer Economic Partnership Arrangement. The Hong Kong stock market saw the Hang Seng Index rise 1,654 points from 12,576 points at the beginning of last year to 14,230 points at the end of the year. The primary and the secondary property markets were both active. According to Land Registry's statistics, the number of sale and purchase agreements for 2004 was 123,400, a significant increase of 41.4 percent over that for 2003. The consideration was \$351.8 billion, a surge of 85.7 percent over that for 2003. Such figures are indicative of the vitality of the property market. After years of economic contraction in Hong Kong, the property market has accumulated huge amounts of purchasing power. Moreover, lending rates have stayed low for a long period of time, fuelling the impulse to buy property. As such, there is no end in the development of the prospering property market. On the external trade front, total exports amounted to \$2,019.1 billion last year (an increase of 15.9 percent over the figure for the year before), while imports rose 16.9 percent to \$2,111.1 billion. On the banking front, the liquidity of the money market and the influx of speculative funds yearning for the appreciation of the renminbi have continued to strand the interbank market in a low-rate environment. Moreover, interest rates for the Hong Kong dollar have stayed extremely low for a long period of time because they have not been raised in line with those for the greenback on a number of occasions. Narrowing interest margins have added considerable pressure to banks' profitability. Loan demand remained sluggish. Fierce competition (through such flexible financing channels as the stock and the bond markets) has drawn a sizable number of bank borrowers. As such, the banking industry could only operate under a difficult environment to strive for improvement last year.

Results Announcement

The Bank's results for 2004 showed some improvement. For the financial year of 2004, on an audited, consolidated basis, profit attributable to shareholders amounted to HK\$349 million, an increase of 12.05 percent over that for the year before. Total customers' deposits rose 4.17 percent to HK\$33.952 billion. Total loans to customers (after accounting for provisions for bad and doubtful debts as well as interest accrued and suspended) increased 1.48 percent to HK\$20.028 billion. On 31 December 2004, the Bank's loan portfolios were made up as follows: property developments and investments (31.76 percent), personal real estate purchases (17 percent), financial and securities concerns (10.07 percent), trade finance (2.57 percent), wholesale and retail trade (3.46 percent), manufacturing, transportation and other businesses (20.30 percent), loans outside Hong Kong (9.34 percent), and others (5.50 percent). Adjusted capital adequacy ratio increased 4.24 percent to 19.93 percent at the end of 2004, while average liquidity ratio for 2004 decreased slightly by 0.06 percent to 52.34 percent. Loan-to-deposit ratio dropped 2.42 percent to 51.65 percent. Total assets rose 5.43 percent to HK\$42.111 billion. Shareholders' funds (after final dividend) amounted to HK\$6.029 billion, an increase of 4.09 percent. The local economy resumed its growth momentum last year and certain industries have begun to recover. Although the Bank faced fierce competition, it still managed to achieve good results. Your board has recommended paying the final dividend of HK\$0.40 per share for the financial year of 2004 to shareholders whose names appear in the Register of Members at the close of business on Friday, 22 April 2005. Total dividends for the financial year of 2004 (including the interim dividend of HK\$0.17 per share paid earlier) amounted to HK\$0.57 per share.

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Profit Analysis

On an audited, consolidated basis, net interest income dropped 3.09 percent from that of 2003 to HK\$649.497 million in 2004. Interest spread decreased 6.51 percent to 1.58 percent. After accounting for the other operating income, which amounted to HK\$268.053 million, total operating income was HK\$917.55 million and total operating expenditure was HK\$462.341 million. Cost-to-income ratio amounted to 50.39 percent. Operating profit before provisions and disposal of long-term assets increased 8.16 percent to HK\$455.209 million. In order to maintain good credit quality, the Bank made provisions for bad and doubtful debts in the amount of HK\$51.175 million for 2004, a sharp fall of 18.52 percent against those made for 2003. After accounting for the provisions for bad and doubtful debts as well as the charge for taxation, the Bank recorded an increase of 12.05 percent in the profit attributable to shareholders to HK\$349 million, translating into earnings of HK\$0.80 per share. Net asset value (after final dividend) amounted to HK\$13.86 per share, an increase of 4.09 percent.

Directorate Changes

Mr Timothy George Freshwater and Mr Alfred Cheuk Yu Chow were both redesignated from independent non-executive directors to non-executive directors of the Bank on 30 September 2004. Mr Dominic Bing Hoi Lam was redesignated from executive director to non-executive director of the Bank on that same day. Mr Cheng Yuk Wo was appointed an independent non-executive director and a member of the Audit Committee of the Bank on 30 September 2004.

Economic Prospects

It is envisioned that the world economy will tend to grow at a slower pace in 2005, with the implication that the growth of the Hong Kong economy will possibly slow down as well. Be that as it may, government officials, businessmen and scholars from different walks of life are still optimistic about the prospects for the economy. The mainland's preferential policies towards Hong Kong and the host of Guangzhou-Hong Kong-Macau alliance initiatives will favour the development of the local economy to become the driving force of the economic system in the region. Hong Kong will continue to maintain her economic vitality by reducing the impact of changes in external factors.

Hong Kong's external trade expanded rapidly last year because of the increase in demand from the international market. It is expected that the demand for products this year will still be strong and Hong Kong's import and export trade is still expected to grow. Since the cycle of raising the interest rates for the Hong Kong dollar is about to begin, the property market will only develop steadily this year with yet some room for upward price adjustments. As to the development of the local financial market, it is expected that later on this year, depending upon the flow of capital, Hong Kong dollar interest rates will be raised relatively higher. With the government's continuous efforts to perfect the securities market regime, the number of listed companies will continue to increase. Hong Kong's status as a fund-raising center in the eyes of the world in general (the Asian region in particular) will be further enhanced. As to the shipping industry, being one of the pillar industries in Hong Kong, the volume of container shipment will still maintain its steady development, thereby continuing to boast Hong Kong's status as the world's largest container shipping center. The flourishing tourism industry - riding on the coattails of the continual implementation of mainland's individual travel policy, the opening of the Hong Kong Disneyland come this September as well as Hong Kong's edge both as a melting pot where the culture of the East meets that of the West and as a shopping paradise - will continue to attract visitors from both the mainland and foreign countries. Moreover, the resulting benefits will smile on such other relevant industries as the hotel and the transportation businesses, and may even bring about limitless business opportunities for the retail consumption industry. The prospects for the tourism industry are therefore bright.

As to the prospects for the local banking industry this year, it will still be hovering for the early part of the year in the light of overflowing liquidity and sluggish loan demand. But as time moves on, local interest rates will catch up with those in the United States by shifting markedly upwards. It is hoped that this will help to boost the profits of banks with sufficient deposits. The Bank is therefore cautiously optimistic and will continue to aim at providing quality banking services, devising new products and implementing various business development plans while the economy is recovering.

Finally, on behalf of your board, I would like to sincerely thank our customers, friends and shareholders for their trust in and support for the Bank over the years, not to mention my fellow directors for the exercise of their wise judgment and all of our staff members for their hard work.

Liu Chong Hing Bank Limited

BOARD OF DIRECTORS

As of the date of this announcement, 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 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 Timothy George Freshwater, Mr Toshiaki Arai, Mr Andrew Liu, Mr Sun Jiakang, Mr Dominic Bing Hoi Lam, Mr Christopher Kwun Shing Liu and Mr Alfred Cheuk Yu Chow; and the independent non-executive directors are Mr Peter Alan Lee Vine, Mr Wanchai Chiranakhorn and Mr Cheng Yuk Wo.

By Order of the Board

Liu Lit Man

Executive Chairman

3 March 2005

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT the annual general meeting of the shareholders of Liu Chong Hing Bank Limited (the "Bank") for the year of 2005 will be held in The Harbour Room on Level 3 of The Ritz-Carlton at 3 Connaught Road Central, Hong Kong on Tuesday, 26 April 2005 at 11 am for the purposes of dealing with the following items of ordinary and special business:

Ordinary business

1. To receive and adopt the Financial Statements and the Reports of the Directors and Auditors for the year ended 31 December 2004.
2. To consider and declare the final dividend for the year ended 31 December 2004.
3. To re-elect directors and fix their and the other directors' remuneration.
4. To re-appoint auditors and authorise the directors to fix the former's remuneration.

Special business

5. To grant a general mandate to the directors to repurchase shares in the Bank not exceeding 10 percent of its issued share capital.
6. To grant a general mandate to the directors to allot and issue additional shares in the Bank not exceeding 20 percent of its issued share capital.
7. To extend the general mandate granted under the above-mentioned item 6 by adding the number of shares repurchased under the above-mentioned item 5 to the number of shares permitted to be allotted and issued.

Any other ordinary business

8. To transact any other ordinary business.

By Order of the Board

Michael K W Yeung

Company Secretary

3 March 2005

Notes:

- i. A shareholder entitled to attend and vote at the annual general meeting in question is entitled to appoint a proxy to attend and vote in his stead. A proxy does not have to be a shareholder of the Bank. Proxy forms are to be lodged with the registered office of the Bank (currently situated at Ground Floor, New World Tower 2, 16-18 Queen's Road Central, Hong Kong) not later than 48 hours before the time for the holding of the annual general meeting in question or any adjournment thereof.
- ii. The Register of Members of the Bank will be closed from Monday, 18 April 2005 to Friday, 22 April 2005 (both days inclusive), during which period no transfer of shares can be registered. In order to qualify for the final dividend in question, all transfer documents, together with the relevant share certificates, must be lodged for registration 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 pm on Friday, 15 April 2005.
- iii. The Bank's Annual Report 2004 (containing, among other things, an Explanatory Statement on the above-mentioned items 5 through 7, information on the retiring directors to be re-elected at the 2005 annual general meeting, and the procedures for demanding and conducting a poll) will be sent to shareholders by Tuesday, 29 March 2005.

As of the date of this notice, 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 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 Timothy George Freshwater, Mr Toshiaki Arai, Mr Andrew Liu, Mr Sun Jiakang, Mr Dominic Bing Hoi Lam, Mr Christopher Kwun Shing Liu and Mr Alfred Cheuk Yu Chow; and the independent non-executive directors are Mr Peter Alan Lee Vine, Mr Wanchai Chiranakhorn and Mr Cheng Yuk Wo.

Please also refer to the published version of this announcement in the South China Morning Post date 04/03/2005.